



REFERENCE  
DOCUMENT  
**2017**

 innate pharma



**This is a free translation into English of Innate Pharma's reference issued in the French language for informational purposes only**



A *Société Anonyme* organized with an Executive board and a Supervisory board  
with a share capital of 2,880,351.55 euros  
consisting of 57,600,100 A Shares and 6,931 B shares 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 April 25, 2018, 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.*

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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, 2015. The 2017 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 1.1 of this Reference document.

| In thousand euros, except for information per share                                                                  | 2017            | 2016            | 2015            |
|----------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|
| Revenue from collaboration and licensing agreements                                                                  | 32,631          | 56,159          | 17,906          |
| Government financing for research expenditures                                                                       | 11,402          | 9,561           | 7,235           |
| <b>Revenue and other income</b>                                                                                      | <b>44,033</b>   | <b>65,721</b>   | <b>25,141</b>   |
| Research and development expenses                                                                                    | (67,000)        | (48,628)        | (29,906)        |
| General and administrative expenses                                                                                  | (17,015)        | (9,522)         | (6,008)         |
| <b>Net operating expenses</b>                                                                                        | <b>(84,015)</b> | <b>(58,150)</b> | <b>(35,914)</b> |
| <b>Operating income (loss)</b>                                                                                       | <b>(39,983)</b> | <b>7,571</b>    | <b>(10,772)</b> |
| Financial income / (expense), net                                                                                    | (8,034)         | 5,370           | 4,066           |
| <b>Net income (loss)</b>                                                                                             | <b>(48,016)</b> | <b>12,941</b>   | <b>(6,706)</b>  |
| Income tax                                                                                                           | (368)           | (301)           | –               |
| <b>Net income</b>                                                                                                    | <b>(48,385)</b> | <b>12,640</b>   | <b>(6,706)</b>  |
| <b>Number of shares outstanding</b>                                                                                  |                 |                 |                 |
| Average number of shares outstanding (in thousands)                                                                  | 54,352          | 53,869          | 53,400          |
| <b>Net income (loss) per share (in euros)</b>                                                                        |                 |                 |                 |
| Net income (loss) per share (basic)                                                                                  | (0.89)          | 0.23            | (0.13)          |
| <b>Balance sheet</b>                                                                                                 |                 |                 |                 |
| Cash, cash equivalents and current financial assets <sup>(1)</sup>                                                   | 116,110         | 197,688         | 235,910         |
| Total assets                                                                                                         | 255,023         | 281,577         | 305,956         |
| Total capital and reserves attributable to equity holders of the Company                                             | 85,956          | 86,169          | 72,067          |
| Total financial liabilities                                                                                          | 5,864           | 5,327           | 3,754           |
| <b>Net cash (Cash, cash equivalents and current financial assets – current financial liabilities) <sup>(1)</sup></b> | <b>114,767</b>  | <b>196,425</b>  | <b>235,288</b>  |
| <b>Statement of cash flow</b>                                                                                        |                 |                 |                 |
| Changes in working capital                                                                                           | (16,980)        | (50,788)        | 211,491         |
| Net cash generated from / (used in) operating activities                                                             | (48,060)        | (36,851)        | 207,912         |
| Net cash generated from / (used in) investing activities                                                             | (29,459)        | 60,510          | (122,297)       |
| Net cash generated from financing activities                                                                         | 915             | (602)           | 3,032           |
| Effect of the exchange rate changes                                                                                  | 68              | (23)            | (63)            |
| <b>Net increase / (decrease) in cash and cash equivalents</b>                                                        | <b>(76,539)</b> | <b>23,036</b>   | <b>88,584</b>   |
| Cash and cash equivalents at the beginning of the year                                                               | 175,906         | 152,870         | 64,286          |
| <b>Cash and cash equivalents at the end of the year*</b>                                                             | <b>99,367</b>   | <b>175,906</b>  | <b>152,870</b>  |

(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 83,040 thousand euros, 21,782 thousand euros and 16,743 thousand euros as of December 31, 2015, 2016 and 2017 respectively.

## CHAPTER 1 - PRESENTATION OF THE COMPANY AND ITS ACTIVITIES

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## I.1. FOUNDING PRINCIPLES OF THE COMPANY

### I.1.1. Introduction

Innate Pharma SA is a clinical-stage biotechnology company specialized in immuno-oncology. The Company develops first-in-class<sup>1</sup> 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. Since, 5 other checkpoint inhibitors targeting PD-1/PD-L1 have been approved. In the indications they are approved, these new drugs have revolutionized cancer treatment thanks to their efficacy and good safety profile.

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.

At a later stage, Innate Pharma has expanded its scope in order to explore new approaches and therapeutic options. The Company now develops products around three key pillars: NK cell checkpoint inhibitors, tumor microenvironment and tumor antigens.

Today, the Company has a portfolio of four 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, Novo Nordisk A/S 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/PD-L1 pathway.

Based in Marseille, France, Innate Pharma has 188 employees as at December 31, 2017. The Company is listed on Euronext Paris since 2006.

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

### 1.1.2. 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.

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**

Acquisition of an anti-C5aR antibody (now called IPH5401) from Novo Nordisk A/S. This antibody targets myeloid derived suppressor cells (MDSC) in the tumor microenvironment and has been evaluated in a Phase I trial in inflammation.

Presentation of final results from the dose escalation part of the Phase I trial evaluating IPH4102 which confirm good safety profile and promising sign of clinical activity.

Results from two trials evaluating lirilumab did not provide clear evidence of benefit to patients or an obvious development path.

**2018**

Start of a clinical collaboration with AstraZeneca/MedImmune to evaluate IPH5401 in combination with durvalumab (anti-PD-L1) in patients with selected solid tumors.

Broadening the preclinical portfolio with three new projects: two bispecific antibodies (IPH61 and SAN-NKCE-2) and the anti-Siglec-9 antibody.

## 1.2. ACTIVITIES

### 1.2.1. 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.

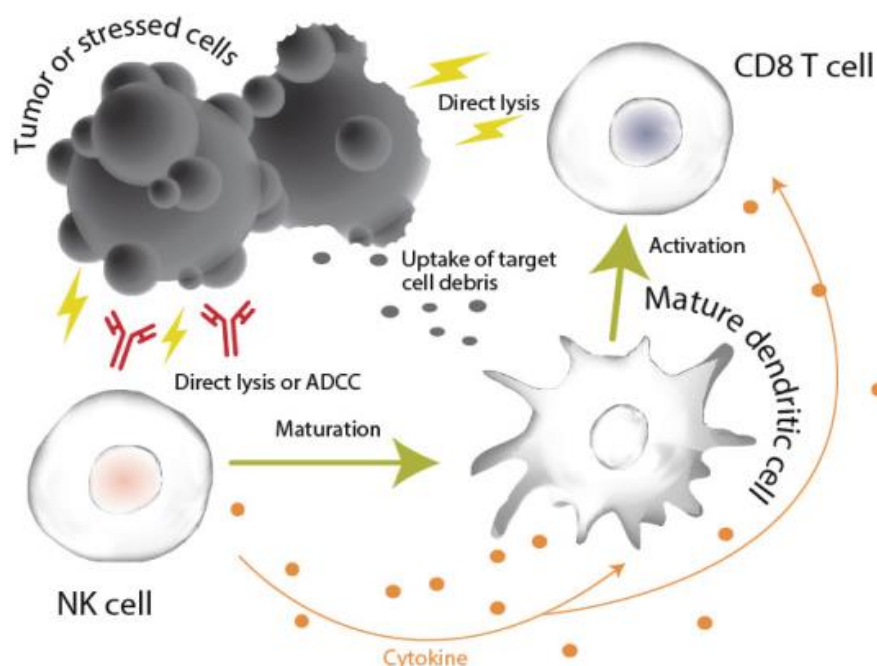
Innate Pharma is specialized in immuno-oncology, a new therapeutic field that is changing cancer treatment by mobilizing the power of the body’s immune system to recognize and kill cancer cells. The Company has built on this expertise to pioneer the discovery and development of checkpoint inhibitors to activate the innate immune system. Innate Pharma has expanded its scope in order to explore new approaches and therapeutic options. The Company now develops products around three key pillars: NK cell checkpoint inhibitors, tumor antigens and tumor microenvironment.

#### 1.2.1.1. 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 dependent 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.

### 1.2.1.2. 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

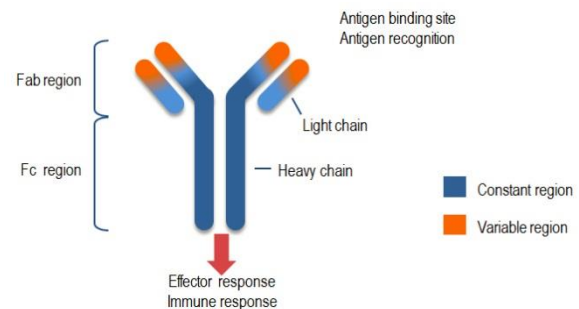
and create antibodies that bind those antigens to use the body's immune system to destroy these cancer cells. Alternatively, researchers can generate antibodies, such as checkpoint inhibitors, that bind to receptors on immune cells in order to modulate the anti-tumor activities of the immune system.

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.



#### 1.2.1.3. Targeting the tumor microenvironment

The tumor microenvironment is a recent field of research in immuno-oncology. Many advances have been made in understanding the different mechanisms that inhibit the immune system and allow the development of tumors. While early immuno-oncology strategies have focused on effector cells, a significant stream of research and development strategies now focus on the tumor

environment. Indeed, it sometimes proves to be a brake on the activity of the effector cells of the immune system, by favoring an immunosuppressive environment, or even by promoting tumor growth by the secretion of growth factors of the tumor and the blood vessels which will allow it to grow and metastasize.

### 1.2.2. Programs being developed in the Company

At present, the Company’s pipeline includes four clinical-stage programs:

- monalizumab, in partnership with AstraZeneca;
- IPH4102, currently tested in Phase I in cutaneous T cell lymphomas and developed in-house;
- IPH5401, targeting the tumor microenvironment and developed in-house;

- lirilumab, licensed to Bristol-Myers Squibb.

Innate Pharma also has other proprietary preclinical programs. The most advanced programs are IPH52, IPH53, IPH4301 and IPH61. The Company also works on antibody engineering innovative technologies, such as new bispecific antibody formats engaging NK cells.

| Target Discovery                          | Drug Discovery            | Preclinical                   | Dose finding                | Signal detection                     | Pivotal |
|-------------------------------------------|---------------------------|-------------------------------|-----------------------------|--------------------------------------|---------|
| ~20 targets or concepts under exploration | Anti-Siglec-9             | <b>IPH52</b><br>Anti-CD39     | <b>IPH5401</b><br>Anti-C5aR | <b>Monalizumab</b><br>Anti-NKG2A     |         |
|                                           | SAN-NKCE-2                | <b>IPH53</b><br>Anti-CD73     |                             | <b>Lirilumab</b><br>Anti-KIR2DL1,2,3 |         |
|                                           | Other undisclosed targets | <b>IPH4301</b><br>Anti-MICA/B |                             | <b>IPH4102</b><br>Anti-KIR3DL2       |         |
|                                           |                           | <b>IPH61</b><br>SAN-NKCE-1    |                             |                                      |         |

| Program                                               | Target – pillar                        | Main indication being evaluated                                                                                                                                                    | Progression                                                         |
|-------------------------------------------------------|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| <b>Monalizumab</b><br>Co-development with AstraZeneca | NKG2A<br>NK cell checkpoint            | <u>Combination with durvalumab:</u><br>Colorectal cancer<br>Ovarian cancer<br>Endometrial cancer<br>NSCLC cancer<br><br><u>Combination with cetuximab:</u><br>Head and neck cancer | Phase I/II<br>Data expected in 2018                                 |
| <b>IPH4102</b>                                        | KIR3DL2<br>Tumor antigen               | Cutaneous T-cell Lymphoma (CTCL)                                                                                                                                                   | Phase I with cohort expansion<br>Data expected in 2018              |
| <b>IPH5401</b>                                        | C5aR<br>Tumor microenvironment         | Cancer                                                                                                                                                                             | Start of clinical trials in combination during 2H18 (NSCLC and HCC) |
| <b>Lirilumab</b><br>Licensed to Bristol-Myers Squibb  | KIR2DL-1,-2,-3<br>NK cell checkpoint   | Cancer                                                                                                                                                                             | Next steps under discussion with partner                            |
| <b>IPH52</b>                                          | CD39<br>Tumor microenvironment         | Cancer                                                                                                                                                                             | Preclinical                                                         |
| <b>IPH53</b>                                          | CD73<br>Tumor microenvironment         |                                                                                                                                                                                    |                                                                     |
| <b>IPH4301</b>                                        | MICA/B<br>Tumor antigen                | Cancer                                                                                                                                                                             | IND-enabling studies                                                |
| <b>IPH61</b>                                          | Bispecific antibody                    | Cancer                                                                                                                                                                             | Preclinical                                                         |
| <b>Anti-Siglec-9</b>                                  | Siglec-9                               | Cancer                                                                                                                                                                             | Preclinical                                                         |
| <b>SAN-NKCE-2</b>                                     | Bispecific antibody                    | Cancer                                                                                                                                                                             | Preclinical                                                         |
| <b>Other programs</b>                                 | More than 20 targets under exploration |                                                                                                                                                                                    |                                                                     |

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

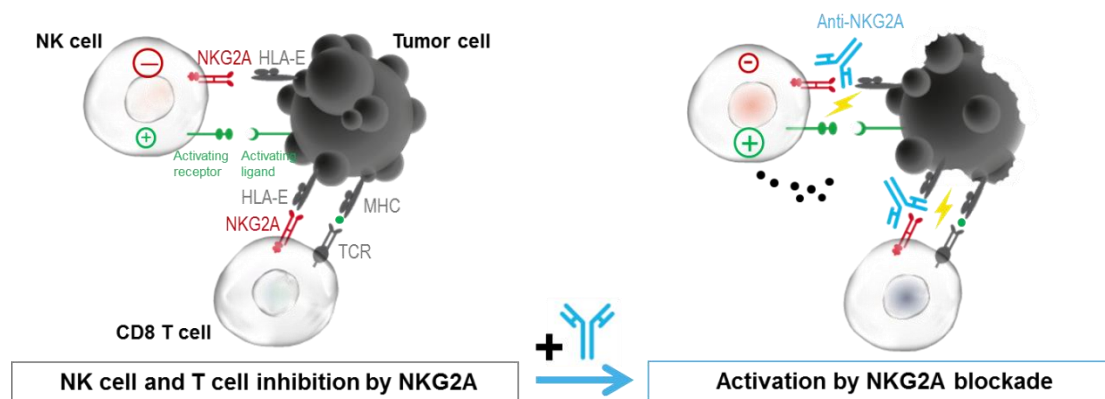
#### 1.2.2.1.1. Presentation

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 1.5).

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

- 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.

#### • 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 (CRC, Ovarian, Endometrial and NSCLC). It will include up to 280 patients, and will be performed in the United States.

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. The clinical trial started in February 2016.

Several sets of 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 trial.

#### 2017 achievements:

In September 2017, at the 3rd CRI-CIMT-EATI-AACR International Cancer Immunotherapy conference, Innate

Pharma presented new preclinical data further reinforced the rationale for monalizumab by demonstrating that blocking both NKG2A/HLA-E and PD-1/PD-L1 pathways enhance anti-tumor efficacy of CD8+ T cells.

First clinical efficacy data will be presented by AstraZeneca/MedImmune at an upcoming medical conference in 2018.

- **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. 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 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.

**2017 achievements:**

Safety data from the dose-escalation part of this trial were presented at 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.

Besides, first preliminary clinical efficacy data of the combination tested in previously treated patients with recurrent and/or metastatic squamous cell carcinoma of the head & neck (R/M SCCHN) were presented at AACR annual meeting 2018. Among the 31 patients enrolled in the expansion part, the combination was well tolerated, consistent with previously presented data at AACR 2017,

- **Other trials with monalizumab**

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.

In March 2018, MedImmune has amended the clinical trial protocol of the ongoing Phase I trial investigating the safety and efficacy of monalizumab in combination with durvalumab, in patients with advanced solid tumors. The trial protocol has been expanded to add new expansion cohorts aiming at testing monalizumab in combination with durvalumab and standard of care in patients with 1st- and 2nd-line, metastatic colorectal cancer.

with no additional safety concerns compared to monalizumab or cetuximab given alone. The majority of adverse events (AE) were of Grade 1-2 severity, rapidly reversible and easily manageable. No infusion-related reactions or treatment-related deaths occurred. The most frequent AEs (skin disorders) described with cetuximab were not potentiated by the combination with monalizumab. At the cut-off date of March 9, 2018, there were 8 confirmed RECIST partial responses (31%) with median time to follow-up of 129 days, achieving the predefined number of 8 responses needed to declare the trial positive. 14 patients (54%) had stable disease. Median duration of response has not yet been reached; six responders are still on treatment. The trial has now enrolled all planned patients (n=40). Further follow-up is needed to evaluate the duration of response, progression-free survival (PFS) and overall survival (OS).

| Best overall response        | N=26, n (%) |
|------------------------------|-------------|
| Partial Response (PR)        | 8 (31%)     |
| Stable Disease (SD)          | 14 (54%)    |
| Progressive Disease (PD)     | 3 (12%)     |
| Early death from progression | 1 (3%)      |

New preclinical data supporting the development rationale of the combination of monalizumab with cetuximab were also presented for this occasion.

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 allogeneic hematopoietic stem cell transplantation. Patients will receive a single dose of monalizumab 75 to 100 days after the stem cell

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

Finally, a trial evaluating monalizumab in monotherapy in patients with head & neck cancer is ongoing.

#### 1.2.2.2. IPH4102 program: anti-KIR3DL2 antibody

##### 1.2.2.2.1. Presentation

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.

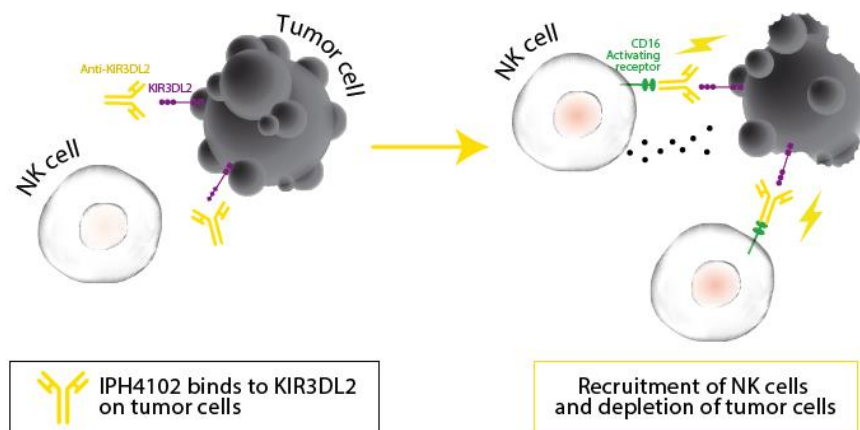
CTCL is a heterogeneous group of non-Hodgkin's lymphomas which arise primarily in the skin and are characterized by the presence of malignant clonal mature T cells. CTCL accounts for approximately 4% of all non-Hodgkin's lymphoma cases and has a median age at diagnosis of around 55 years.

Mycosis fungoides, and Sézary Syndrome, its leukemic variant, are the most common CTCL subtypes. The median OS, 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 and in the United States for the treatment of CTCL.

Due to the high medical need, Innate Pharma consider expanding its clinical development plan to explore full potential of IPH4102 in T cell lymphomas, in particular Peripheral T cell Lymphomas (PTCL) and Adult T-cell leukemia/lymphoma (ATLL).

#### IPH4102 mechanism of action



##### 1.2.2.2.2. Clinical development

IPH4102 is evaluated in 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 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.

### 2017 achievements:

The dose escalation part data were presented in lymphoma-specialized medical congress: at the ICML in Lugano in June 2017 then at the EORTC CLTF meeting in London in October 2017.

These data confirm the good safety profile and promising activity of IPH4102 in this elderly and heavily pretreated patients population (n=25). The objective response rate in the 20 patients with Sézary syndrome was 50%; the ORR4 (rate of responses lasting at least more than 4 months) was 40%, the disease control rate (DCR), 90%, the median

duration of response (DOR), 9.9 months and the median PFS, 10.8 months, respectively. Data on pruritus were reported for the first time and show substantial improvement in patients having a global clinical response but also in patients with stable disease. The Recommended Phase 2 Dose (RP2D) has been identified at 750 mg, a fixed dose equivalent to 10 mg/kg.

Biomarker results were presented in an oral presentation by Dr Maxime Battistella, Assistant Professor Pathology and Dermatopathology at St Louis Hospital and Université Diderot.

The cohort expansion part of the trial has started and the data for Sézary syndrome cohort are expected in 2018.

### 1.2.2.3. IPH5401: anti-C5aR antibody

#### 1.2.2.3.1. Presentation

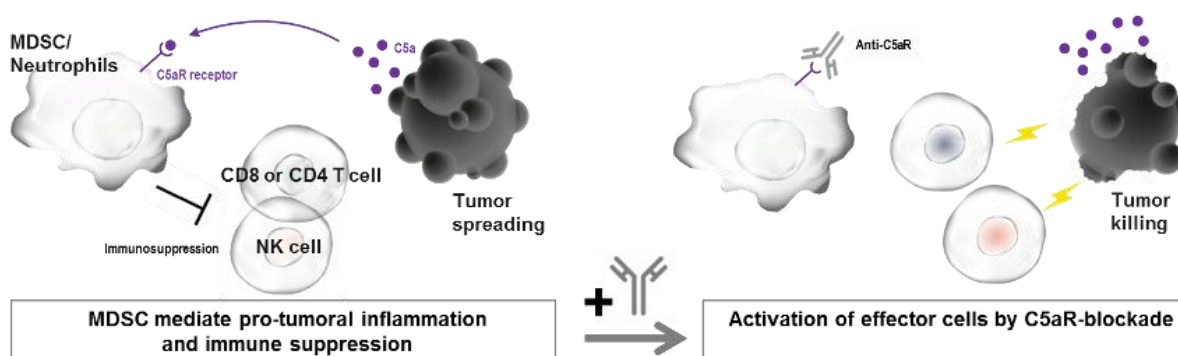
In June 2017, Innate Pharma entered into an agreement with Novo Nordisk A/S granting Innate Pharma full worldwide exclusive rights to develop and commercialize a first-in-class clinical-stage anti-C5aR antibody, now called IPH5401 (see 1.6.3.1 for details on the agreement)

IPH5401 is a first-in-class therapeutic antibody that specifically binds and blocks C5a receptors (C5aR) expressed on subsets of myeloid-derived suppressor cells (MDSC) and neutrophils. Part of the innate immune system, these types of cells promote tumor growth by secreting inflammatory and angiogenic factors. They potently suppress T and NK cells and hamper the activities of PD-1 checkpoint blockers.

C5a, a factor in the complement cascade, is often overexpressed in tumors, where it attracts and activates MDSC and neutrophils in the tumor microenvironment.

IPH5401 is a fully human antibody that blocks the binding of C5a to C5aR, thereby reducing the accumulation and activation of MDSC and neutrophils in tumors. Treatment with IPH5401 may unleash anti-tumor activities of T cells and NK cells. Preclinical experiments support development of IPH5401 as single agent and in combination with PD-1 checkpoint blockers or other cancer immunotherapies.

#### IPH5401 mechanism of action



#### 1.2.2.3.2. Clinical development

In January 2018, Innate Pharma entered into a clinical trial collaboration with MedImmune, the global biologics research and development arm of AstraZeneca. The Phase I/II study (STELLAR-001) will evaluate the safety and

efficacy of durvalumab, an anti-PD-L1 immune checkpoint inhibitor, in combination with Innate's investigational first-in-class anti-C5aR monoclonal antibody, IPH5401, as a

treatment for patients with selected solid tumors (NSCLC and HCC).

In September 2017, during the 3rd CRI-CIMT-EATI-AACR International Cancer Immunotherapy conference, Innate Pharma presented preclinical data reinforcing the rationale of IPH5401. These data show the selective expression of C5aR on myeloid-derived suppressor cells (MDSC) and neutrophils. These cells accumulate within the tumor microenvironment and secrete pro-angiogenic factors

which promote tumor progression. They also inhibit NK and T cells and suppress anti-tumor immunity. The data also demonstrate that IPH5401 selectively inhibits the activation of neutrophils. Moreover, the data show that the combined administration of anti-C5aR with anti-PD-1 reduced tumor growth. Taken together, these data suggest that C5aR blockade may result in a more permissive environment for immune-mediated tumor killing and treatment with checkpoint inhibitors.

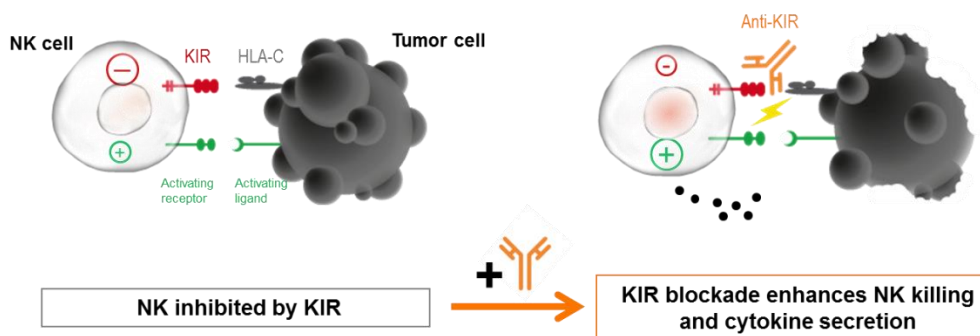
#### 1.2.2.4. Lirilumab: anti-KIR monoclonal antibody developed in cancer and licensed to Bristol-Myers Squibb

##### 1.2.2.4.1. 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 1.6.4.1).

##### 1.2.2.4.2. 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.

#### • Combination with nivolumab in advanced solid tumors

Bristol-Myers Squibb led a Phase I/II open-label study evaluating lirilumab 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 was conducted in two parts — dose escalation and cohort expansion. The primary objective is safety. Secondary objectives include a preliminary assessment of efficacy.

#### **2017 achievements:**

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 included 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. The protocol amendment followed the presentation at the Society for Immunotherapy of Cancer annual meeting (SITC, November 2016) of an interim efficacy analysis, which showed encouraging

preliminary clinical benefit in the cohort of patients with advanced platinum refractory SCCHN.

In November 2017, Innate Pharma provided an update on the clinical study program of lirilumab, led by Bristol-Myers Squibb. While lirilumab was shown to be well-tolerated, the assessment of efficacy from the ongoing exploration of doublet combinations, notably the nivolumab combination in an extended population of SCCHN patients, did not provide clear evidence of benefit to patients or an obvious development path. Discussions are ongoing regarding next steps for the program.

#### • 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.

##### **2017 event:**

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. In December 2017, data from the trial were discussed in an oral presentation by the principal investigator Pr. Norbert Vey, Team leader Translational Medicine – Hematology at the Paoli-Calmettes Institute (IPC). These data suggest that alternate dosing regimens, where KIR receptors are not permanently occupied and allow the interaction with their cognate ligands during maturation, could be worth exploring.

#### • 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 SCCHN of a Phase I/II trial.

#### 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.

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 were presented at the AACR meeting in April 2016.

This program is currently in preclinical development at Innate Pharma. 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 (see paragraph 1.2.2.5. for the rationale for Adenosine pathway targeting). CD73-blockade may promote anti-tumor immunity by reducing adenosine accumulation.



This program is developed within the TumAdoR project ([www.tumador.eu](http://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).

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

This program is currently in preclinical development at Innate Pharma. Innate Pharma has generated a panel of novel anti-CD73 antibodies.

#### ***2017 achievements on the IPH52 and IPH53 programs:***

In November 2017, preclinical data on IPH52 (anti-CD39) and IPH53 (anti-CD73) were presented at the Immune Checkpoint Inhibitors Summit, taking place in Munich. These data showed the expression of CD73 in the tumor environment and demonstrated the interest of the blocking of this molecule in a tumor model, in particular

in combination with checkpoint inhibitors as well as the efficacy of the IPH53 antibody (anti-CD73) to block the ATP/Adenosine pathway.

Preclinical data further supporting the rationale of developing IPH53 in combination with IPH52 were presented at the AACR annual meeting in April 2018.

#### **1.2.2.7. 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.

Innate Pharma is currently evaluating two formats at a preclinical stage. The first one is a “naked” cytotoxic antibody (ADCC). The second one is an antibody drug conjugate (ADC) generated thanks to Innate's proprietary technology of site-specific conjugation.

The two formats act with a dual mechanism of action which implies a direct destruction of tumor cells via, on the one hand, the ADCC or ADC mechanisms and via, on the other hand, the reversal of immunosuppression mediated by macrophages and the restoration of the NKG2D receptor.

The most promising format will be selected for clinical development.

#### **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.

Thus, Siglec-9 project has recently integrated the Company preclinical pipeline. Preclinical data supporting the rationale for the development of this antibody were presented at AACR annual meeting 2018.

#### **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.

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.

#### **2017 achievements:**

The collaboration between Innate Pharma and Sanofi has progressed according to plans. While the project on a first tumor antigen is about to permit the selection of a clinical candidate, Sanofi decided to include a second target as part of the collaboration agreement.

#### **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

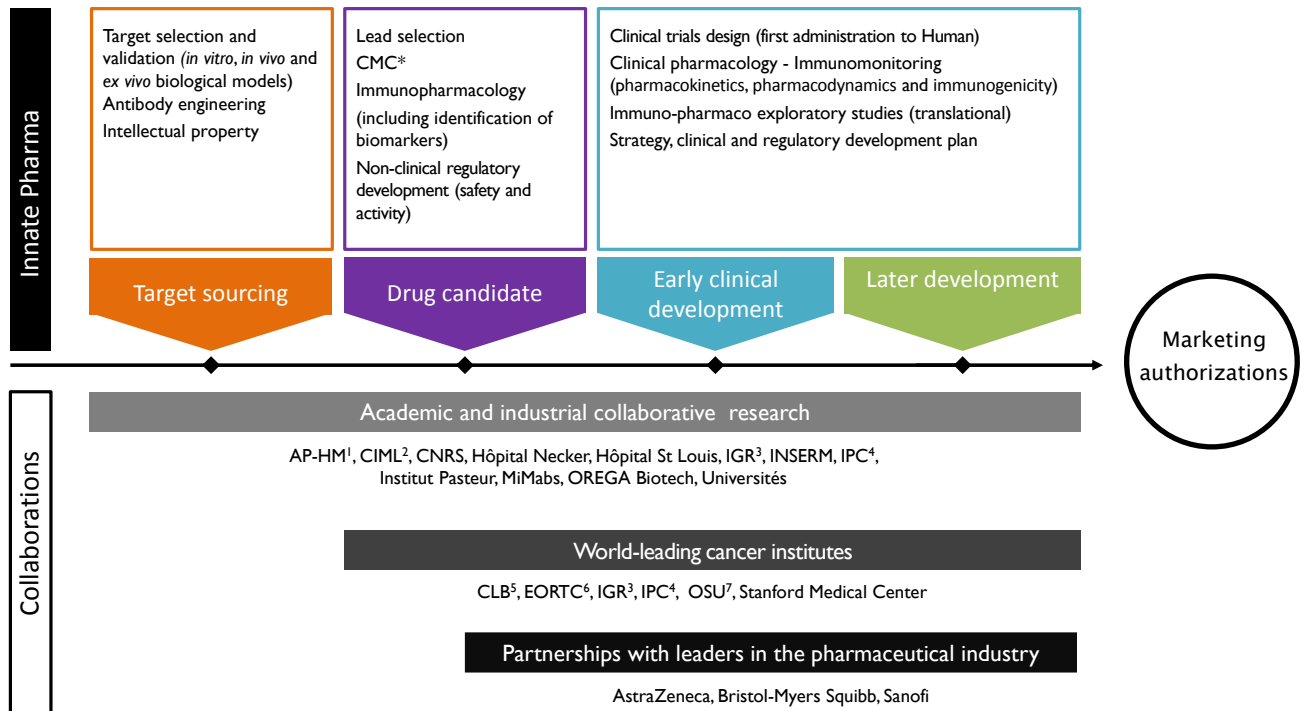
with patients represent the "clinical" part of the development. The development phase targets an issue common to all drug candidates: ensure patients safety, determine the drug candidate's clinical efficacy and to ensure its pharmaceutical quality. These three aspects – efficacy, safety and quality – 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/ Assistance Publique des Hôpitaux de Marseille, 2/ Centre d'Immunologie Marseille-Luminy, 3/ Institut Gustave Roussy, 4/ Institut Paoli-Calmettes, 5/ CLB, 6/ Organisation européenne pour la recherche et le traitement du cancer, 7/ Ohio State University

## 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 clinical-stage antibodies are a

cytotoxicity-inducing antibody, an antibody targeting cells from the tumor microenvironment and two 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. Since 2014, two checkpoint inhibitors targeting the PD-1 receptor and three other checkpoint inhibitors targeting its ligand PD-L1 have been approved in 10 indications (as of December 31 2017).

| Trade name | Molecule      | Company              | Number of indications |
|------------|---------------|----------------------|-----------------------|
| Opdivo®    | Nivolumab     | Bristol-Myers Squibb | 8                     |
| Keytruda®  | Pembrolizumab | Merck                | 7                     |
| Tecentriq® | Atezolizumab  | Roche                | 2                     |
| Bavencio®  | Avelumab      | Merck KGaA/Pfizer    | 2                     |
| Imfinzi®   | Durvalumab    | AstraZeneca          | 1                     |

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. They are also developed in the tumor microenvironment, a recent field of research in immuno-oncology. Many advances have been made in understanding the different mechanisms that inhibit the immune system and allow the development of tumors. Indeed, it sometimes proves to be a brake on the activity of the effector cells of the immune system, by favoring an immunosuppressive environment, or even by promoting tumor growth by the secretion of growth factors of the tumor and the blood vessels which will allow it to grow and metastasize.

With three clinical-stage drug candidates within these fields, including two in partnership with checkpoint inhibitors' world leaders, 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").

### 1.3.4. Market

#### 1.3.4.1. 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 2018:

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 2018

| Site                | New cases of cancer | Deaths due to cancer |
|---------------------|---------------------|----------------------|
| Lung and bronchial  | 234,030             | 154,050              |
| Colon <sup>10</sup> | 140,250             | 50,630               |
| Breast              | 268,670             | 41,400               |
| Ovary               | 22,240              | 14,070               |
| Pancreas            | 55,440              | 44,330               |
| Prostate            | 164,690             | 29,430               |
| Melanoma            | 91,270              | 9,320                |
| Leukemia            | 60,300              | 24,370               |
| Lymphoma            | 74,680              | 19,910               |
| Multiple myeloma    | 30,770              | 12,770               |
| Others              | 593,010             | 209,360              |
| <b>Total</b>        | <b>1,735,350</b>    | <b>609,640</b>       |

<sup>10</sup>Deaths due to colon cancer combined deaths due to rectal cancer.

Source: American Cancer Society, 2018

### 1.3.4.2. Market data

#### Worldwide drugs market

The worldwide pharmaceutical market was estimated at 1,105 billion US dollars in 2016, a 3.4% increase with respect to 2015 at constant US dollar exchange rates

(Source: IMS Health, 2017). The following table shows the geographical distribution of this market:

| Geographical area | Market in 2016 in value<br>(billions of US dollars) | % of the<br>total market | % of growth over<br>2015 | % expected growth in<br>2016–2021 |
|-------------------|-----------------------------------------------------|--------------------------|--------------------------|-----------------------------------|
| North America     | 481.0                                               | 43.5%                    | 7.1%                     | 6–9%                              |
| Europe            | 151.8                                               | 13.7%                    | 5.4%                     | 1–4%                              |
| Japan             | 90.1                                                | 8.2%                     | 15.1%                    | –1–2%                             |
| ROW               | 381.8                                               | 34.6%                    | –3.9%                    | 5–8%                              |

Source: IMS Health, 2017

According to IMS Health, the worldwide pharmaceutical market should continue to expand over the next few years with an annual growth around 4 to 7% between 2016 and 2021.

#### 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<br>value<br>(billions of US<br>dollars) | % of the total market | Estimated market in<br>2024 (billions of<br>US dollars) | CAGR  |
|-----------------------------------------------|-----------------------------------------------------------|-----------------------|---------------------------------------------------------|-------|
|                                               |                                                           |                       |                                                         |       |
| North America                                 | 46.3                                                      | 52.2%                 | 76.6                                                    | 5.75% |
| Europe (France, Germany,<br>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 50 billion dollars in the next 10 years (Source: Citi, October 2017). In 2017, the 6 approved products, of which 5 anti-PD1/PD-L1, generated over 10 billion dollars in turnover (growth of 65% compared to 6 billion dollars in 2016).

## 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.

The EU regulation No 679/2016 of the European Parliament and of the Council of April 27, 2016 on the protection of individuals with regard to the processing of personal data and on the free movement of such data (GDPR) which will enter into force from May 25, 2018, dedicates and strengthens the main principles of the law Computing and Freedom, in force since 1978, and significantly increases the rights of citizens by giving them more control over their data. In France, a new law Computing and Freedom, currently under discussion in Parliament, will be needed by May 2018 to include national specificities.

#### 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 the second half of 2019, 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 (2H 2019).

#### 1.4.3.2. Clinical trial authorization in United States

In the United States, a trial can only be started if it has obtained an authorization from the FDA and from an ethics committee (Institutional Review Board). 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 IRB 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](http://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](http://www.clinicaltrialsregister.eu).

#### I.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.

##### I.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.

##### I.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](http://www.transparence.sante.gouv.fr)) under the responsibility of the Health Minister.

These measures have been reinforced and clarified by the decree No 2016-1939, from December 28

2016, both on the public declaration of interests planned by the article L. 1451-1 of the French Public Health Code and on the transparency of the benefits granted by companies manufacturing or commercializing for human sanitary and cosmetic products. Moreover, it sets a 10-euro threshold, for companies, to make public the compensations they pay as part of conventions that must become public, but also their publication mode and plan the publication of the amount of these conventions. It also determines the ways and means by which the direct beneficiary and the final beneficiary of these conventions become public. These measures came into effect on July 1st 2017.

## 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, 2017, the term of our patents for our programs are as follows:

- Our monalizumab-related patent portfolio includes 1 pending Patent Cooperation Treaty, or PCT, patent application, 3 pending U.S. non-provisional patent applications, 3 pending patent applications in Europe and 28 pending foreign patent

applications solely owned by us, 1 granted U.S. patent, 1 pending U.S. non-provisional patent application, 2 granted European patents, 1 pending European patent application, 12 granted foreign patents and 3 pending foreign patent applications co-owned by us with another party and 9 granted U.S. patents, 6 pending U.S. non-provisional patent applications, 4 granted European patents, 4 pending European patent applications, 20 granted foreign patents and 20 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 IPH4102 related patent portfolio includes 2 granted U.S. patents, 4 pending U.S. non-provisional patent applications, 1 pending PCT patent application, 1 granted European patent, 4 pending European patent applications and 27 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 IPH5401 related patent portfolio includes 11 granted U.S. patent, 2 pending U.S. non-provisional patent applications, 7 granted European patents, 2 pending European patent applications and 15 granted foreign patents and 11 pending foreign patent applications in-licensed by us;
- Our lirilumab-related patent portfolio includes 2 granted U.S. patents, 1 pending U.S. non-provisional patent application, 2 pending European patent applications, 3 granted foreign patents and 20 pending foreign patent applications solely owned by us, and 14 granted U.S. patents, 9 pending U.S. non-provisional patent applications, 9 granted European patents, 6 pending European patent applications, 50 granted foreign patents and 32 pending foreign patent applications co-owned by us with at least one another party. Our lirilumab patent portfolio also includes 2 granted U.S. patents, 1 pending U.S. non-provisional patent application, 3 granted European patents, 6 granted foreign patents and 1 pending foreign patent application 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 IPH43-related patent portfolios includes 1 pending PCT patent application, 2 pending U.S. non-provisional patent applications, 1 pending U.S. provisional patent application, 1 granted foreign patent, 1 pending European patent application and 8 pending foreign patent applications solely owned by us;
- Our IPH52-related preclinical program patent portfolio includes 1 pending PCT patent application, 4 pending U.S. provisional application solely owned by us, and 1 pending U.S. provisional patent applications and 2 pending PCT patent applications 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 1 U.S. provisional patent application, 2 pending U.S. non-provisional patent applications, 2 pending European patent applications, and 11 pending foreign patent applications solely owned by us, and 1 pending PCT patent application co-owned by us with at least one other party;
- Our ADC technology patent portfolio includes 2 pending U.S. non-provisional patent applications, 1 pending U.S. provisional patent application, 4 pending European patent applications and 3 foreign patent applications solely owned by us, 3 granted U.S. patent, 5 pending U.S. non-provisional patent applications, 4 pending European patent applications and 5 pending foreign patent applications co-owned by us with at least one other party, and 2 pending U.S. non-provisional patent applications, 3 granted European patents and 4 granted foreign patents in-licensed by us;
- Our bispecific technology patent portfolio includes 5 pending U.S. non-provisional patent applications, 3 pending U.S. provisional patent applications, 5 pending European patent applications, 16 pending foreign patent applications and 3 pending PCT patent applications solely owned by us.

## CHAPTER 1 - PRESENTATION OF THE COMPANY AND ITS ACTIVITIES

### 1.5 RESEARCH AND DEVELOPMENT AND INTELLECTUAL PROPERTY

The table below summarizes Innate Pharma's patents as of December 31, 2017:

|  | Monalizumab | IPH4102 | IPH5401 | Liriumab | IPH52 | IPH53 | IPH4301 | Technologie ADC | Technologie bispécifiques |
|--|-------------|---------|---------|----------|-------|-------|---------|-----------------|---------------------------|
|--|-------------|---------|---------|----------|-------|-------|---------|-----------------|---------------------------|

#### Solely owned by us

|                                                  |    |    |   |    |   |    |   |   |    |
|--------------------------------------------------|----|----|---|----|---|----|---|---|----|
| PCT patent application                           | 1  | 1  | - | -  | 1 | -  | 1 | - | 3  |
| Granted U.S. patents                             | -  | 2  | - | 2  | - | -  | - | - | -  |
| Pending U.S. non-provisional patent applications | 3  | 4  | - | 1  | - | 2  | 2 | 2 | 5  |
| Pending U.S. provisional patent applications     | -  | -  | - | -  | 4 | 1  | 1 | 1 | 3  |
| Granted European patents                         | -  | 1  | - | -  | - | -  | - | - | -  |
| Pending European patent applications             | 3  | 4  | - | 2  | - | 2  | 1 | 4 | 5  |
| Granted foreign patents                          | -  | -  | - | 3  | - | -  | 1 | - | -  |
| Pending foreign patent applications              | 28 | 27 | - | 20 | - | 11 | 8 | 3 | 16 |

#### Co-owned by us with at least one other party

|                                                  |    |   |   |    |   |   |   |   |   |
|--------------------------------------------------|----|---|---|----|---|---|---|---|---|
| PCT patent application                           | -  | - | - | -  | 2 | 1 | - | - | - |
| Granted U.S. patents                             | 1  | - | - | 14 | - | - | - | 3 | - |
| Pending U.S. non-provisional patent applications | 1  | - | - | 9  | - | - | - | 5 | - |
| Pending U.S. provisional patent applications     | -  | - | - | -  | 1 | - | - | - | - |
| Granted European patents                         | 2  | - | - | 9  | - | - | - | - | - |
| Pending European patent applications             | 1  | - | - | 6  | - | - | - | 4 | - |
| Granted foreign patents                          | 12 | - | - | 50 | - | - | - | - | - |
| Pending foreign patent applications              | 3  | - | - | 3  | - | - | - | 5 | - |

#### In-licensed by us

|                                                  | Monalizumab | IPH4102 | IPH5401 | Lirilumab | IPH52 | IPH53 | IPH4301 | Technologie ADC | Technologie bispécifiques |
|--------------------------------------------------|-------------|---------|---------|-----------|-------|-------|---------|-----------------|---------------------------|
| Granted U.S. patents                             | 9           | 4       | 11      | 2         | -     | -     | -       | -               | -                         |
| Pending U.S. non-provisional patent applications | 6           | -       | 2       | 2         | 3     | -     | -       | 2               | -                         |
| Granted European patents                         | 4           | 1       | 7       | 3         | 1     | -     | -       | 3               | -                         |
| Pending European patent applications             | 4           | -       | 2       | -         | 2     | -     | -       | -               | -                         |
| Granted foreign patents                          | 20          | 2       | 15      | 6         | 2     | -     | -       | 4               | -                         |
| Pending foreign patent applications              | 20          | 2       | 11      | 1         | -     | -     | -       | -               | -                         |

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 monalizumab

#### 1.6.1.1. 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.

#### 1.6.1.2. 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 1.5 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 of this Reference document.

#### 1.6.1.3. 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.

#### 1.6.1.4. 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                         |

## 1.6.2. Agreements on IPH4102

Innate Pharma entered into a licensing agreement 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 also entered into a licensing agreement with Selexis inc. in which Innate Pharma gained rights to use Selexis's technology. This license agreement includes undisclosed milestone payments and royalties.

## 1.6.3. Agreements on IPH5401

### 1.6.3.1. In-licensing agreement with Novo Nordisk A/S

On June 2, 2017, Innate Pharma announced that it entered into an agreement with Novo Nordisk A/S granting Innate Pharma full worldwide exclusive rights to develop and commercialize a first-in-class clinical-stage anti-C5aR antibody (IPH5401).

The terms of the transaction provide for a total upfront payment of €40m, of which €37.2m will be paid in new

Innate Pharma shares (3,343,749 shares at the closing) and €2.8m in cash. Novo Nordisk A/S will be eligible for €370m in development, regulatory and sales milestone payments. Novo Nordisk A/S will also be eligible for double digit royalties on net sales.

### 1.6.3.2. Clinical collaboration agreement with MedImmune

On January 30 2018, Innate Pharma SA announced that it entered into a clinical trial collaboration with MedImmune, the global biologics research and development arm of AstraZeneca. The Phase I/II study (STELLAR-001) will evaluate the safety and efficacy of durvalumab, an anti-PD-L1 immune checkpoint inhibitor, in combination with

Innate's investigational anti-C5aR monoclonal antibody, IPH5401, as a treatment for patients with Non-small lung cancer secondary resistant to checkpoint inhibitors or hepatocellular carcinoma. Innate will sponsor the study with costs equally shared by both parties. The agreement between Innate Pharma and MedImmune is non-exclusive.

### 1.6.3.3. Other agreement on IPH5401

The Company is also bound to Lonza, which is eligible to receive milestone payments and non-disclosed royalties.

## 1.6.4. Agreements on lirilumab

### 1.6.4.1. 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.

#### 1.6.4.2. 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 of this Reference document.

#### 1.6.4.3. 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.

#### 1.6.4.4. 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                         |

#### 1.6.5. 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 assignment of rights agreements, signed with organizations, academic laboratories or companies, whether or not they have other collaborative research agreements with the Company. 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.

## 1.7. INVESTMENTS AND REAL ESTATE

### 1.7.1. 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 2017, 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.

In 2017, the Company acquired the rights of an anti-C5aR antibody from Novo Nordisk A/S. The amount of €40.0 million corresponding to the initial payment was recognized as intangible assets.

#### 1.7.1.1. Historical investments

During the past three years, investments in tangible assets amounted to €0.9, €3.6 and €3.0 million for the fiscal years 2015, 2016 and 2017, respectively.

As mentioned previously, investments in intangible assets amounted to €6.3, €1.7 and €40.2 million for the fiscal years 2015, 2016 and 2017, respectively.

Net financial investments amounted to €66.1 and €22.4 million for the fiscal years 2016 and 2017, respectively (acquisition 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.

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, 2017, the net book value of the Company's property, plant and equipment was €10.7 million, compared to €9.1 million euros as of December 31, 2016.

### 1.7.1.2. Current investments

In the context of its budget for the fiscal year 2018, the Company planned the purchase of some laboratory equipments which will enable the modernizing of the

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 acquired in December 2017, from the City of Marseille, 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.

## 1.7.2. 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.

In December 2017, Innate Pharma acquired, from the City of Marseille, a land nearby its own, amounting to €495 thousand. This acquisition is part of the future construction of a building and was financed through a midterm loan.

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.

## 1.8. 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.

## 1.9. 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 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 failure, the Company may partner 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 1.6.4.1 of this Reference document). In the case of monalizumab, a co-development and commercialization agreement has been signed with AstraZeneca (see section 1.6.1.1 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, or because the product potential is considered as too weak according to their investment criteria. 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.

### 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 was the only one in the last years to present a positive result. As of December 31, 2017, the Company's cumulative net losses amounted to €152.0 million, including a net earning of €48.3 million for the fiscal year ended December 31, 2017. 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 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 Section 2.5 of this Reference document).

The Company has invested heavily since its business began in 1999. Operating expense was €84.0 million and €58.2 million for the fiscal years ended December 31, 2017

and 2016, respectively, in the absence of recurring income. Due to its solid cash position (€176.6 million as of December 31, 2017 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 €11.4 million and €9.6 million, for the fiscal years ended December 31, 2017 and 2016, respectively. The research tax credit was €11.0 million and €9.1 million, for the fiscal years ended December 31, 2017 and 2016. Receivables from the State in terms of the research tax credit were €11.0 million as of December 31, 2017.

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). In 2017, the Company did not exceed the criteria and remains eligible for the prepayment of the research tax credit receivable.

#### 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.

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

### 1.9.1.11. 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.

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 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.

Failing 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 or the poor availability of the manufacturing providers in charge;
- Difficulties in the development, technical transfer or production of product-candidates;
- 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.

If products manufactured by third-parties fail to comply with quality and/or product safety standards, our activities could slow down or even stop while waiting for the

production of new batches (delay in the beginning of clinical trials or cessation of these).

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 or to delay the studies while waiting for complementary investigations to be completed which could lead to additional costs. 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.

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.

### 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 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. We could move our research and development activities forward based on false positive results.

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. 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 and in the United States. 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

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, our 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 Department aim to mitigate these risks.

### 1.9.5. Risks related to security, hygiene, technical operations and the environment

#### 1.9.5.1. 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 introduced 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 presenting a risk.

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 Sureté 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 pathologogenous 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, 2017, 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, 2017 (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, 2016 and 2017 (in millions of euros):

|                                                                        | As of December 31, |       |
|------------------------------------------------------------------------|--------------------|-------|
|                                                                        | 2017               | 2016  |
| Average balance of cash, cash equivalents and current financial assets | 156.9              | 216.8 |
| Interest income with 50 base points                                    | 1.0                | 1.1   |
| Interest expense with 50 base points                                   | 1.0                | (1.1) |

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 corresponding to the expected expenses in U.S. dollars in the short/midterm.

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 and of bank loans are not subject to interest rate risk (advances with 0% interest rate and fixed-rate loans).

#### 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, 2017, amounting to €116.1 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.

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

capital, would allow the subscription of 4,385,751 new shares, which represents around 7.61% 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.

#### 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 enter 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

### 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.

In terms of internal procedures, the Company has set up a macro-risk map, which is reviewed periodically. 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 €140 thousand and €169 thousands for the fiscal years ending December 31, 2016 and 2017, 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

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.

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 €8 million per accident with a sub-limit of €3 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. The business civil liability insurance program has been revised to take into account the evolutions of the Company's activity. The upper limit of guarantees has been revised upwards in 2018;
- an "inventory and transit" policy which covers risks related to transporting and storing products with a maximum guaranteed total amount of €2 million per shipment, accident or event for all the sites together. This policy has been adapted to the scope of the updated insured values of 2018.

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.

## CHAPTER 2 - CORPORATE GOVERNANCE

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## 2.1. DEFINITIONS

- Free shares (AGA) and free preferred shares (AGAP)

|                                                                | AGA Management                                                               | AGAP Management<br>2016/2017                                                       | AGA Management<br>2017                                                                                                                      | Bonus | AGA Employees                                                                | AGAP Employees                                                                     |
|----------------------------------------------------------------|------------------------------------------------------------------------------|------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|-------|------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| <b>Instrument</b>                                              | Free shares                                                                  | Free preferred shares                                                              | Free shares                                                                                                                                 |       | Free shares                                                                  | Free preferred shares                                                              |
| <b>Beneficiaries</b>                                           | Executive Board and Executive Committee members                              |                                                                                    |                                                                                                                                             |       | Employees                                                                    | Employees                                                                          |
| <b>Definitive acquisition period (as from attribution)</b>     | Three years                                                                  | One year                                                                           | One year                                                                                                                                    |       | One year                                                                     | One year                                                                           |
| <b>Retention period (as from definitive acquisition)</b>       | –                                                                            | Two years                                                                          | One year                                                                                                                                    |       | Two years                                                                    | Two years                                                                          |
| <b>Terms</b>                                                   | Presence on the definitive acquisition date                                  | Presence at the definitive acquisition date and at the end of the retention period | Presence on the definitive acquisition date                                                                                                 |       | Presence on the definitive acquisition date                                  | Presence at the definitive acquisition date and at the end of the retention period |
| <b>Authorized by</b>                                           | AGM of June 2, 2016 (resolution 21) and AGM of June 23, 2017 (resolution 26) | AGM of June 2, 2016 (resolution 24) and AGM of June 23, 2017 (resolution 30)       | AG du 23 juin 2017 (c 27)                                                                                                                   |       | AGM of June 2, 2016 (resolution 22) and AGM of June 23, 2017 (resolution 28) | AGM of June 2, 2016 (resolution 25) and AGM of June 23, 2017 (resolution 31)       |
| <b>Number of ordinary shares in case of maximum conversion</b> | –                                                                            | AGAP 2016: 200<br>AGAP 2017: 100                                                   | –                                                                                                                                           |       | –                                                                            | AGAP 2016: 200<br>AGAP 2017: 100                                                   |
| <b>Performance criteria assessed over a three-year period</b>  | –                                                                            | AGAP 2016: Operational and stock value criteria<br>AGAP 2017: Stock value criteria | Number of shares definitely acquired depending on the cash equivalent of 50% of the annual variable compensation increased by a 30% premium | –     | –                                                                            | AGAP 2016: Operational and stock value criteria<br>AGAP 2017: Stock value criteria |

|                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>BSA</b>        | Mean the warrants giving right to the subscription of new shares.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>BSAAR</b>      | 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Peer group</b> | <p>Means a basket of biotechnology companies specialized in immuno-oncology with a development and a market capitalization similar to the Company, in Europe or in the US. Such companies were chosen by the Company for an internal study on the Chairman's global compensation.</p> <p>Such internal study aimed at positioning the Chairman's compensation within the Peer Group.</p> <p>The inclusion criteria for the Peer Group were:</p> <ul style="list-style-type: none"> <li>Biotechnology companies at a comparable development stages;</li> <li>Companies specialized in the therapeutic field of Immuno-oncology;</li> <li>Publishing a level of information allowing this comparison.</li> </ul> <p>On the date the Peer group has been formed and the above criteria observed, the valuation of Innate Pharma was at the median of the group valuation.</p> <p>The study on the Peer Group is used for illustrative purpose under this report to range the Chairman's compensation among the Peer Group's practices.</p> <p>The internal study on the Peer Group was made during the third quarter of 2017, on the basis of information published by such companies and uses the Company's share price at such time.</p> <p>Our Peer Group panel is made of the following companies : Ablynx ; Adaptimmune ; Agios Pharmaceuticals ; Argenx ; Calithera ; Celldex ; Erytech ; Five Prime ; Loxo Oncology ; Medigene ; Molecular Partners ; Morphosys ; Nanobiotix ; and Newlink Genetics.</p> |

The Company 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.

The Company complies with the AFEP/MEDEF corporate governance recommendations for publicly listed companies updated on November 24<sup>th</sup>, 2016 ("AFEP/MEDEF recommendations") which can be consulted on the site [www.medef.com](http://www.medef.com), and applies the principles set out therein, except as set out in paragraph 2.2.9. In accordance with the recommendations included in this code, the reasons for not applying certain principles are explained in this Reference Document.

## 2.2. GOVERNANCE

### 2.2.1. Presentation of Executive committee and Supervisory board members on December 31, 2017

#### 2.2.1.1. Changes to the Executive and Supervisory Board end brief description table of the members

2.2.1.1.1. Changes occurred to the Supervisory and Executive board structure during the fiscal year ended on December 31, 2017

| Board             | Date                          | Event       | Member                   | Committee(s)                          |
|-------------------|-------------------------------|-------------|--------------------------|---------------------------------------|
| Supervisory Board | 04/10/17                      | Leaving     | Michael Caligiuri        | None                                  |
| Executive Board   | 06/23/17                      | Leaving     | Nicolai Wagtman          | N/A                                   |
| Supervisory Board | 06/23/17                      | Renewal     | Hervé Brailly            | Compensation and nomination           |
| Supervisory Board | 06/23/17                      | Renewal     | Gilles Brisson           | Compensation and nomination and Audit |
| Supervisory Board | 23/06/17                      | Renewal     | Irina Staatz Granzer     | Transaction and Audit                 |
| Supervisory Board | 06/23/17                      | Renewal     | Novo Nordisk A/S         | Transaction                           |
| Supervisory Board | 06/23/17                      | Renewal     | Véronique Chabernaud     | Compensation and nomination           |
| Supervisory Board | 06/23/17                      | Renewal     | Patrick Langlois         | Compensation and nomination and Audit |
| Supervisory Board | 06/23/17                      | Appointment | Bpifrance Participations | Audit                                 |
| Supervisory Board | 06/23/17                      | Appointment | Jean-Charles Soria       | None                                  |
| Supervisory Board | 08/30/17                      | Leaving     | Jean-Charles Soria       | None                                  |
| Supervisory Board | 12/13/17 (effect on 01/30/18) | Appointment | Jean-Yves Blay           | None                                  |

## 2.2.1.1.2. Brief description table of Executive and Supervisory board members at the date of this Reference Document

| Personal information                    |     |             |                                               | Experience                        |                                                               | Position     |                          |                     |                          | Committees |                             |             |     |
|-----------------------------------------|-----|-------------|-----------------------------------------------|-----------------------------------|---------------------------------------------------------------|--------------|--------------------------|---------------------|--------------------------|------------|-----------------------------|-------------|-----|
| Age                                     | Sex | Nationality | Number of ordinary shares freely transferable | Main position outside the Company | Mandates in listed companies                                  | Independance | Initial appointment date | Mandate termination | Seniority <sup>(1)</sup> | Audit      | Compensation and nomination | Transaction |     |
| Executive board members                 |     |             |                                               |                                   |                                                               |              |                          |                     |                          |            |                             |             |     |
| Mondher Mahjoubi                        | 59  | H           | French                                        | 0                                 | N/A                                                           | N/A          | N/A                      | 12/30/16            | 12/30/19                 | 1 year     | N/A                         | N/A         | N/A |
| Yannis Morel                            | 44  | H           | French                                        | 54,937                            | N/A                                                           | N/A          | N/A                      | 05/25/15            | 12/30/19                 | 3 years    | N/A                         | N/A         | N/A |
| Supervisory board members               |     |             |                                               |                                   |                                                               |              |                          |                     |                          |            |                             |             |     |
| Hervé Brailly                           | 56  | H           | French                                        | 1,024,784                         | See 2.2.3                                                     | N/A          | ✗                        | 12/30/16            | 2019 AGM <sup>(5)</sup>  | 1 year     | ✗                           | ✓           | ✓   |
| Gilles Brisson                          | 66  | H           | French                                        | 48,059                            | See 2.2.3                                                     | N/A          | ✓                        | 07/27/07            | 2019 AGM <sup>(5)</sup>  | 11 years   | ✓                           | ✓           | ✗   |
| Patrick Langlois                        | 72  | H           | French                                        | 8,141 <sup>(4)</sup>              | See 2.2.3                                                     | See 2.2.3    | ✓                        | 05/25/10            | 2019 AGM <sup>(5)</sup>  | 8 years    | ✓                           | ✓           | ✗   |
| Irina Staatz-Granzer                    | 58  | F           | German                                        | 100                               | See 2.2.3                                                     | N/A          | ✓                        | 06/23/09            | 2019 AGM <sup>(5)</sup>  | 9 years    | ✓                           | ✗           | ✓   |
| Novo Nordisk A/S <sup>(2)</sup>         | 51  | H           | Danish                                        | 8,908,456                         | Senior VP External Innovation & Strategy (Novo Nordisk group) | See 1.1.2    | ✗                        | 07/26/07            | 2019 AGM <sup>(5)</sup>  | 11 years   | ✗                           | ✗           | ✓   |
| Bpifrance Participations <sup>(3)</sup> | 55  | F           | French                                        | 4,396,682                         | Director of Pôle Investissement Large Venture at Bpifrance    | See 2.2.3    | ✗                        | 06/23/17            | 2019 AGM <sup>(5)</sup>  | 1 year     | ✓                           | ✗           | ✗   |
| Véronique Chabernaude                   | 56  | F           | French                                        | 10                                | Founder of association “Créer la vitalité”                    | N/A          | ✓                        | 04/27/15            | 2019 AGM <sup>(5)</sup>  | 3 years    | ✗                           | ✓           | ✗   |
| Jean-Yves Blay                          | 55  | H           | French                                        | 0                                 | General Director of Léon Bérard centre                        | N/A          | ✓                        | 12/13/17            | 2019 AGM <sup>(5)</sup>  | 0          | ✗                           | ✗           | ✗   |

(1) Into the Executive/Supervisory board

(2) Permanent representative: Marcus Schindler replacing Karsten Munk Knudsen as from March 7, 2018

(3) Permanent representative: Mailys Ferrere

(4) Number of shares held directly and indirectly

(5) AGM ruling in 2019 on 2018 accounts

## 2.2.2. EXECUTIVE BOARD AND EXECUTIVE COMMITTEE MEMBERS <sup>(1)</sup>

Mondher Mahjoubi, M.D.



*Chairman of the Executive board*

Born on 09/16/1958- French

First nomination on 12/14/16

Term expires: 12/30/2019

### Holding of shares and equity instruments

|             |       |                      |                       |
|-------------|-------|----------------------|-----------------------|
| Shares      | 0     | AGA 2016-2           | 250,000               |
| AGAP 2016-2 | 3,000 | AGA Bonus Management | 15,218 <sup>(2)</sup> |
| AGAP 2017-1 | 700   | 2017-1               |                       |

### Expertise and experience

Mondher Mahjoubi 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 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.

**Other positions and mandates in listed and unlisted companies:** N/A

### Positions and appointments previously held during the five past years in unlisted companies

Senior Vice-President « head of oncology TA » at Genentech

### Positions and appointments previously held during the five past years in listed companies

Senior Vice-President « head of oncology TA » at AstraZeneca

(1) Nicolai Wagtmann, Executive board member, Executive VP, Chief Scientific Officer, left the Company for personal reasons and follows a career in the USA on June 23, 2017. He did not hold any other position or mandate simultaneously with his mandate at Innate during the 2017 fiscal year.

Marcel Rozenzweig, Executive VP, President of Innate Pharma Inc., left the Executive Committee in September 2017. He remains bound to the Company with periodic consultancy missions and remains President of Innate Pharma Inc.

(2) See 2.3.2.1.2

**Yannis Morel, PhD**

*Executive Board member, Executive Vice President, Product portfolio strategy & Business development*

**Born on 11/02/1973– French**

**First nomination on 06/25/2015**

**Term expires: 12/20/19**

**Holding of shares and equity instruments**

|               |        |              |        |                        |     |                                        |                      |
|---------------|--------|--------------|--------|------------------------|-----|----------------------------------------|----------------------|
| <b>Shares</b> | 54,937 | <b>BSAAR</b> | 88,000 | <b>AGAP<br/>2016–1</b> | 450 | <b>AGA Bonus Management<br/>2017–1</b> | 2,656 <sup>(1)</sup> |
|               |        |              |        | <b>AGAP<br/>2017–1</b> | 500 |                                        |                      |

**Expertise and experience**

Yannis Morel 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.

**Other positions and mandates in listed and unlisted companies**

N/A

**Positions and appointments previously held during the five past years in unlisted companies**

N/A

**Positions and appointments previously held during the five past years in listed companies**

N/A

(1) See 2.3.2.1.2

**Pierre Dodion, MD, MBA**



*Member of the Executive Committee, Executive Vice President and Chief Medical Officer*

**Born on 08/07/1954– French**

**First nomination in 2014**

**Holding of shares and equity instruments**

|        |     |       |        |             |     |
|--------|-----|-------|--------|-------------|-----|
| Shares | 372 | BSAAR | 57,000 | AGAP 2016–1 | 250 |
|        |     |       |        | AGAP 2017–1 | 400 |

**Expertise and experience**

Pierre Dodion 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 28 years of experience in the pharmaceutical industry having worked at Pfizer, Novartis and Aventis (named now Sanofi). In 2007, he joined the biotechnology company ARIAD Pharmaceuticals (Nasdaq: ARIA), first as Senior Vice President and Chief Medical Officer, then as Senior Vice President Corporate Development and Operations.

**Other positions and mandates in listed and unlisted companies**

N/A

**Positions and appointments previously held during the five past years in unlisted companies**

N/A

**Positions and appointments previously held during the five past years in listed companies**

N/A

Laure-Hélène Mercier, MSc, MBA



*Executive Committee member, Executive Vice President and Chief Financial Officer*

Born on 02/09/1978– French

First nomination in 2016

#### Holding of shares and equity instruments

|                 |                      |                 |        |             |     |                       |       |       |
|-----------------|----------------------|-----------------|--------|-------------|-----|-----------------------|-------|-------|
| Shares          | 6,076 <sup>(1)</sup> | BSAAR           | 44,500 | AGAP 2016–1 | 250 | AGA Management 2017–1 | Bonus | 2,236 |
|                 |                      |                 |        | AGAP 2017–1 | 400 |                       |       |       |
| AGA Dir. 2016–1 | 50,000               | AGA Sal. 2016–1 | 1,162  |             |     |                       |       |       |

#### Expertise and experience

Laure-Hélène Mercier 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 an MSc in Neurosciences from Université Aix-Marseille and a MBA from ESSEC Business School.

#### Other positions and mandates in listed and unlisted companies

N/A

#### Positions and appointments previously held during the five past years in unlisted companies

N/A

#### Positions and appointments previously held during the five past years in listed companies

N/A

(1) Including 1,162 ordinary shares resulting from the definitive acquisition of the AGA Employees 2016–2, which will be transferable at the end of the retention period, on October 21, 2019

**Jérôme Tiollier, PhD**



*Executive Committee member, Executive Vice President and Chief Development Officer*

**Borne on 04/16/1959– French**

**First nomination in 2001**

**Holding of shares and equity instruments**

|                             |         |       |        |             |     |
|-----------------------------|---------|-------|--------|-------------|-----|
| Shares                      | 130,982 | BSAAR | 70,000 | AGAP 2016–1 | 100 |
|                             |         |       |        | AGAP 2017–1 | 400 |
| AGA Bonus Management 2017–1 |         |       | 2,385  |             |     |

**Expertise and experience**

Jérôme Tiollier 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.

**Other positions and mandates in listed and unlisted companies:** N/A

**Positions and appointments previously held during the five past years in unlisted companies**

N/A

**Positions and appointments previously held during the five past years in listed companies**

N/A

**Eric Vivier, DVM, MBA**

*Permanent guest to the Executive Committee, Senior Vice-president, Chief Scientific Officer*

**Born on 04/06/1964 – French**

**1st appointment in 2018**

**Holding of shares and equity instruments**

|               |        |            |        |                    |     |
|---------------|--------|------------|--------|--------------------|-----|
| <b>Shares</b> | 32,350 | <b>AGA</b> | 25,000 | <b>AGAP 2017-1</b> | 500 |
|---------------|--------|------------|--------|--------------------|-----|

**Expertise and experience**

Eric Vivier is a Doctor of Veterinary Medicine (DVM) from the Ecole Nationale Vétérinaire de Maisons-Alfort and holds a PhD in Immunology from the Paris University (Paris XI). After completing his post-doctoral fellowship at Harvard Medical School (Dana Faber Cancer Institute), Pr. Vivier joined the Center of Immunology at Marseille-Luminy (CIML) in 1993, becoming its director in 2008 until 2017. He has twice been laureate of the prestigious European Research Council (ERC) advanced grants.

During his career, Pr. Vivier has been a visiting professor at The Scripps Research Institute, The Rockefeller University, and The Walter and Elisa Hall Institute. He is a member of the French National Academy of Medicine and of the Institut Universitaire de France. He is on the board of numerous committees and has been awarded several prices and honors, including the European Federation of Immunological Society award and the Grand Prix Charles Oberling in Oncology. He is also Chevalier de la Légion d'Honneur.

**Other positions and mandates in listed and unlisted companies**

- Member of the “Académie nationale de médecine » and the « Institut universitaire de France »

**Positions and appointments previously held during the five past years in unlisted companies**

N/A

**Positions and appointments previously held during the five past years in listed companies**

N/A

### 2.2.3. SUPERVISORY BOARD MEMBERS

Hervé Brailly, PhD



*Chairman of the Supervisory Board – Non independent member*

*Member of the Compensation and nomination committee and of the Transactions committee*

**Born on 12/16/1961 – French**

**First nomination on 12/30/2016**

**Term expires: 2019 AGM**

**Holding of shares and equity instruments**

|               |           |              |         |                    |     |
|---------------|-----------|--------------|---------|--------------------|-----|
| <b>Shares</b> | 1,024,784 | <b>BSAAR</b> | 350,000 | <b>AGAP 2016-1</b> | 500 |
|---------------|-----------|--------------|---------|--------------------|-----|

#### Expertise and experience

Hervé Brailly 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. Since 2017, he's member of the Board of Deinove, a listed company. Hervé Brailly is also involved into the governance of other associations and state-owned entities in relation with the University, the innovation for life science and the transfer of technologies. Hervé Brailly is member of the Board of Deinove SA (listed company) since 2017. In addition, Hervé Brailly is implied into the governance of several associations and government units belonging to the University and working on innovation in life science and technology transfer. Hervé Brailly graduated from of the Ecole des Mines de Paris (1983) and a Doctor of Immunology, with a specialization in immuno-pharmacology.

#### Other mandates and positions in listed companies

- Member of the board of Deinove SA

#### Other mandates and positions in unlisted companies

- President of the engineering school Polytech-Marseille (Aix Marseille Université);
- Member of the board of Swenson Global SA;
- Member of the bureau and treasurer of Eurobiomed;
- Member of the development counsel of Provence Métropole;
- Member of the Strategic and prospective committee of Aix Marseille Université;
- Member of the Investment committee of SATT Sud-Est;
- President of Kervrant Biotech SAS.

#### Positions and appointments previously held during the five past years in unlisted companies

- Member of the Supervisory board of Inserm Transfert (not renewed in 2014)
- Member of the board of Platine Pharma Services (not renewed in 2014)
- Chairman of the board of Innate Pharma Inc. (resignation on December 30, 2016).

#### Positions and appointments previously held during the five past years in listed companies

- Chairman of the Executive Board of the Company (resignation on 12/30/2016)

**Gilles Brisson, HEC**

*Member of the Supervisory board – independent member*

*President of the Compensation and nomination committee and member of the audit committee*

**Borne on 01/08/1952 – French**

**First nomination on 07/26/2007**

**Term expires: 2019 AGM**

**Holding of shares and equity instruments Shares**

48,059

**BSA**

50,000

#### **Expertise and experience**

Gilles Brisson 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.

#### **Other positions and mandates in listed companies**

N/A

#### **Other positions and mandates in unlisted companies**

- Chairman of the Supervisory board of Ethypharm SA;
- Member of the Supervisory board of Carso group.

#### **Positions and appointments previously held during the five past years in unlisted companies**

N/A

#### **Positions and appointments previously held during the five past years in listed companies**

- Chairman of the Board of Mauna Kea Technologies

Patrick Langlois



*Member of the Supervisory board – independent member*

*Member of the Compensation and nomination committee and President of the audit committee*

**Born on 12/09/1945 – French**

**First nomination on 05/25/2010**

**Term expires: 2019 AGM**

**Holding of shares and equity instruments** Shares 8,141

**BSA** 7,000

**Expertise and experience**

Patrick Langlois 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 PJL Conseils since 2005 and is a Director of several biopharmaceutical companies

**Other positions and mandates in listed companies**

- Independent member of the Board, President of the Audit Committee and member of the Compensation committee of Stallergènes Greer PLC;
- Member of the Board, member of the Compensation committee and President of the Audit committee of Newron;
- Chairman of the Board, president of the Compensation and nomination committee of Sensorion SA (FR).

**Other positions and mandates and unlisted companies**

N/A

**Positions and appointments previously held during the five past years in listed companies**

- Member of the Board of Diaxonhit, not renewed in 2014;
- Chairman of the Board, President of the Compensation and nomination committee of ONXEO SA, note renewed in 2016;
- Member of the Board and President of the Audit committee and member of the Compensation committee of Scynexis, not renewed in 2017;

**Positions and appointments previously held during the five past years in unlisted companies**

N/A

**Irina Staatz-Granzer**

*Vice-Chairman of the Supervisory Board – independent member*

*President of the Transaction committee and member of the Audit committee*

**Born on 05/25/1960 – German**

**First nomination on 06/23/2009**

**Term expires: 2019 AGM**

**Holding of shares and equity instruments** Shares

100

BSA

45,000

#### **Expertise and experience**

Irina Staatz-Granzer, 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.

#### **Other positions and mandates in listed companies**

N/A

#### **Other positions and mandates in unlisted companies**

- Founder of Staatz Business Development & Strategy;
- Chairman of Blink Biomedicals SAS since 2015;
- Chairman de Talix Therapeutics NV since 2017;
- President of PLCD (German Pharma Licensing Club).

#### **Positions and appointments previously held during the five past years in listed companies**

N/A

#### **Positions and appointments previously held during the five past years in unlisted companies**

- Chairman of Blink Therapeutics Ltd (not renewed in 2017)

**Novo Nordisk A/S represented by Marcus Schindler**

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*Member of the Supervisory board – Non independent member*

*Member of the Transaction committee*

**Born on 09/17/1966 – Danish**

**First nomination of Novo Nordisk A/S on 07/26/07**

**Term expires: 2019 AGM**

**Holding of shares and equity instruments**

8,908,456 shares

**Expertise and experience**

Mr. Schindler is Senior Vice President of External Innovation & Strategy at Novo Nordisk A/S. This area is responsible for identifying, establishing and maintaining all external deals and collaborations up to and including Clinical Proof of Concept within all therapy areas.

Prior to this occupation, Mr. Schindler was VP, Head of the Cardiovascular & Metabolic Diseases and Head of Research at Novo Nordisk A/S. Previously he was member of Executive Management Committee, (OSI) Prosidion, based in Oxford, UK, held senior positions at Boehringer Ingelheim and at Glaxo Wellcome's blue skies research institute, "Glaxo Institute of Applied Pharmacology", Cambridge, UK.

Mr. Schindler received his PhD in Pharmacology from the University of Cambridge and holds a position as adjunct Professor of Pharmacology at the University of Gothenburg. He has co-/authored 50+ peer-reviewed research papers and is an inventor of 25 international patent applications.

**Other positions and mandates of Karsten Munk Knudsen in listed and unlisted companies**

N/A

**Positions and appointments previously held during the five past years in listed companies**

N/A

**Other positions and mandates in listed and unlisted companies**

N/A

**Bpifrance Participations represented by Maily Ferrere**

*Member of the Supervisory board – Non independent member*

*Member of the Audit committee*

**Born on 09/12/1962 – French**

**First nomination on 06/23/2017**

**Term expires: 2019 AGM**

**Holding of shares and equity instruments**

4,396,682 shares

**Expertise and experience**

Director of the Large Venture Investment team, Innovation Division of Bpifrance

Maily Ferrère is Director of the Large Venture Investment team within the Innovation Division of Bpifrance. Large Venture's mission is to provide long term capital to innovative French companies in areas with very strong growth with the goal of creating world leaders. The portfolio currently includes 30 companies in life sciences, digital and environmental technologies.

Prior to this position, Maily Ferrère was an Investment Director at the Strategic Investment Fund between 2009 and 2012. She previously had a career in banking, focusing on equity capital markets in various financial institutions. Maily Ferrère is a member of the Boards of Directors or Supervisory boards of the following companies: DBV, Valneva SE, Pixium, Gensight, Euronext Paris and Innate Pharma.

**Other positions and mandates in listed companies**

- Member of the Board of DBV;
- Member of the Board of Valneva SE;
- Member of the Board of Sequans Communication SA.

**Other positions and mandates in unlisted companies**

- Member of the Board of Euronext Paris

**Positions and appointments previously held during the five past years in listed companies**

- Member of the Board of Pixium (expired in 2017);
- Member of the Board of Gensight (expired in 2017);

**Positions and appointments previously held during the five past years in unlisted companies**

- Member of the Board of Novasep Holding SAS (permanent representative of Bpifrance Participations, expired in 2013);
- Member of the Board of Grimaud La Corbière SAS Group permanent representative of Bpifrance Participations, expired in 2014);
- Member of the Board of Limagrain Holding SA Group (expired in 2014).

## Véronique Chabernaude



*Member of the Supervisory board – Independent member*

*Member of the compensation and nomination committee*

**Born on 11/18/1961 – French**

**First nomination on 04/27/15**

**Term expires: 2019 AGM**

### Holding of shares and equity instruments

Shares

10

BSA

24,200

### Expertise and experience

Véronique Chabernaude, 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 organizations in the development of a global health approach. Graduated in 2017 with the Board member certificate from the French Institute of board members & Sciences Po., she also intervenes in this cursus. Véronique Chabernaude also founded the association "Enfance et Vitalité" which offers "Health" workshops to children. She is also co-writer of "Human capital versus capital human".

### Other positions and mandates in listed companies

N/A

### Other positions and mandates in unlisted companies

- Founder of the association « Créer la Vitalité »

### Positions and appointments previously held during the five past years in listed companies

N/A

### Positions and appointments previously held during the five past years in unlisted companies

N/A

**Jean-Yves Blay**

*Member of the Supervisory board*

**Born on 11/02/1962– French**

**First nomination on 13/12/2017 to replace Jean-Charles Soria**

**Term expires: 2019 AGM**

**Holding of shares and equity instruments: N/A**

**Expertise and experience**

Professor Blay has held the post of General Director of the Centre Léon Bérard in Lyon, France, since 2014 and in 2016 became Secretary of the Oncology Commission of the French Academy of Medicine.

Between 2009 and 2012 he held the position of President of the European Organization for Research and Treatment of Cancer (EORTC). Prof. Blay currently holds various other university and hospital positions. He is a member of the European Union Committee of Experts of Rare Disease; the European Commission's Scientific Panel for Health (SPH) and served as a Faculty Coordinator for Sarcoma for the European Society of Medical Oncology (ESMO) between 2012 and 2016.

Trained as a medical oncologist with a PhD from the University Claude Bernard in Lyon, his research activities have been focused on the role of immune effector cells and cytokines in cancer. Prof. Blay is a member of various scientific societies and academic expert groups, has been awarded several honors and is the author of more than 200 publications over the last three years.

**Other positions and mandates**

- Directeur Général du Centre Léon Bérard à Lyon

**Positions and appointments previously held during the five past years in listed companies**

N/A

**Other positions and mandates in unlisted companies**

N/A

Olivier Martinez, PhD, MBA



*Observer of the Supervisory Board*

**Born on 09/18/1970 – French**

**Term expires: 2018 AGM**

**Holding of shares and equity instruments :** N/A

**Expertise and experience**

Olivier Martinez is Senior Investments Director of the Investments Biotech Department of the Direction of Innovation of Bpifrance. Previously, Mr. Martinez was Investments Director of CDC Enterprises (2010–2013) and Partner of Bioam Gestion (2000–2010). He is also a member of the Supervisory board of Adocia, Poxel, Cerenis Therapeutics and HalioDx. 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.

**Other positions and mandates in listed companies**

- Member of the Board of HalioDX (permanent representative of Bpifrance Investissement);
- Observer to the Board of Poxel (permanent representative of Bpifrance Investissements);
- Observer to the Board of Cerenis Therapeutics (permanent representative of Bpifrance Investissements).

**Other positions and mandates in unlisted companies**

- Member of the Board of Adocia;

**Positions and appointments previously held during the five past years in listed companies**

- Member of the Board of Cerenis Therapeutics (resigned in 2015);
- Member of the Supervisory Board of Genticel (permanent representative of Bpifrance Investissements, resigned in February 2017);
- Member of the Board of Poxel (permanent representative of Bpifrance Investissements, resigned in 2017).

**Other positions and mandates in unlisted companies**

- Member of the Direction Committee of Fab Pharma (term expired in 2017);
- Member of the Board of Alizé Pharma (resigned in 2017);
- Member of the Supervisory Board of Cytheris (under court receivership since 2013)

## 2.2.4. ORGANIZATION AND FUNCTIONING OF EXECUTIVE AND SUPERVISORY BODIES

The Company originally incorporated in SAS, was transformed in 2005 into a « *Société Anonyme* » with a Supervisory board and an 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.

### 2.2.4.1. SUPERVISORY BOARD ORGANIZATION

#### 2.2.4.1.1. Supervisory Board members

- **Composition 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 June 23, 2017, the Supervisory board of Innate Pharma comprises eight members, 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.

Supervisory Board members are important people from the business sector of the Company, at an international level.

With Irina Staatz-Granzer, Véronique Chabernaud and Maily Ferrere (permanent representative of Bpifrance Participations), three women are members of the Supervisory Board. The proportion of members of each sex within the Supervisory Board is therefore compliant with the rules of Article L. 225-69-1 of the Code of commerce.

• Supervisory board members independence

| In accordance with the AFEP/MEDEF recommendations, Article 2.2 of the Charter of the Supervisory board, as modified on September 15, 2017, states that a member of the Supervisory board is an independent member when:                                      |           |           |            |                   |                                    |                                       |              |                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|------------|-------------------|------------------------------------|---------------------------------------|--------------|----------------|
|                                                                                                                                                                                                                                                              | H.Brailly | G.Brisson | P.Langlois | J. Staatz-Granzer | K. Munk Knudsen (Novo Nordisk A/S) | M. Ferrere (Bpifrance Participations) | V.Chabernaud | Jean-Yves Blay |
| He or she is not involved in any relationship with the Company, its group or its management, which could compromise his or her judgment                                                                                                                      | ✓         | ✓         | ✓          | ✓                 | ✓                                  | ✓                                     | ✓            | ✓              |
| He or she does not represent a shareholder who holds more than 10% of the voting rights of the Company                                                                                                                                                       | ✓         | ✓         | ✓          | ✓                 | ✗                                  | ✓                                     | ✓            | ✓              |
| <b>Therefore, an independent member must not be or was, currently or within the past five years:</b>                                                                                                                                                         |           |           |            |                   |                                    |                                       |              |                |
| an employee or corporate officer <sup>2</sup> of the Company                                                                                                                                                                                                 | ✗         | ✓         | ✓          | ✓                 | ✓                                  | ✓                                     | ✓            | ✓              |
| an employee or director of an entity consolidated by the Company                                                                                                                                                                                             | ✓         | ✓         | ✓          | ✓                 | ✓                                  | ✓                                     | ✓            | ✓              |
| 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                              | ✓         | ✓         | ✓          | ✓                 | ✓                                  | ✓                                     | ✓            | ✓              |
| a customer <sup>3</sup> , 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                    | ✗         | ✓         | ✓          | ✓                 | ✓                                  | ✓                                     | ✓            | ?              |

<sup>2</sup> Corporate officers mean the Chairman and the Executive board members

<sup>3</sup> Or be related to the Company, directly or indirectly

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 the Company's particular situation in view of its shareholdings or of any other reason.

At the date of this Reference Document, three members of the Supervisory board are considered as non-independent members:

- Novo Nordisk A/S, represented by Mr. Marcus Schindler, which holds 15.3% of the shares and voting rights of the Company at the date of this Reference Document;
- Bpifrance Participations, represented by Mailys Ferrere, which holds 7.6% of the shares and voting rights of the Company at the date of this Reference Document;
- Hervé Brailly, who was Chairman of the Executive board from 2005 to 2016.

The other members of the Supervisory Board, Gilles Brisson, Patrick Langlois, Irina Staatz-Granzer, Véronique Chabernaud and Monsieur Jean-Yves Blay are regarded as

independent since they complied with the above mentioned criteria.

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.

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.

• There are no service contracts between members of the Supervisory board and the Company or its subsidiaries.

### • Assessment of the significance of potential business relationship with independent members

At the date of this report, no independent member of the Supervisory board maintains or maintained any business

relation (i.e. be client, finance banker, business banker) with the Company.

### • Appointment and renewing of the Supervisory board members

Supervisory board members were, as the case may be, renewed or appointed following the General Meeting held on June 23, 2017 for a two-year period and their mandate will end at the General Meeting to be held in 2019 on 2018 accounts.

Following Jean-Charles Soria resignation on August 30, 2017, the Supervisory board held on December 13, 2017

appointed, as provided under Article L. 225-78 of the Code of commerce, a new member of the Supervisory board, subject to the ratification of such appointment by the next General Meeting. Thus, Jean-Yves Blay was appointed as member of the Supervisory Board until the 2018 Annual General Meeting on 2018 accounts, his mandate being subject to ratification by such meeting.

#### 2.2.4.1.2. Observer

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.

During previous years, Bpifrance Participations, represented by Olivier Martinez had a mandate as observer to the Supervisory Board (successive one-year mandates, renewable at each Annual General Meeting).

Such mandates allow to Olivier Martinez to acquire full understanding of the Company and provide the Supervisory board with his expertise.

Thus, Olivier Martinez was appointed as observer by the 2017 Annual General Meeting for a one-year period ending

at the 2018 Annual General Meeting on the 2017 accounts.

#### 2.2.4.2. Supervisory board functioning

The Supervisory board complies with applicable laws and regulations and article 17 to 21 of Company's by-laws.

The Supervisory Board also complies with functioning rules set forth by the charter of the Supervisory Board as modified on September 15, 2017 and published on the Company's website (the "Charter"). The Charter notably

sets forth the functioning rules of the Supervisory Board and its committees.

At the date of this Reference Document, there are three Supervisory board's committees: Audit committee, Compensation and nomination committee and Transaction committee. There is also a Scientific advisory board, which is not compounded of Supervisory board members.

##### 2.2.4.2.1. 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,
- Draft of the Company's governance report
- 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;

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.

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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 was performed during the 2017 financial year 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.

The Supervisory board of December 13, 2017, upon recommendation of the Compensation committee of December 8, 2017, assessed the special mission of Hervé Brailly and, on the basis of such assessment, decided to renew such special mission for a nonrenewable one-year period until December 31, 2017. Such mission consists in:

- Advice Mondher Mahjoubi with regards to the relations with local, regional and French interlocutors (politicians, scientific, 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, in addition to NK platform;
- 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); and
- Be involved in some financial relations activities if needed.

#### 2.2.4.2.2. 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 2017, the Supervisory board met eight times with an average attendance rate of 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 2017 financial year, the main topics addressed by the Supervisory board were:

- Review of business and corporate development opportunities;
- Monitoring of clinical trials conducted in 2017 and their impact on the Company's development;

- Acquisition of anti-C5aR from Novo Nordisk A/S and the capital increase performed to Novo Nordisk A/S benefit;
- Monitoring of partnership agreements;
- Research strategy and preclinical development of new drug candidates;
- Discussion on Company's strategy;
- Monitoring of financial communication and investor relations activities;
- Real estate projects for new offices and laboratories;
- Recruitment of a new Chief scientific officer and cooptation of a new member to the Supervisory board.

Executive board members, including the Chairman of the Supervisory board and the Executive committee members, attend Supervisory board meeting periodically to bring some clarifications and present to the Supervisory board the items on the agenda. During the 2017 financial year, the Executive board and committee members left the room of the board several times to allow the Supervisory board members to discuss without executives' presence.

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.

#### 2.2.4.2.3. Evaluation of the Supervisory board's works

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 December 13, 2017, to establish a self-assessment of which results have been presented and discussed during

the Supervisory board meeting held on March 7, 2018 during which this report has been presented.

Such questionnaire aims at assessing the following items:

- Functioning modalities of the Supervisory board;

- Verify that important matters are well prepared and discussed;
- Effective contribution of each member to the board's counsels.

### 2.2.4.3. Organization and functioning of Supervisory board governance committee

The Supervisory board committees are now composed of:

|                                                 | Audit Committee       | Compensation and nomination Committee | Transaction committee |
|-------------------------------------------------|-----------------------|---------------------------------------|-----------------------|
| <b>Patrick Langlois<sup>(1)</sup></b>           | President             | Member                                |                       |
| <b>Irina Staatz-Granzer<sup>(1)</sup></b>       | Member                |                                       | President             |
| <b>Maily Ferrere (Bpifrance Participations)</b> | Member                |                                       |                       |
| <b>Gilles Brisson<sup>(1)</sup></b>             | Member <sup>(2)</sup> | President                             |                       |
| <b>Véronique Chabernaud<sup>(1)</sup></b>       |                       | Member                                |                       |
| <b>Hervé Brailly</b>                            |                       | Member                                | Member                |
| <b>Marcus Schindler (Novo Nordisk A/S)</b>      |                       |                                       | Member                |

(1) Independent member of the Supervisory board

(2) Audit committee member with « special financial or accounting skills » as provided under Article L. 823-19 of the Code of commerce, due to his experience in the pharmaceutical industry and the senior management positions he previously held with Rhône-Poulenc and Aventis. The Audit committee is compounded of 2/3 of independent members, as recommended by the Afep-Medef Code.

#### 2.2.4.3.1. Audit committee

The 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 Reference Document, are detailed in paragraph 2.2.4.3 above.

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 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 and the approval of the services

other than the account certification described under the Audit committee charter. 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,
- Accounting treatment of anti-C5aR acquisition;
- Impact of IFRS 9, 15 and 16 regulations;
- Regularization of holdbacks relating to anti-NKG2A acquisition;
- Review of financing and new building;
- Impact of audit reform on the Company and actions to be put in place (notably Audit committee charter);

#### 2.2.4.3.2. Compensation and nomination committee

The Compensation and nomination committee 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.

The Compensation and nomination committee members and their relationship with the Company, at the date of this Reference Document, are detailed in paragraph 2.2.4.3 above.

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 nomination 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 nomination 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

- 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 2017, the Audit committee met four times with an average rate of attendance of 85%.

of the Supervisory board under the meeting of the Supervisory board following the meeting of the Compensation and nomination committee.

In 2017, the key tasks of the Compensation and nomination committee were as follows:

- Organizing the recruitment of new Supervisory board members and key employees;
- Review the independence of each Supervisory board members and their relationships with the Company to verify that there is no conflict of interest and be sure their independence is not threatened;
- Make recommendations on the compensation policy of the executive and supervisory bodies to be submitted to the Annual general meeting vote ("say on pay ex ante" vote);
- Start reflecting on the succession plan of Executive board and committee members;
- Submit salary increases for the Executive board and committee members;
- Determine the collective objectives of the Company and the individual objectives of the Executive board and committee members and make suggestions on the corresponding bonus;

- Assess the achievement of the objectives and, on this basis, make recommendations on the amount of the collective and individual bonus to be definitely attributed each year to the Executive board and committee members;
- Make recommendations on the compensation policy of the Company for the other employees;
- Make recommendation on the allocation of fees to the independent Supervisory board members;

- Assess the special mission of the Chairman of the Supervisory board performed in 2017 and make recommendations on its renewal; and
- Make recommendations to the Executive board on the allocation of equity instruments decided or authorized by the General meetings.

In 2017, the Compensation and nomination committee met six times with an average attendance rate of 92%.

#### 2.2.4.3.3. Transaction committee

A Transaction committee was created by the Supervisory board on September 21, 2007.

The primary responsibility of the Transaction 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 Transaction committee. The frequency and contents of the meetings depend on operations of development engaged by the Company.

The main item discussed by the Transaction committee during the 2017 financial year was the acquisition of C5aR from Novo Nordisk A/S.

During the 2017 financial year the Transaction committee met twice with 67% of presence average rate.

#### 2.2.4.4. Organization and functioning of the Strategic Advisory board

In April 2018, the Company has decided to replace the Scientific Advisory board by a Strategic Advisory board, composed with six external consultants coming from the scientific and medical fields. The Strategic Advisory board will first meet in September 2018.

At the date of this Reference document, the Strategic Advisory board members are in the selection process.

The Strategic Advisory board missions will notably be to analyze the research and development programs of the Company.

The Strategic Advisory board members will be remunerated with attendance fees depending on their presence to the Strategic Advisory board meetings.

The internal rules of the Supervisory board will be modified to describe the rules of functioning of the Strategic Advisory board.

### 2.2.5. Organization and functioning of the Executive board and the Executive committee

#### 2.2.5.1. Executive board

##### 2.2.5.1.1. Composition of the 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 2017, the Executive board was composed of three members, appointed for a renewable three-year period:

- Mondher Mahjoubi, Chairman of the Executive board;
- Yannis Morel; and
- Nicolai Wagtmann.

On June 23, 2017, Nicolai Wagtmann left Innate Pharma for personal reasons and follows a career in the US.

Since Nicolai Wagtmann's departure, the Supervisory Board has worked on the solution to be implemented to deal with such departure. Thus, Yannis Morel partially took over the function previously performed by Nicolai Wagtmann as Chief Scientific Officer. At that date, the Supervisory board members are actively working on the appointment of a new Executive board member.

#### 2.2.5.1.2. Nomination and renewing of the Executive board

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.

#### 2.2.5.1.3. Executive board meetings

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 14 times with an average attendance rate of 100%.

Since the beginning of 2018, the Executive Board has met three times with an average attendance rate of 100%.

#### 2.2.5.1.4. Executive board missions

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.

#### 2.2.5.1.5. Chairman of the Executive 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 nominating key personnel, as well as for the external communication and general policy of the Company.

#### 2.2.5.1.6. Conflict of interest

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

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.

board, the Audit, Compensation and Nominations or the Transaction committees, or the Scientific advisory board.

#### 2.2.5.2. 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 activities and the management of the Company.

The Senior VP, Chief Scientific Officer, attends, as guest, all the Executive committee meetings.

There are no service contracts between members of the Executive committee and the Company or its subsidiaries.

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.

### 2.2.6. Participation of the shareholders to the Annual General Meetings

The last annual General Meeting of shareholders was held on June 23, 2017 at the Company's head office, in accordance with the Company by-laws. Shareholders (present or represented) represented 38.517% 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.

Modalities of attendance to the General Meetings for the shareholders are detailed under articles 26 to 34 of the Company's by-laws.

### 2.2.7. Agreements signed between an executive director or a significant shareholder and a subsidiary

During the 2017 financial year, agreements subject to last paragraph of article L. 225-102-1 were concluded with Novo Nordisk A/S, shareholder holding more than 10% of the share capital of the Company, and with Hervé Brailly, Chairman of the Supervisory board.

The agreements with Novo Nordisk A/S were concluded in relation with the capital increase by contribution in kind of NN C5aR and are described under the report on regulated agreements attached as Annex A.

Excluding the agreements listed in the above mentioned report, no agreement has been signed, directly or through an intermediary, pursuant to the last paragraph of Article L.225-102-1, between on the one hand, one member of the Executive board or the Supervisory board, the managing director, one of his representatives, one of the directors or shareholders holding a fraction of more than 10% of the voting rights of a Société Anonyme and on the other hand, another Company whose SA owns, directly or indirectly, more than half of the capital.

### 2.2.8. Elements likely to have an impact in the event of a public offering

On the date of this Reference Document:

- Structure of the Share capital

La structure du capital social de la Société au 31 janvier 2018 est celle décrite au Chapitre 5 du Rapport de Gestion.

The structure of the Company's share capital as of January 31, 2018 is described in paragraph 4.2.1 below.

- Control of the Company and equity interests in the Company

The Company does not have any shareholder who can exercise individual control over it. Its largest shareholder, Novo Nordisk A/S, holds 15.47% of the share capital as of January 31, 2018.

No shareholder is in a position to determine any decisions of Company shareholders solely on the basis of the voting rights that he holds in the Company.

No shareholder has the power to appoint or dismiss the majority of the members of the administrative, management or supervisory bodies of the Company.

- Shareholders' agreements

The Company is not aware of any shareholder agreement or concerted action among its shareholders.

At this time there is no agreement likely to restrict the share transfers and the exercise of the voting rights.

- Statutory restrictions on exercising voting rights and transferring shares of the Company

There are no statutory restrictions and, to the knowledge of the Company, there are no contractual restrictions on exercising voting rights or transferring Company shares.

There are no Company securities granting special control rights.

- Shareholder system for personnel

The Company has not set up any shareholder system for personnel likely to include control mechanisms when control rights are not exercised by the personnel.

- Appointment and replacement of the Supervisory and Executive board members and amendment of the by-laws.

The rules for appointing and replacing members of the Supervisory board and Executive board and the rules concerning amendment of the by-laws are the rules of common law stated in the Company's by-laws.

- Executive board power for issuance and buy-back of shares

With regard to issuance and buy-back of shares, the Executive board has notably the powers of common law. A description of the delegations of power granted to the Executive board by the General Meeting currently in effect and their use appear in paragraph 4.1.6 above. Furthermore, the description of the authorization given to the Executive board by the general meeting to manage Company shares appears in paragraph 4.1.6 above.

- Change of control clauses

There are no agreements entered into by the Company that will be amended or end in the event of change in Company control.

- Compensation to the Executive board or employees in case of resignation or dismissal without fair cause or in case of termination following a public exchange offer for shares

Other than the legal and regulatory provisions applicable and what is described in paragraph 1.7 below, no member of the Executive board or Company employee has any agreement specifying compensation in the event of resignation or layoff without genuine and serious cause if their employment is terminated as a result of a public offering.

The mandate agreement entered into between the Company and Mr. Mondher Mahjoubi (President of the Executive board since December 30, 2016), provides that as consideration for a non-competition and a non-solicitation clause, Mr. Mondher Mahjoubi will benefit, as from the end of its functions as President of the Executive board, from a fixed compensation equivalent to two years of remuneration (fixed and variable), which will be paid monthly on a 24-month period.

### 2.2.9. Table of recommendations of AFEP/MEDEF Code not followed by the Company

| AFEP MEDEF Code                                                                                                                                                  | NON COMPLIANCE                                                                                                                                                                                                                                | EXPLANATIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The Code recommends that a board member shall not hold more than four other mandates in listed companies (§ 18.4).                                               | Mailys Ferrere, permanent representative of Bpifrance Participations, holds more than four other mandates in listed companies.                                                                                                                | It's within the scope of duties of Mailys Ferrere, as Director of the Investment Large Venture at Bpifrance Participations to exercise non-executives mandates within boards or supervisory board of listed companies.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 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 nomination committee. | <p>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:</p> <p>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</p> <p>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 financial year".</p> |

## 2.3. COMPENSATION

The terms and conditions of the equity instruments attributed to the Executive board members and the Peer Group definition are detailed under paragraph 2.1 of this Reference Document.

### 2.3.1. Principles and criteria of determination, allocation and attribution of the compensation ("Ex ante vote")

In accordance with articles L. 225-82-2 and L. 225-68 of the Code of commerce, as modified by articles 4 and 5 and with Law 2016-1691 dated December 9 2016, named "Sapin II" Law, which established an "ex ante" mandatory vote, the following paragraphs present the general principles of the compensation policy for the Supervisory and Executive board members the 2018 fiscal year.

This principles and criteria will be submitted to the approval of the shareholders at the next General Meeting, on May 29, 2018, deciding on the accounts for the 2017 fiscal year and can only be implemented after having received the favorable vote on the simple majority of the shareholders present or represented.

#### 2.3.1.1. Executive board members compensation

The Executive board members compensation is decided by the Supervisory board upon recommendation of the Compensation and nomination committee. For the 2018 fiscal year, the compensation has been fixed according to the same general principles and composed of the same components than those applicable during the 2017 fiscal year, which are those described in this section.

The compensation of the Chairman of the Executive board is paid under his social mandate and he's not bound to the Company by an employment contract. The other Executive board members are remunerated under their employment contract and are not remunerated under their social mandate.

The compensation of the Executive board members is determined according to the Company's strategy and growth. It takes into consideration the Executive board members individual contribution in the achievement of the collective performance objectives and aims at aligning the corporate officer's long-term interests with the interests of the Company, the shareholders and the other stakeholders. For this, the variable components of the compensation are subject to the achievement of short-term operational performance objectives and long-term stock market performance. The compensation of the Executive board members is determined in relation with the existing compensation policies in companies with similar size and maturity in the biotechnology sector in France, in Europe and in the US, notably on the basis of an internal survey conducted by the Company within the Peer Group<sup>(4)</sup>.

The compensation of the Executive board members is made of the following components:

- a **short-term component** including:

- a fixed compensation, which reflects its responsibility, its level of experience and its skills; and
- a variable compensation remunerating the individual contribution to the annual collective performance, paid in cash. As from the 2017 fiscal year, a part could be paid in free shares to interest the Executive board members to the long-term value creation of the Company and encourage them, through the ownership of shares, to efficiently contribute to such value creation (see 2.3.1.1.2).

- a **long-term incentive or LTI**: free preferred shares attribution (AGAP), which interest the Executive board members to the long-term results of the Company, retain them and align their interests on the shareholders' interests; and
- **other benefits** attached to the exercise of the Executive board members including a supplementary pension plan, in-kind benefits and an unemployment insurance (GSC) for the Chairman of the Executive board.

Due to the high variability of the AGAP valuation: decrease by 80% of the AGAP valuation between the date of the Extraordinary General Meeting authorizing such instrument on June 23, 2017 (€400) and their attribution date on April 3, 2018 (€90), the number of AGAP attributed in 2018 for 2017 to the Executive board members has been calculated in volume and not in percentage of the global compensation.

<sup>4</sup> Voir "Définitions"

Therefore, showing the proportion of each compensation component within the global compensation of the Executive board members (as it was showed in our 2017

### 2.3.1.1.1. Fixed compensation

The fixed compensation is determined on the basis of the general principles applicable to the Company's compensation policy and consistent with the Peer Group compensation.

The fixed compensation is also used as basis to determine the annual variable compensation of the Executive board

Compensation report), is not relevant under the 2018 compensation policy of the Executive board members.

members.

For the 2018 fiscal year, the annual fixed compensation of the Executive board members is:

|                                                                                                     | 2018 Fixed compensation | Evolutin between 2016 and 2017 |
|-----------------------------------------------------------------------------------------------------|-------------------------|--------------------------------|
| <b>Chairman of the Executive board<br/>Mondher Mahjoubi</b>                                         | 470,000                 | 0%                             |
| <b>Executive board member « Product portfolio strategy &amp; Business development» Yannis Morel</b> | 216,000                 | +20%                           |

The compensation of the current Chairman of the Executive board has been assessed at the time of his appointment on December 14, 2016 and evaluated according to standard market practices in comparable companies (Peer Group) and with respect to his previous compensation at AstraZeneca. It takes into account his specific expertise, coming from his experience in leading late stage development programs until the commercialization stage, into international pharmaceutical groups. As leader of the oncology area at AstraZeneca, Mondher Mahjoubi notably contributed to build the medico-marketing and commercial teams, significantly develop the oncology products pipeline and set up a leadership and differentiation strategy, which lead to the commercialization of two therapeutics innovations (Lynparza® et Tagrisso®) and to prepare the commercialization of their anti(PD-L1/Imfimiz®) for the advanced bladder cancers. It is noted that by choosing to leave his function at AstraZeneca to become Chairman of the Executive board of the Company, Mondher Mahjoubi has seen his compensation reduced by about (i) 15%

regarding his fixed compensation, (ii) 20% regarding his variable compensation and (iii) 40% regarding its long-term compensation.

The Chairman compensation is also fixed with regards to the compensation practices within the Peer Group, as published in their public reports.

It results from this internal survey that the fixed compensation of the Chairman is in the upper range of the average fixed compensation within the Peer Group but in the lower range regarding his global compensation (fixed, variable and LTI).

The table below shows the fixed and annual variable compensation of Mondher Mahjoubi for 2018 against the mean and the median of the fixed and annual variable compensation of the Chairman of the Executive board (or their equivalent) of the Peer Group.

| Chairman of Innate Pharma's Executive board |            | Peer Group <sup>(1)</sup> |                            |
|---------------------------------------------|------------|---------------------------|----------------------------|
| Maximum global compensation for 2018        | Median     | Average                   | Min. and Max. compensation |
| €815,000                                    | €1,272,114 | €1,859,871                | €509,891 –€6,865,595       |

(1) One of the Peer Group Company granted to his CEO an exceptional compensation in 2016.

During the 2017 fiscal year, the only fixed compensation increased was the one of the Executive board member in charge with the "Product portfolio strategy & Business development" to take into his new responsibilities arising from his new attributions (supervision of the portfolio strategy within the growth context of such portfolio in clinical and preclinical and management of the new programs directors team).

For 2018, the Supervisory board, upon recommendation of the Compensation and nomination committee, does not intend to modify the fixed compensation of the Executive board members.

However, with regards to the actual context of growth of the Company and its fast development, the Supervisory board wishes to keep such flexibility in the evolution of the fixed compensation of the Executive board members in accordance with the above described principles and with respect to the growth context of the Company and its performance.

### 2.3.1.1.2. Annual variable compensation

#### (i) Principles of determination

At the beginning of the year, the Supervisory board decides on, upon recommendation of the Compensation and nomination committee, the part of the annual variable compensation, expressed as a percentage of the fixed compensation and the individual objectives to be achieved as well as their weights.

For 2018 fiscal year, the Supervisory board, upon recommendation of the Compensation and nomination committee has decided not to modify the proportion of the Executive board members annual variable compensation.

Since 2017 fiscal year, the annual objectives are divided into four key priorities shared between all the Company's members and defined as the basis for a sustainable growth. They help aligning the Executive board members interests with those of the Company and are defined as follows:

- scientific leadership;
- organization readiness;
- financial discipline; and
- great place to work.

Within the key priorities, the Supervisory board, upon recommendation of the Compensation and nomination

committee, determines the individual contribution of each Executive board member to the collective performance as well as their weights.

At the end of the year (or at the beginning of the following year), the Supervisory board, upon recommendation of the Compensation and nomination committee, determines the level of achievement of the individual objectives of the Executive board members. In case of achievement of 100% of the objectives, 100% of the corresponding bonus is paid. In the event that 100% of the objectives are not achieved, the percentage of the bonus paid is in proportion to the percentage of the objectives achieved. In the event of performance beyond expectations, as observed by the Compensation and nomination committee, it may be decided to raise the bonus amount beyond 100%, within the limit of 125%. Moreover, in the event of an obviously exceptional performance, whose achievement could not have been taken into account in the definition of the objectives, the Compensation and nomination committee may propose payment of an exceptional bonus.

- For the 2018 fiscal year, the individual variable compensation of the Executive board members could represent, at the maximum, the following percentages and the following amounts of their fixed compensation:

| Maximum compensation    |                                                  |                 |                                                        |                 |
|-------------------------|--------------------------------------------------|-----------------|--------------------------------------------------------|-----------------|
| Executive board members | Maximum percentage of the fixed remuneration if: |                 | Maximum amount of variable compensation (in euros) if: |                 |
|                         | 100% objectives are reached                      | Overperformance | 100% objectives are reached                            | Overperformance |
| Chairman                | 60%                                              | 75%             | €282,000                                               | €352,500        |

#### Executive board member

##### « Product portfolio strategy & Business development »

30%

37.5%

€59,400

€74,250

The Compensation and nomination committee, on January 30, 2018 determined the individual contribution of each Executive board member and its weight within the four key priorities mentioned above.

The objectives defined by the Compensation and nomination committee for each member of the Executive board are operational objectives, adapted to the context of strong growth and development of the Company and mainly based on the scientific leadership through the implementation of clinical programs and the development of a product portfolio.

The Compensation and nomination committee choose to use operational performance criteria to fix the annual performance objectives. Such operational criteria are in relation with the implementation of the Company's strategic plan and allow notably assessing the Company's performance within the achievement of the steps planned under such strategic plan. The long-term performance objectives used for the long-term compensation (see

2.3.1.1.3 are backed to stock market criteria to align the Executive board members interests with the shareholders' interests and considering that the intrinsic stock market performance of the Company is mainly due, on long-term, to the development of its pipeline of drug candidates. Besides, the Company's current business model (no recurrent income) does not allow a performance assessment through financial criteria such as the growth of income, the results or the margin.

The performance criteria used to assess the scientific and medical leadership (70% of the annual objectives) are mainly measurable (6 criteria over 8). The performance criteria used for the three other key priorities (30% of the annual objectives) are measurable and qualitative (5 measurable criteria and 8 qualitative criteria).

The targets of each criterion, notably the criteria relating to scientific leadership cannot be fully disclosed for strategic and confidential purposes.

#### • 2018 objectives

The table below shows the performance criteria determined for each key priority and the internal measures, which will be used by the Compensation and nomination committee at the end of the year (or at the beginning of the following year), to assess the level of achievement of each criterion.

| Objectives and performance criteria                               | Measures of the criteria                                                                                                                                                                                     |
|-------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Scientific and medical leadership 70%</b>                      |                                                                                                                                                                                                              |
| - <b>Progress and diversification of the preclinical pipeline</b> | - Achievement of a number of target projects reaching development milestones, identification of the best targets for the development of Innate's own potential technologies and development of some projects |
| - <b>Progress of the clinical pipeline</b>                        | - Achievement of clinical objectives defined under the strategic plan                                                                                                                                        |
| - <b>Partnerships</b>                                             | - Conclusion of a target number of partnerships                                                                                                                                                              |
| <b>Financial discipline 15%</b>                                   |                                                                                                                                                                                                              |
| - <b>Compliance with the budget</b>                               | - Budget targets as defined under the strategic plan                                                                                                                                                         |
| <b>Organization readiness 7,5%</b>                                |                                                                                                                                                                                                              |
| - <b>Management of a « talent pool » within the Company</b>       | - Identification of a « talent pool » and start of the development programs, including management trainings                                                                                                  |
| - <b>Secure key positions</b>                                     | - Collaboration with the Compensation and nomination committee members to set up a succession plan                                                                                                           |

| Great place to work 7,5%                                   |                                                                                                       |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| - Improve working conditions                               | - Implementation of new working conditions in 2018                                                    |
| - Roll out the internal communication plan                 | - Achievement of the steps to implement the plan                                                      |
| - Apply for a label rewarding the work environment quality | - Obtaining a target percentage of satisfaction under an internal survey conducted with the employees |

• **Individual contribution of the Executive board members for 2018**

| Objectives and performance criteria                        | Mondher Mahjoubi | Yannis Morel |
|------------------------------------------------------------|------------------|--------------|
| <b>Scientific and medical leadership</b>                   |                  |              |
| - Progress and diversification of the preclinical pipeline | 40%              | 35%          |
| - Progress of the clinical pipeline                        | 30%              | 30%          |
| - Partnerships                                             |                  | 5%           |
| <b>Financial discipline</b>                                |                  |              |
| - Compliance with the budget                               | 15%              | 15%          |
| <b>Organization readiness</b>                              |                  |              |
| - Management of a « talent pool » within the Company       | 7,5%             | 7,5%         |
| - Secure key positions                                     |                  |              |
| <b>Great place to work</b>                                 |                  |              |
| - Improve working conditions                               | 7,5%             | 7,5%         |
| - Roll out the internal communication plan                 |                  |              |
| - Apply for a label rewarding the work environment quality |                  |              |

(ii) Payment terms

Since 2017 fiscal year, with a view of interesting the Executive board members to the Company's long-term creation value and encourage them, through the ownership of shares, to efficiently contribute to such value creation, the annual variable compensation may be composed of one part paid in cash and of another part paid in free shares.

Each executive board member can opt for the payment of one part of its annual variable compensation in free shares. The free shares will be attributed by the Executive board, upon recommendation of the Compensation committee, after the Annual General meeting, according to the part of the annual variable compensation paid in free shares. Under option of the Executive board member, 50% of the annual variable compensation is paid in free shares and

such percentage will be increased by a 30% premium of the annual variable compensation paid in free shares in order to encourage such term of payment and compensate the absence of cash payment for the Executive board members.

The number of free shares attributed will be determined according to their value in euros calculated on the weighted average of the last twenty stock market prices preceding the attribution.

Then, immediately after the determination, by the Supervisory board, upon recommendation of the Compensation and nomination committee, at the end of the year (or at the beginning of the following year) of the level of achievement of the objectives defined at the beginning of the year for the annual variable compensation

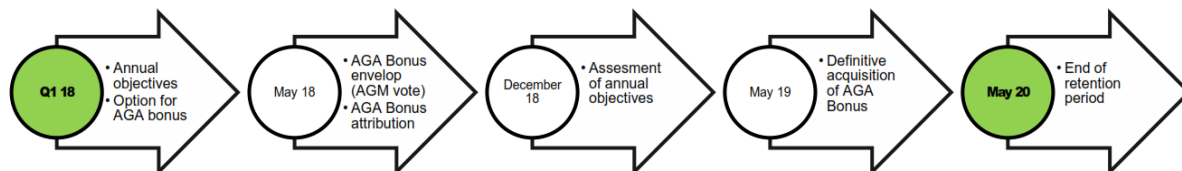
in cash and the part of the annual variable compensation in free shares, will decide, for each Executive board member, on the number of free shares, which could be definitely acquired by the latter at the end of the acquisition period (one year following the attribution date) depending on the achievement of the objectives and subject to the vote in favor by the Annual general meeting under the vote on the variable components of the compensation to be paid for the previous fiscal year.

The free shares attributed (which will be Company's ordinary shares) will be subject, as provided by law, to a one-year acquisition period followed by a one-year retention period. The presence condition shall be observed over the same period than the annual performance.

The attribution of free shares is subject, in addition to the vote provided under Article L. 225-82-2 of the Code of commerce, to the shareholders' approval, at the vote conditions of the extraordinary general meetings, of a resolution allowing the attribution of free shares.

In accordance with Article L. 225-100 of the Code of commerce, the annual variable compensation for 2018 fiscal year, will only be paid after having received the favorable ex post vote of the simple majority of the shareholders presents or represented at the 2019 annual general meeting voting on the 2018 accounts.

The scheme below shows the attribution and acquisition process of the free shares attributed under the annual variable compensation:



### 2.3.1.1.3. Long-term incentive

To tie Executive board members to the Company's pluriannual performance, the Supervisory board (upon recommendation of the Compensation and nomination committee), suggested, subject to the vote in favor of the Annual General meeting of May 29, 2018, to attribute performance free shares to the Executive board members (the "Performance Free Shares").

The Performance Free Shares are free shares attributed under articles L. 225-197-1 *et. seq.* of the Code of commerce, of which definitive acquisition, at the end of a three-year period, is subject to a presence condition and to performance conditions.

The number of Performance Free Shares attributed to each Executive board member and the performance conditions are determined by the Supervisory board (upon recommendation of the Compensation and nomination committee) before the Annual General Meeting authorizing such instrument.

Therefore, for 2018, a resolution on the Performance Free Shares of which performance conditions are based on the stock market value growth and benefit from a "vesting kicker" triggered by the achievement of an internal condition, will be submitted to the Annual General Meeting.

The level of achievement of the stock market value condition shall depend on the Final Price, meaning the

highest average closing price of Innate Pharma share on Euronext Paris for sixty consecutive trading days calculated at any time during the twelve months prior to the definitive acquisition of the Performance Free Shares against the Initial Price, meaning the average closing price of the Innate Pharma shares on Euronext Paris for the sixty trading days prior to the Annual General Meeting of May 29, 2019.

The internal condition shall be deemed achieved if, over the three-year acquisition period of the Performance Free Shares, a program of the Company's pipeline obtains a positive pivotal trial in the achievement of the primary criteria of efficiency predetermined over the three-year period of.

The percentage of Performance Free Shares attributed, which will be definitely acquired will be determined as follows:

- 0% if the Final Price is lower than the Initial Price
- Between 0% and 100% linearly if the Final Price is comprised between the Initial Price and three times the Initial Price
- 100% if the Final Price is equal or above three times the Initial Price;

In case of achievement of the internal condition, half of the Performance Free Shares attributed will be automatically

acquired (Vesting kicker) and the percentage of the other half of Performance Free Shares attributed that will be definitely acquired will be determined as explained above.

However, if between the date of definition of the Initial Price and the date of definition of the Final Price and the date of the definitive acquisition of the Performance Free Shares, one of the Reference Indexes (as defined below) were to experience a Significant Variation (as defined below), then the Executive Board will have the possibility to adjust the Initial Price and/or the Final Price to neutralize the exogenous impact of such a Significant Variation. The Executive Board shall, in this case, name a recognized independent expert to assist the Executive Board in the determination of such adjustments. The terms "Reference Indexes" mean the following stock market indexes: SBF 120, CAC 40, Next Biotech and NBI (NASDAQ Biotechnology Index). If one of these indexes were to be no longer available, the Executive Board can choose a replacement index.

The terms "Significant Variation" mean one or the other of the following events for the relevant index: the average of the closing value for the index over the sixty consecutive trading days prior to the Expiry Date of the Retention Period (or, as the case may be, the Modified Expiry Date of the Retention Period) is inferior or equal to 90% of the average of the closing value for the index over the sixty consecutive trading days prior to the Annual General Meeting of May 29, 2018/; the average of the closing value for the index over a sixty consecutive trading days period at any time between the date of the Annual

General Meeting of May 29, 2018 and the the definitive acquisition date of the Performance Free Shares, is inferior or equal to 80% of the average of the closing value for the index over another sixty consecutive trading days period at any time between the date of the Annual General Meeting of May 29, 2018 and the definitive acquisition date of the Performance Free Shares.

The attribution of Performance Free Shares is subject, in addition to the vote provided under article L. 225-82-2 of the Code of commerce, to the shareholder's approval, at the vote conditions of the extraordinary general meetings, of resolutions allowing the creation and attribution of Performance Free Shares. Subject to the adoption of such resolution, the Executive board may, upon recommendation of the Compensation and nomination committee and approval from the Supervisory board, the Executive board may attribute Performance Free Shares to the Executive board members.

For 2018, the Supervisory board (upon recommendation of the Compensation and nomination committee held on March 30, 2018) suggested to attribute the following number of Performance Free Shares to the Executive board members (same than in 2017):

- 70,000 Performance Free Shares to the Chairman of the Executive board
- 50,000 Performance Free Shares to each other member of the Executive board.

#### 2.3.1.1.4. Other benefits

The Executive board members benefit from the following social benefits and benefits in kind:

- Company vehicle;
- Supplemental health insurance, subscribed with AG2r Prémalliance, which terms and conditions are identical to the Company's employees (two different types of contributions depending on the family status);
- Collective provision contract, subscribed with AG2r Prémalliance, which terms and conditions are identical to the Company's employees (management contribution applicable to the Executive board members);
- Complementary pension plan « Article 83 » subscribed with AG2r Prémalliance, which terms and conditions are identical for all the Company's employees and financed by a contribution equivalent to 2% of the annual salary, including 1.20% paid by the Company;

- For Nicolai Wagtmann, Danish national, who came to live in Marseille, the Company reimburse a part of the school fees for his children; and
- The Company subscribed to a contract of unemployment insurance (GSC) for the Chairman of the Executive board. Such contract guarantees the payment of an indemnity in case of unemployment (within the limit of 70% of the last professional income declared to the Tax administration), to the company leaders and corporate officers not entitled to the ASSEDIC unemployment benefits.
- Mondher Mahjoubi's non-competition indemnity

The Chairman's mandate agreement entered into between Mondher Mahjoubi and the Company provides that as consideration for a non-competition and a non-solicitation clause, Mondher Mahjoubi will benefit as from the end of its functions as Chairman of the Executive board, from a

fixed compensation paid monthly over a two-year period. However, the Company may, at any moment, waive such non-competition and non-solicitation obligation at any moment as from the end of the social mandate. In such case, the indemnity shall not be due. Such indemnification

qualify as undertaking under Article L. 225-190-1 § 6 of the Code of commerce and was authorized by the Supervisory board as provided under Article L. 225-86 of the Code of commerce.

#### 2.3.1.1.5. Exceptional attributions of free shares for new executives

Subject to the approval of the General meeting, upon recommendation of the Compensation and nomination committee and approval of the principle by the Supervisory board, the Executive board may attribute free shares to the executives newly appointed or recruited.

The possibility to attribute free shares in case of recruitment of a new member of the Executive board is made for the purpose of attracting and keeping high level profiles by granting them a compensation in line with market practices (see 2.1 of the Peer Group compensation), while preserving the cash position of the Company.

Such free shares have a three-year acquisition period as from the attribution with a presence condition.

With regards to the development stage of the Company and its stock value evolution, the free shares value, at the end of the three-year acquisition period, shall reflect the Company's performance (and thus the performance of the Executive board member who contributed to such performance).

The number of free shares attributed during each fiscal year will be 50,000 free shares, for two people at the maximum.

The attribution of free shares is subject, in addition to the vote provided under Article L. 225-82-2 of the Code of commerce, to the shareholders' approval, at the vote conditions of the extraordinary general meetings, of a resolution allowing the attribution of free shares.

#### 2.3.1.2. Supervisory board members compensation

The Supervisory board members compensation is made of attendance fees and warrants (BSA) giving right to the subscription of ordinary shares. As from the 2017 fiscal

year, the Chairman of the Supervisory board is no longer remunerated with attendance fees but benefits from a distinct compensation.

##### 2.3.1.2.1. Attendance fees

The Company pays attendance fees to the independent members of the Supervisory board include a fixed part for each member, a fixed part for the Chairman of the Audit and Compensation and nomination committees and a variable part depending on their presence to the board and committees. The variable part depending on the presence to the meetings of the Supervisory board and committees overrides the fixed part.

The table below shows the allocation grid of the attendance fees applicable as from the 2017 fiscal year. Such grid was modified by the Chairman of the Supervisory board at the Supervisory board meeting on December 14, 2016 following the decision to grant a distinct compensation to the Chairman of the Supervisory board.

| Envelop voted at the Annual general meeting                               |                                   | €200,000 |
|---------------------------------------------------------------------------|-----------------------------------|----------|
| Fixed part                                                                | Supervisory board Chairman        | €20,000  |
|                                                                           | Supervisory board member          | €15,000  |
| Variable part depending on the presence to the Supervisory board meetings | Committee Chairman <sup>(1)</sup> | €3,000   |
|                                                                           | Other members                     | €1,500   |
| Variable part depending on the presence to the Committees meetings        | Committee Chairman                | €1,500   |
|                                                                           | Committee member                  | €1,000   |

In case of conference call or videoconference, the variable part is reduced by 50%.

(1) Audit committee or Compensation and nomination committee

The censor, who is called to the Supervisory board meetings and has a consultative voice, is not remunerated under his mandate.

the Code of commerce, to the shareholders' approval, at the vote conditions applicable to the ordinary general meetings, of the envelop mentioned above.

The possibility to pay such attendance fees is subject, in addition to the vote provided under Article L. 225-82-2 of

#### 2.3.1.2.2. Warrants (BSA)

Subject to the favorable vote by the General meeting, the Company wishes to attribute warrants (BSA) to the independent members of the Supervisory board. The purpose of such attributions is to attract high profile to the Supervisory board while preserving the Company's cash position.

The characteristics of such BSA shall be:

- Warrants attribution to the independent members of the Supervisory board at the time of their first appointment and in case of exceptional event, within the limit of 10,000 BSA per member
- Each warrant will give right to subscribe one share with a strike price equal to the stock market average of the last ten days following the attribution (without discount);

- The warrants will become exercisable two years after their attribution and over an eight-year period.

It is noted that the attribution of warrants to the Supervisory board members is not regarded as a compensation and does not depend on the achievement of performance criteria but aims at attracting and retaining high level qualification personalities to the Supervisory board.

The attribution of warrants is subject, in addition to the vote provided under Article L. 225-82-2 of the Code of commerce, to the shareholders' approval, at the vote conditions of the extraordinary general meetings, of a resolution allowing the attribution of warrants.

#### 2.3.1.2.3. Chairman of the Supervisory board compensation

The Chairman of the Supervisory board does not receive attendance fees. He receives a fixed compensation and an exceptional temporary compensation.

- **Fixed compensation**

The Supervisory board of December 14, 2016 decided that Hervé Brailly, as new Chairman of the Supervisory board, will benefit from a specific compensation under Article L. 225-84 of the Code of commerce and would no longer be remunerated on the attendance fees envelop voted by the Ordinary general meeting. As non-independent member

of the Supervisory board, Hervé Brailly does not benefit from attendance fees, neither from equity instruments.

For the 2018 fiscal year, Hervé Brailly's specific compensation for his functions as Chairman of the Supervisory board amounted to €50,000 per year.

- **Exceptional temporary compensation**

The Supervisory board of December 14, 2016 decided to entrust Hervé Brailly with a special mission under Article L. 225-84 of the Code of commerce, in addition to his functions as Chairman of the Supervisory board.

Such mission was performed during the 2017 fiscal year and the Supervisory board of December 13, 2017, upon recommendation of the Compensation and nomination committee decided to renew such special mission for a one-year period ending on December 31, 2018, without possibility or renewal.

The special mission, which will be performed during the 2018 fiscal year aims at continuing to support the new Chairman of the Executive board and finalize the internal and external transition. Such mission consists in:

- Advise the Chairman of the Executive board with regards to the relations with local, regional and French interlocutors (politicians, scientists, 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, in addition to NK platform;
- 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); and
- Be involved in some financial relations activities if needed.

Under such mission and until its term, Hervé Brailly will benefit, in addition to its compensation as Chairman of the Supervisory board, a gross compensation of €100,000 per year.

### 2.3.2. Compensation of the Executive board members and of the Chairman of the Supervisory board during the 2017 fiscal year ("Ex post" vote)

In accordance with articles L. 225-100 and L. 225-68 of the Code of commerce, as modified by articles 4 and 7 of Ordonnance n°2017-1162 dated July 12, 2017 and Law n°2016-1691 dated December 9, 2016, named "Sapin II", which established a mandatory "ex post" vote, the following paragraphs present the fixed, variable or exceptional components of the global compensation and benefits in kind paid or attributed for the previous fiscal year to the Chairman of the Executive board, the members of the Executive board and the Chairman of the Supervisory board.

The variable or exceptional components of the compensation will be submitted to the shareholders' approval at the next General meeting to be held on May

29, 2018, deciding on the accounts for the 2018 fiscal year and can only be implemented after having received the favorable vote on the simple majority of the shareholders present or represented.

Thus, the following paragraphs present the fixed, variable or exceptional components of the global compensation and benefits in kind paid, for the 2017 fiscal year to the Chairman and member of the Executive board and the Chairman of the Supervisory board. It is noted that Nicolai Wagtmann having left his functions as Executive board member on June 23, 2017 no component of compensation mentioned under article L. 225-100 paragraph 9 submitted to the "Ex post" vote has been paid or is due to him for the 2017 fiscal year.

#### 2.3.2.1. Components of the compensation for the Chairman of the Executive board and member of the Executive board and the Chairman of the Supervisory board for the 2017 fiscal year

##### 2.3.2.1.1. Recapitulative table of the compensation components submitted to the "ex post" vote

The table below shows all components of the global compensation and benefits in kind paid or attributed<sup>(1)</sup> for the fiscal year ended on December 31, 2017 to *Mondher Mahjoubi, Chairman of the Executive board*

| Components of the compensation paid or attributed during the fiscal year ended on December 31, 2017    | Amounts or accounting valuation submitted to the vote | Presentation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------------------------------------------------------------|-------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fixed compensation                                                                                     | €470,000                                              | Fixed compensation paid under the mandate agreement<br>Rémunération fixe versée au titre du contrat de mandat                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Annual variable compensation*                                                                          | €127,605                                              | The Supervisory board of December 13, 2017, upon recommendation of the Compensation and nomination committee of December 8, 2017, fixed the objectives achievement of Mondher Mahjoubi to 90.5% (see 2.3.2.1.2).                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Free shares attribution (replacing a part of the payment in cash of the annual variable compensation)* | €72,285.5 <sup>(3)</sup>                              | Mondher Mahjoubi opted for the payment of 50% of his annual variable compensation in free shares, increased by a 30% premium. On the basis of the objectives achievement recorded by the Compensation and nomination committee of December 8, 2017, it benefits from 15,218 AGA Bonus over the 16,816 AGA Bonus attributed by the Executive board of September 20, 2017 and corresponding to 50% of his annual variable compensation increased by a 30% premium <sup>(2)</sup> . An Executive board will record, on September 21, 2018 at the earliest, the definitive acquisition of such 15,218 AGA Bonus so attributed (see 2.3.2.1.2). |
| Equity instruments paid under the pluriannual variable                                                 | €63,000 <sup>(4)</sup>                                | The Executive board of April 3, 2018, upon authorization of the Supervisory board of June 23, 2017, decided upon recommendation of the Compensation and nomination committee of the same day,                                                                                                                                                                                                                                                                                                                                                                                                                                              |

compensation

decided to attribute 700 AGAP to Mondher Mahjoubi.

Benefits in kind (see €24,293  
4.6)

(1) In accordance with article L. 225-100 of the Code of commerce, the components with \* (variable or exceptional components) shall only be paid after being approved at the simple majority by the shareholders present or represented

(2) The number of AGA Bonus attributed by the Executive board of September 20, 2017, subject to the achievement of the objectives, was calculated on the basis of the weighted average of the 20 last trading days before September 20, 2017 (from August 23, 2017 to September 19, 2017), amounting to €10.90 per ordinary share of the Company.

(3) AGA Bonus valued at the stock market value on December 31, 2017, amounting to €4.75

(4) Attribution by the Executive board of April 3, 2018 of 700 AGAP 2017 for the 2017 pluriannual variable compensation, valued par an independent financial advisor at €90 per AGAP 2017 as at April 3, 20018

The table below shows all components of the global compensation and benefits in kind paid or attributed<sup>(1)</sup> for the fiscal year ended on December 31, 2017 to *Yannis Morel, Product portfolio strategy & Business development and member of the Executive Board*

| Components of the compensation paid or attributed during the fiscal year ended on December 31, 2017    | Amounts or accounting valuation submitted to the vote | Presentation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fixed compensation                                                                                     | €196,648                                              | Compensation paid under his working contract.<br><br>The Supervisory board of June 23, 2017, upon recommendation of the Compensation and nomination committee of the same day, decided to increase the fixed compensation of Yannis Morel by 20% due to the expansion of his area of responsibilities (notably the portfolio management, the management of the “strategic portfolio committee” and the management of all program directors). Such increase took effect on July 1, 2017.                                                                                                                                                             |
| Annual variable compensation                                                                           | €46,305                                               | The Supervisory board of December 13, 2017, upon recommendation of the Compensation and nomination committee of December 8, 2017, fixed the achievement of the annual objectives of Yannis Morel at 75% and the achievement of the objectives of Nicolai Wagtmann by Yannis Morel at 44.5% (see 2.3.2.1.2).                                                                                                                                                                                                                                                                                                                                         |
| Free shares attribution (replacing a part of the payment in cash of the annual variable compensation)* | €12,616 <sup>(3)</sup>                                | Yannis Morel opted for the payment of 50% of his annual variable compensation in free shares, increased by a 30% premium. On the basis of the objectives achievement recorded by the Compensation and nomination committee of December 8, 2017, it benefits from 2,656 AGA Bonus over the 3,542 AGA Bonus attributed by the Executive board of September 20, 2017 and corresponding to 50% of his annual variable compensation increased by a 30% premium <sup>(2)</sup> . An Executive board will record, on September 21, 2018 at the earliest, the definitive acquisition of such 2,656 AGA Bonus so attributed (see 2.3.2.1.2) <sup>(2)</sup> . |
| Equity instruments paid under the pluriannual variable compensation                                    | €45,000 <sup>(4)</sup>                                | The Executive board of April 3, 2018, upon authorization of the Supervisory board of June 23, 2017, decided upon recommendation of the Compensation and nomination committee of the same day, decided to attribute 500 AGAP to Yannis Morel.                                                                                                                                                                                                                                                                                                                                                                                                        |
| Benefits in kind (see 4.6)                                                                             | €3,851                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

(1) In accordance with article L. 225-100 of the Code of commerce, the components with \* (variable or exceptional components) shall only be paid after being approved at the simple majority by the shareholders present or represented

(2) The number of AGA Bonus attributed by the Executive board of September 20, 2017, subject to the achievement of the objectives, was calculated on the basis of the weighted average of the 20 last trading days before September 20, 2017 (from August 23, 2017 to September 19, 2017), amounting to €10.90 per ordinary share of the Company.

(3) AGA Bonus valued at the stock market value on December 31, 2017, amounting to €4.75

(4) Attribution by the Executive board of April 3, 2018 of 500 AGAP 2017 for the 2017 pluriannual variable compensation, valued par an independent financial advisor at €90 per AGAP 2017 as at April 3, 2018

The table below shows all components of the global compensation and benefits in kind paid or attributed for the fiscal year ended on December 31, 2017 to *Nicolai Wagtmann, Chief Scientific Officer and Executive board member until June 23, 2017*

| Components of the compensation paid or attributed during the fiscal year ended on December 31, 2017 | Amounts or accounting valuation submitted to the vote | Presentation                                  |
|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------|
| Fixed compensation                                                                                  | €104,631                                              | Compensation paid under his working contract. |
| Benefits in kind (see 4.6)                                                                          | €10,856                                               |                                               |

The table below shows all components of the global compensation and benefits in kind paid or attributed for the fiscal year ended on December 31, 2017 to *Hervé Brailly, Chairman of the Supervisory board<sup>(1)</sup>*

| Components of the compensation paid or attributed during the fiscal year ended on December 31, 2017 | Amounts or accounting valuation submitted to the vote | Presentation                                                                                                                |
|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| Fixed compensation                                                                                  | €50,000                                               | Specific compensation paid under article L. 225-84 of the Code of commerce (see 2.3.2.1.2).                                 |
| Exceptional temporary compensation                                                                  | €100,000                                              | Special mission entrusted to Hervé Brailly within the meaning of article L. 225-84 of the Code of commerce (see 2.3.2.1.2). |

(1) The Chairman of the Supervisory board does not receive any variable compensation

## 2.3.2.1.2. Details of the compensation components

- Annual variable compensation paid in cash

The tables below show the annual objectives of the Executive board members and their weighting as well as the percentage of achievement of each objective, as assessed by the Supervisory board of December 13, 2017, upon recommendation of the Compensation and nomination committee of December 8, 2017.

The individual annual objectives of the Executive board members were presented under the 2017 Say on Pay

report and approved by the General meeting of June 23, 2017.

The individual annual performance criteria are divided, for each Executive board member, into sub criteria with an achievement percentage for each member of the Executive board.

The targets of each criterion cannot be disclosed for strategic and confidential purposes.

| Mondher Mahjoubi                                         |           |             |                                                                            |                                                                                                                                                                                                                                |
|----------------------------------------------------------|-----------|-------------|----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                          | Weighting | Achievement | Assessment criteria                                                        | Assessment                                                                                                                                                                                                                     |
| <b>Scientific leadership</b>                             |           |             |                                                                            |                                                                                                                                                                                                                                |
| Progress and diversification of the preclinical pipeline | 30%       | 24.5%       | Achievement of a number of target projects reaching development milestones | Number of target projects reaching the development milestones achieved, except for one project, which was modified in the course of its development and another project, which was stopped before reaching an early milestone. |
| Progress of the clinical pipeline                        | 30%       | 31%         | Achievement of clinical objectives defined under the strategic plan        | Most of the clinical objectives defined under the strategic plan have been achieved. Some non-strategic trials were suspended. A clinical program overachieved the objective.                                                  |
| Commercial development                                   | 5%        | 2.5%        | Number of in and out licensing according to the strategic plan             | Half of the objectives of acquisition or granting of licenses defined under the strategic plan was reached.                                                                                                                    |
| Scientific communication                                 | 5%        | 5%          | Reaching a target number of scientific publications                        | Number of publications defined under the objectives reached.                                                                                                                                                                   |

| Organization readiness                                                                                       |     |              |                                                                                                                                                                                                    |                                                                                                                                                                                                                                       |
|--------------------------------------------------------------------------------------------------------------|-----|--------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Evolution of the human, financial and organizational resources of the Company to boost its development       | 10% | 7.5%         | Implementation of the recruitment plan as defined and figured at the beginning of the year within a strong growth context; development of new competences area in relation with the strategic plan | The recruitment plan was implemented as provided under the strategic plan. One internal organization target was not reached.                                                                                                          |
| Financial discipline                                                                                         |     |              |                                                                                                                                                                                                    |                                                                                                                                                                                                                                       |
| Achievement or overachievement of the budget targets                                                         | 10% | 10%          | Budget targets as defined under the strategic plan, evolution of the management tools in relation with the Company's development                                                                   | Compliance with the budget and setting up of a long term strategic plan.                                                                                                                                                              |
| Great place to work                                                                                          |     |              |                                                                                                                                                                                                    |                                                                                                                                                                                                                                       |
| Attract and develop human potentials and maintain a strong team spirit<br>Efficiency of the decision process | 10% | 10%          | Implementation and starting of training programs (including development and leadership programs); development of internal communication tools, evolution of the internal process of decision       | Setting up of new committees to improve the process and the portfolio management.<br>Setting up of an individual assessment process for employees<br>Preparation of an internal communication plan, which will be rolled out in 2018. |
| <b>TOTAL</b>                                                                                                 |     | <b>90.5%</b> |                                                                                                                                                                                                    |                                                                                                                                                                                                                                       |

## Yannis Morel: achievement of individual objectives for 2017

|                                                                                                              | Weighting | Achievement | Assessment criteria                                                                                                                                                                                | Assessment                                                                                                                |
|--------------------------------------------------------------------------------------------------------------|-----------|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| <b>Scientific leadership</b>                                                                                 |           |             |                                                                                                                                                                                                    |                                                                                                                           |
| Progress and diversification of the preclinical pipeline                                                     | 20%       | 20%         | Achievement of a number of target projects reaching the development milestones                                                                                                                     | Number of target projects reaching the development milestones reached, notably from a business development point of view. |
| Commercial development                                                                                       | 35%       | 20%         | Number of in and out licensing according to the strategic plan                                                                                                                                     | Objective partially reached.                                                                                              |
| <b>Organization readiness</b>                                                                                |           |             |                                                                                                                                                                                                    |                                                                                                                           |
| Evolution of the human, financial and organizational resources of the Company to boost its development       | 5%        | 5%          | Implementation of the recruitment plan as defined and figured at the beginning of the year within a strong growth context; development of new competences area in relation with the strategic plan | Recruitment objectives reached.                                                                                           |
| <b>Financial discipline</b>                                                                                  |           |             |                                                                                                                                                                                                    |                                                                                                                           |
| Achievement or overachievement of the budget targets                                                         | 10%       | 0%          | Budget targets as defined under the strategic plan, evolution of the management tools in relation with the Company's development                                                                   | Objective not reached                                                                                                     |
| <b>Great place to work</b>                                                                                   |           |             |                                                                                                                                                                                                    |                                                                                                                           |
| Attract and develop human potentials and maintain a strong team spirit<br>Efficiency of the decision process | 30%       | 30%         | Implementation and starting of training programs (including development and leadership programs); development of internal communication tools, evolution of the internal process of decision       | Setting up of a new organization for the Program Directors to simplify and harmonize the decision making process.         |
| <b>TOTAL</b>                                                                                                 |           | <b>75%</b>  |                                                                                                                                                                                                    |                                                                                                                           |

## Yannis Morel: achievement of Nicolai Wagtmann's objectives for 2017

|                                                                                                              | Weighting | Achievement | Assessment criteria                                                                                                                                                                                | Assessment                                                                                                                     |
|--------------------------------------------------------------------------------------------------------------|-----------|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| <b>Scientific leadership</b>                                                                                 |           |             |                                                                                                                                                                                                    |                                                                                                                                |
| Progress and diversification of the preclinical pipeline                                                     | 40%       | 40%         | Achievement of a number of target projects reaching development milestones                                                                                                                         | Number of target projects reaching the development milestones reached, notably from a business development point of view.      |
| Progress of the clinical pipeline                                                                            | 30%       | 22%         | Achievement of clinical objectives defined under the strategic plan                                                                                                                                | Most of the clinical objectives defined under the strategic plan have been achieved. Some non-strategic trials were suspended. |
| Scientific communication                                                                                     | 15%       | 15%         | Reaching a target number of scientific publications                                                                                                                                                | Number of publications defined under the objectives reached.                                                                   |
| <b>Organization readiness</b>                                                                                |           |             |                                                                                                                                                                                                    |                                                                                                                                |
| Evolution of the human, financial and organizational resources of the Company to boost its development       | 5%        | 5%          | Implementation of the recruitment plan as defined and figured at the beginning of the year within a strong growth context; development of new competences area in relation with the strategic plan | Objective of recruitment of key position within the research department reached.                                               |
| <b>Financial discipline</b>                                                                                  |           |             |                                                                                                                                                                                                    |                                                                                                                                |
| Achievement or overachievement of the budget targets                                                         | 10%       | 3%          | Budget targets as defined under the strategic plan, evolution of the management tools in relation with the Company's development                                                                   | Compliance with the budget objectives.                                                                                         |
| <b>Great place to work</b>                                                                                   |           |             |                                                                                                                                                                                                    |                                                                                                                                |
| Attract and develop human potentials and maintain a strong team spirit<br>Efficiency of the decision process | 5%        | 4%          | Implementation and starting of training programs (including development and leadership programs); development of internal                                                                          | Implementation of a training program (development and leadership) in 2017.                                                     |

|              |                                                                          |
|--------------|--------------------------------------------------------------------------|
|              | communication tools,<br>evolution of the internal<br>process of decision |
| <b>TOTAL</b> | <b>89%</b>                                                               |

The table below shows the amount of annual variable compensation to be paid to each Executive board member for 2017.

| Amount to be paid to the Executive board members under their annual variable compensation |                              |                                           |                                                |                                            |                                                   |                                           |
|-------------------------------------------------------------------------------------------|------------------------------|-------------------------------------------|------------------------------------------------|--------------------------------------------|---------------------------------------------------|-------------------------------------------|
|                                                                                           | Fixed<br>compensation<br>(€) | % of variable<br>of fixed<br>compensation | %<br>achievement<br>of performance<br>criteria | Annual<br>of variable<br>total<br>2017 (€) | Variable<br>2017 to be<br>paid (€) <sup>(1)</sup> | Variable 2017<br>paid in AGA<br>Bonus (€) |
| <b>Mondher Mahjoubi</b>                                                                   | 470,000                      | 60%                                       | 90.5%                                          | 255,210                                    | 127,605                                           | 72,285.5 <sup>(4)</sup>                   |
| <b>Yannis Morel</b>                                                                       | 198,000 <sup>(2)</sup>       | 30%                                       | 75%                                            | 44,550                                     | 46,305 <sup>(3)</sup>                             | 12,616 <sup>(5)</sup>                     |

(1) Mondher Mahjoubi and Yannis Morel having both opted for the payment of 50% of their annual variable compensation into AGA Bonus, 50% of this amount will be paid in cash (see 2.3.1.1.2).

(2) Fixed compensation paid in 2017 following the increase of Yannis Morel's compensation decided by the Supervisory board of June 23, 2017, upon recommendation of the Compensation and nomination committee of the same day: €90,000 from January to June 2017 and €108,000 from June to December 2017

(3) €22,275 corresponding to 50% of Yannis Morel's annual variable compensation (€44,550 at the total), increased by €4,030 corresponding to 50% (from July to December 2017, following Nicolai Wagtmann's resignation) of achievement by Yannis Morel of Nicolai Wagtmann's objectives (89%)

(4) In September 2018, the Executive board will record the definitive acquisition of 15,218 AGA Bonus corresponding to 50% of Mondher Mahjoubi's annual variable compensation increased by a 30% premium. On December 31, 2017, such AGA Bonus were valued at €72,285.5 (market value of €4.75 per share on December 31, 2017).

(5) In September 2018, the Executive board will record the definitive acquisition of 2,656 AGA Bonus corresponding to 50% of Yannis Morel's annual variable compensation increased by a 30% premium. On December 31, 2017, such AGA Bonus were valued at €12,616 (market value of €4.75 per share on December 31, 2017).

### 2.3.2.1.3. Long-term incentive – Distribution of free preferred shares

The attributions of free preferred shares (or AGAP) consist in the free attribution, under Article L. 225-197-1 et. Seq. of the Code of commerce, of a number of ordinary shares of the Company depending on the achievement of performance criteria determined at the attribution and evaluated over a three-year period.

The AGAP 2017 are subject to a one-year acquisition period with presence condition. During the two-year period following, the AGAP cannot be sold, neither converted into ordinary shares. At the end of such two-year period, provided the achievement of the performance criteria (and the presence condition) on that date, the AGAP could be converted into ordinary shares for a six-

year and six-month period. At the end of such six-year and six-month period, the AGAP that would not have been converted, will lose their rights and could be purchased by the Company, and, as the case may be, cancelled.

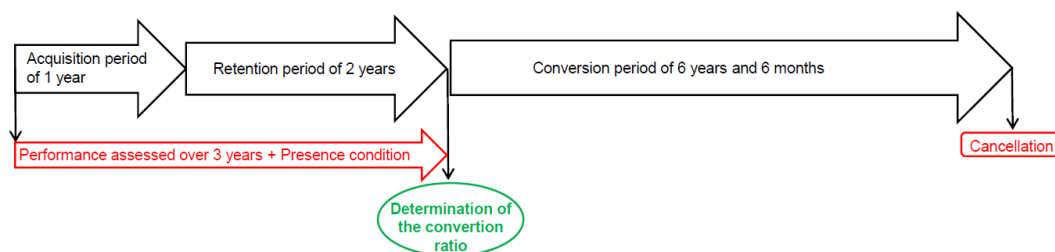
For 2017, it was proposed to the general meeting to vote AGAP with performance criteria based on the stock market evolution.

The target performance will be an increase of the current stock market price to €30 by ordinary share. In case of achievement of such performance criteria, each AGAP may be converted into a maximum of 100 ordinary shares. If at the end of the three-year period the stock market is comprised between €11.6 (average of the 60 stock market

prices before the 2017 AGM) and €30, the conversion ratio will be calculated by linear extrapolation. If on the

conversion date, the stock market price is below 11.6, the AGAP may not be converted.

The timeline below shows these different steps of attribution, definitive acquisition and conversion of the AGAP:



Following the decision of the Supervisory board dated June 23, 2017 adopted upon recommendation of the Compensation and nomination committee, the Supervisory Board, on April 3, 2018, used the delegation granted by the 30<sup>th</sup> resolution of the General Meeting held on June 23, 2017 to AGAP Management 2017–1 to the Executive board members.

The table below shows such distribution:

| Executive board members | Number of AGAP Management attributed | % of maximum dilution <sup>(1)</sup> | Total value in € <sup>(2)</sup> |
|-------------------------|--------------------------------------|--------------------------------------|---------------------------------|
| Mondher Mahjoubi        | 700                                  | 0.12%                                | 63,000                          |
| Yannis Morel            | 500                                  | 0.09%                                | 45,000                          |

(1) On the basis of the number of shares of the non-diluted share capital on the date of the Executive board attribution and assuming that the AGAP have been fully converted (1 AGAP = 100 ordinary shares);

(2) On the basis of the valuation made by an independent financial expert on the attribution date, April 3 2018 by the Executive board and having an AGAP valued at €90

#### 2.3.2.1.4. Summary of the equity instruments giving access to the share capital owned by the Executive board members and the Chairman of the Supervisory board

The table below summarizes the share equivalents of the equity instruments owned by the members of the Executive board and the Supervisory board on the date of this Report:

|                         | BSAAR          | BSA | AGAP<br>Manageme<br>nt<br>2016/201<br>7 <sup>(2)</sup> | AGA<br>Management<br><sup>(2)</sup> | AGA Bonus <sup>(3)</sup> | TOTAL (in shares<br>in case of<br>maximum<br>conversion of the<br>AGAP) | % of<br>maximum<br>dilution <sup>(1)</sup> |
|-------------------------|----------------|-----|--------------------------------------------------------|-------------------------------------|--------------------------|-------------------------------------------------------------------------|--------------------------------------------|
| <b>Hervé Brailly</b>    | 350,000        |     | 100,000                                                |                                     |                          | 450,000                                                                 | 0.78%                                      |
| <b>Mondher Mahjoubi</b> | –              | –   | 670,000                                                | 250,000                             | 15,218                   | 935,218                                                                 | 1,62%                                      |
| <b>Yannis Morel</b>     | 88,000         | –   | 140,000                                                | –                                   | 2,656                    | 230,656                                                                 | 0,40%                                      |
| <b>Total</b>            | <b>438,000</b> | –   | <b>910,000</b>                                         | <b>250,000</b>                      | <b>17,874</b>            | <b>1,615,874</b>                                                        | <b>2,80%</b>                               |

(1) On the basis of the number of shares of the non-diluted share capital on the date of the Executive board attribution and assuming that the AGAP have been fully converted (1 AGAP = 100 ordinary shares);

(2) In number of shares in case of maximum conversion

(3) Whose definitive acquisition will be recorded in September 2018

### 2.3.2.2. Compensation of the Supervisory board members during the 2018 fiscal year

#### 2.3.2.2.1. Attendance fees

The Annual General Meeting of June 23, 2017 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 2017 fiscal year:

|                                                  | Supervisory board | Audit committee | Compensation and nomination committee | Transaction committee     | % of presence |
|--------------------------------------------------|-------------------|-----------------|---------------------------------------|---------------------------|---------------|
| <b>Hervé Brailly</b>                             | 100% (9/9)        | –               | 100% (5/5)                            | 100% (2/2)                | <b>100%</b>   |
| <b>Irina Staatz–Granzer</b>                      | 78% (7/9)         | 75% (3/4)       | –                                     | 100% (2/2)                | <b>84.33%</b> |
| <b>Gilles Brisson</b>                            | 100% (9/9)        | 100% (4/4)      | 100% (5/5)                            |                           | <b>100%</b>   |
| <b>Novo Nordisk A/S</b>                          | 78% (7/9)         |                 |                                       | 0% (0/2) <sup>(1)</sup> – | <b>78%</b>    |
| <b>Bpifrance Participations (Mailys Ferrere)</b> | 100% (4/4)        | 50% (1/2)       | –                                     | –                         | <b>75%</b>    |
| <b>Patrick Langlois</b>                          | 78% (7/9)         | 100% (4/4)      | 67% (3/5)                             |                           | <b>81.6%</b>  |
| <b>Michael A. Caligiuri</b>                      | 100% (2/2)        | –               | –                                     | –                         | <b>100%</b>   |
| <b>Véronique Chabernaud</b>                      | 100% (9/9)        | –               | 100% (5/5)                            | –                         | <b>100%</b>   |

(1) In 2017, the Transaction committee meets twice about the C5aR deal concluded with Novo Nordisk A/S. To avoid any conflict of interest, Novo Nordisk A/S was absent to these committees.

On the basis of such elements and the allocation grid applicable during the 2017 fiscal year, the Company paid attendance fees to the members of the Supervisory board in 2017 amounting to €150,609 allocated as follows:

| Amount of the attendance fees paid (€)  |        |
|-----------------------------------------|--------|
| <b>Irina Staatz–Granzer</b>             | 27,500 |
| <b>Gilles Brisson</b>                   | 47,750 |
| <b>Patrick Langlois</b>                 | 40,250 |
| <b>Véronique Chabernaud</b>             | 29,500 |
| <b>Michael Caligiuri <sup>(1)</sup></b> | 5 609  |

(1) Michael Caligiuri resigned from his mandate as Supervisory board member on April 10, 2017

## 2.3.2.2.2. Warrants (BSA)

- Warrants (BSA) attributed in 2017

The Executive board of September 20, 2017, upon authorization of the Supervisory board of June 23, 2017, attributed 10,000 BSA (BSA 2017-1) to the independent members of the Supervisory board. 37,000 BSA were subscribed.

The BSA 2017-1 will be exercisable two years following their attribution for an eight-year period.

At the end of the subscription period of the BSA 2017-1, on November 30, 2017, the BSA 2017-1 were attributed as follows:

The exercise price of the BSA 2017-1 corresponds to the average of the ten last trading days on the attribute date, *i.e.* €11 from September 6 to 19, 2017. The subscription price of the BSA 2017-1 is equal to 10% of the exercise price, *i.e.* €1.10.

| Beneficiaries        | Functions                | Number of BSA 2017-1 subscribed by each beneficiary |
|----------------------|--------------------------|-----------------------------------------------------|
| Gilles Brisson       | Supervisory board member | 10,000                                              |
| Irina Staatz-Granzer | Supervisory board member | 10,000                                              |
| Véronique Chabernaud | Supervisory board member | 10,000                                              |
| Patrick Langlois     | Supervisory board member | 7,000                                               |
| <b>Total</b>         |                          | <b>37,000</b>                                       |

- Warrants (BSA) held by the Supervisory board members

The table below summarizes the share equivalents of the circulating BSA held by the members of the Supervisory board on January 31, 2018:

| Supervisory board members                 | Circulating BSA | % dilution <sup>(1)</sup> |
|-------------------------------------------|-----------------|---------------------------|
| Hervé Brailly                             | 0               | 0%                        |
| Irina Staatz-Granzer                      | 45,000          | 0.08%                     |
| Gilles Brisson                            | 50,000          | 0.09%                     |
| Novo Nordisk A/S                          | 0               | 0%                        |
| Bpifrance Participations (Mailys Ferrere) | 0               | 0%                        |
| Patrick Langlois                          | 7,000           | 0.01%                     |
| Véronique Chabernaud                      | 24,200          | 0.04%                     |
| <b>TOTAL</b>                              | <b>126,200</b>  | <b>0.22%</b>              |

(1) On the basis of the shares forming the share capital on January 31, 2018, non-diluted.

The independent members of the Supervisory board do not hold any other equity instrument.

### 2.3.2.2.3. Renewal of the special mission entrusted to the Chairman of the Supervisory board

The Supervisory board of December 14, 2016 having appointed Hervé Brailly as Chairman of the Supervisory board decided to entrust him with a special mission under Article L. 225-84 of the Code of commerce, in addition to his mission as Chairman of the Supervisory board.

The Chairman of the Supervisory board received an amount of €100,000 as compensation for this special mission for the 2017 fiscal year.

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

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**

| <b>Mondher Mahjoubi, Chairman of the Executive board</b>                                                                                   | <b>2017</b>             | <b>2016</b> |
|--------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------|
| Compensation for the fiscal year (see details in Table 2)                                                                                  | 621,898 <sup>(1)</sup>  | –           |
| 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 | 72,285.5 <sup>(2)</sup> | –           |
| <b>Total</b>                                                                                                                               | <b>694,183.5</b>        | <b>–</b>    |

(1) Compensation due under the social mandate, bonus paid in cash and in benefits in kind

(2) 15,218 AGA Bonus valued at the stock value price on December 31, 2017, €4.75 (see 2.3.2.1.1)

**Table 1 – Summary table of compensation, options and shares allocated to each member of the Executive board**

| <b>Yannis Morel, Executive board member</b>                                                                                                | <b>2017</b>            | <b>2016</b>            |
|--------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| Compensation for the fiscal year (see details in Table 2)                                                                                  | 246,804 <sup>(1)</sup> | 225,607                |
| Valuation of variable long-term compensation allocated during the fiscal year                                                              | –                      | 376,200 <sup>(3)</sup> |
| 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 | 12,616 <sup>(2)</sup>  | –                      |
| <b>Total</b>                                                                                                                               | <b>259,420</b>         | <b>601,807</b>         |

(1) Compensation due under the working contract, bonus paid in cash and benefits in kind

(2) 2 656 AGA Bonus valued at the stock value price on December 31, 2017, €4.75 (see 2.3.2.1.1)

(3) Attribution on October 21, 2016 of 450 AGAP Management 2016-1 under the 2016 variable long-term compensation, valued at €836 per AGAP by an independent financial firm on the attribution date

**Tableau 1 – Summary table of compensation, options and shares allocated to each member of the Executive board**

| <b>Nicolai Wagtmann, Executive board member until June 23, 2017</b>                                                                        | <b>2017</b>            | <b>2016</b>            |
|--------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| Compensation for the fiscal year (see details in Table 2)                                                                                  | 115,487 <sup>(1)</sup> | 250,613                |
| Valuation of variable long-term compensation allocated during the fiscal year                                                              | –                      | 376,200 <sup>(2)</sup> |
| 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 | –                      | –                      |
| <b>Total</b>                                                                                                                               | <b>115,487</b>         | <b>626,813</b>         |

(1) Compensation due under the working contract, bonus paid in cash and benefits in kind

(2) Attribution on October 21, 2016 of 450 AGAP Management 2016–1 under the 2016 variable long-term compensation, valued at €836 per AGAP by an independent financial firm on the attribution date Nicolai Wagtmann was no longer member of the Executive board of the Company on the acquisition date (October 21, 2017), his 450 AGAP 2016–1 were cancelled.

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**

| Mondher Mahjoubi                         | 2017                   |                | 2016         |              |
|------------------------------------------|------------------------|----------------|--------------|--------------|
|                                          | Due                    | Paid           | Due          | Paid         |
| Fixed compensation                       | 470,000                | 470,000        | –            | –            |
| Annual variable compensation             | 255,210 <sup>(1)</sup> | 0              | 1,780        | 1,780        |
| Variable compensation over several years | –)                     | 0              | –            | –            |
| Exceptional compensation                 | –                      | –              | –            | –            |
| Attendance fees                          | –                      | –              | –            | –            |
| Benefits in kind <sup>(2)</sup>          | 24,293                 | 24,293         | –            | –            |
| <b>Total</b>                             | <b>749,503</b>         | <b>494,293</b> | <b>1,780</b> | <b>1,780</b> |

**Table 2 – Compensation allocated to each member of the Executive board**

| Yannis Morel                             | 2017                  |                       | 2016                   |                |
|------------------------------------------|-----------------------|-----------------------|------------------------|----------------|
|                                          | Due                   | Paid                  | Due                    | Paid           |
| Fixed compensation                       | 196,648               | 196,648               | 165,000                | 165,000        |
| Annual variable compensation             | 68,580 <sup>(1)</sup> | 56,925 <sup>(4)</sup> | 56,925                 | 36,000         |
| Variable compensation over several years | –                     | –                     | 376,200 <sup>(3)</sup> | –              |
| Exceptional compensation                 | –                     | –                     | –                      | 50,000         |
| Attendance fees                          | –                     | –                     | –                      | –              |
| Benefits in kind <sup>(2)</sup>          | 3,851                 | 3,851                 | 3,982                  | 3,982          |
| <b>Total</b>                             | <b>269,079</b>        | <b>200,499</b>        | <b>602,107</b>         | <b>254,982</b> |

**Table 2 – Compensation allocated to each member of the Executive board**

| Nicolai Wagtmann                         | 2017           |                       | 2016                   |                |
|------------------------------------------|----------------|-----------------------|------------------------|----------------|
|                                          | Due            | Paid                  | Due                    | Paid           |
| Fixed compensation                       | 104,631        | 104,631               | 170,964                | 170,964        |
| Annual variable compensation             | –              | 58,650 <sup>(4)</sup> | 58,650                 | 58,650         |
| Variable compensation over several years | –              | –)                    | 376,200 <sup>(3)</sup> | –              |
| Rémunération exceptionnelle              | –              | –                     | 30,000                 | 30,000         |
| Premium (school fee allowance)           | 7,713          | 7,713                 | 16,158                 | 16,158         |
| Attendance fees                          | –              | –                     | –                      | –              |
| Benefits in kind <sup>(2)</sup>          | 3,143          | 3,143                 | 4,841                  | 4,841          |
| <b>Total</b>                             | <b>115,487</b> | <b>115,487</b>        | <b>656,813</b>         | <b>280,613</b> |

(1) See 2.3.2.1.2 for the detailed method of payment of the annual variable compensation

(2) Company car and pension benefits. The pension benefits to the Executive board members are described under paragraph 4.6 of the Reference document and in note 3.3.1 j) in appendix to the 2017 Consolidated Accounts

(3) 450 AGAP 2016-1, valued at €836 on their attribution date (October 21, 2016), were attributed to Yannis Morel and Nicolai Wagtmann. The AGAP 2016-1 attributed to Nicolai Wagtmann were cancelled by the Executive board of October 23, 2017 following his departure from the Company.

(4) Annual variable compensation due for 2016 and paid in 2017

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 <sup>(1)</sup>**

|                                        | Paid in 2018 for 2017 | Paid in 2017 for 2016 |
|----------------------------------------|-----------------------|-----------------------|
| <b>Hervé Brailly<sup>(2)</sup></b>     |                       | –                     |
| Attendance fees                        | –                     | –                     |
| Other compensation                     | 150,000               |                       |
| <b>Gilles Brisson</b>                  |                       |                       |
| Attendance fees                        | 47,750                | 47,113                |
| Other compensation                     | –                     | –                     |
| <b>Irina Staatz Granzer</b>            |                       |                       |
| Attendance fees                        | 27,500                | 27,643                |
| Other compensation                     | –                     | –                     |
| <b>Patrick Langlois</b>                |                       |                       |
| Attendance fees                        | 40,250                | 38,700                |
| Other compensation                     | –                     | –                     |
| <b>Véronique Chabernaud</b>            |                       |                       |
| Attendance fees                        | 29,500                | 28,123                |
| Other compensation                     | –                     | –                     |
| <b>Michael Caligiuri<sup>(3)</sup></b> |                       |                       |
| Attendance fees                        | 5,609                 | 23,076                |
| Other compensation                     | –                     | –                     |

(1) As non-independent members of the Supervisory board, Novo Nordisk A/S, Bpifrance Participations and Hervé Brailly do not receive attendance fees. Olivier Martinez is not remunerated as censor.

(2) For 2017, Hervé Brailly received (i) €50,000 as Chairman of the Supervisory board and (ii) €100,000 as temporary exceptional compensation for his special mission

(3) Michael Caligiuri resigned from his functions as Chairman of the Supervisory board with effect on April 10, 2017

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 2017

|                     | Date of the Executive board | Nature of the instrument | Valuation of the instrument (1) | Number of instruments allocated during the year | Definitive acquisition (3) | Performance criteria           |
|---------------------|-----------------------------|--------------------------|---------------------------------|-------------------------------------------------|----------------------------|--------------------------------|
| Mondher Mahjoubi    | 09/20/17                    | AGA Bonus                | 4.75€                           | 16,816                                          | 09/20/18(4)                | Annual individual objectives   |
| Yannis Morel        | 09/20/17                    | AGA Bonus                | 4.75€                           | 3,542                                           | 09/20/18(4)                | Annual individual objectives s |
| Nicolai Wagtmann(1) | –                           | –                        | –                               | –                                               | –                          | –                              |

(1) Member of the Executive board until June 23, 2017

(2) Stock market price on December 31, 2017

(3) In accordance with the recommendations issued by the Compensation and nomination committee, an Executive board shall record, in 2018, the definitive attribution of 15,218 AGA Bonus to Mondher Mahjoubi and 2,656 AGA Bonus to Yannis Morel

(4) Definitive attribution followed by a one-year retention period in accordance with Article L. 225-197-1 of the French code of commerce

For 2017, the long-term variable compensation of the Executive board members (AGAP Management 2017-1) was attributed on April 3 2018 (see 2.3.2.1.3).

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

|                     |   |
|---------------------|---|
| Mondher Mahjoubi    | – |
| Yannis Morel        | – |
| Nicolai Wagtmann(1) | – |

(1) Executive board member until June 23, 2017

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

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

|                     | Date of the Executive board | Number of free shares (AGA Bonus) attributed(2) | Instrument valuation (3) | Definitive attribution (3) | Performance criteria          |
|---------------------|-----------------------------|-------------------------------------------------|--------------------------|----------------------------|-------------------------------|
| Mondher Mahjoubi    | 09/20/17                    | 16 816                                          | 4,75€                    | 09/20/18 (4)               | Objectifs individuels annuels |
| Yannis Morel        | 09/20/17                    | 3 542                                           | 4,75€                    | 09/20/18 (4)               | Objectifs individuels annuels |
| Nicolai Wagtmann(1) | –                           | –                                               | –                        | –                          | –                             |

(1) Member of the Executive board until June 23, 2017

(2) In accordance with the recommendations issued by the Compensation and nomination committee, an Executive board shall record, in 2018, the definitive attribution of 15,218 AGA Bonus to Mondher Mahjoubi and 2,656 AGA Bonus to Yannis Morel

(3) Stock market price on December 31, 2017

(4) Definitive attribution followed by a one-year retention period in accordance with Article L. 225-197-1 of the French code of commerce

The Supervisory board members are not eligible to the attribution of free shares.

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

**Table 7 – Free ordinary shares available for each member of the Executive board**

|                                 | Date of decision of<br>the Executive board | Number of available ordinary<br>shares | Conditions for acquisition |
|---------------------------------|--------------------------------------------|----------------------------------------|----------------------------|
| Mondher Mahjoubi                | –                                          | –                                      | –                          |
| Yannis Morel                    | –                                          | –                                      | –                          |
| Nicolai Wagtmann <sup>(1)</sup> | –                                          | –                                      | –                          |

(1) Member of the Executive board until June 23, 2017

The following table (Table 8) summarizes the history of allocation of equity instruments to the company officers as of December 31, 2017:

Table 8 – History of allocation of equity instruments to corporate officers (instruments in effect on December 31, 2017)

## CHAPTER 2 - CORPORATE GOVERNANCE

## 2.3 COMPENSATION

| Equity instruments                                                                       | BSA           |             |             | BSAAR         |               |               | Free shares   |                                   |                                    |                          |
|------------------------------------------------------------------------------------------|---------------|-------------|-------------|---------------|---------------|---------------|---------------|-----------------------------------|------------------------------------|--------------------------|
| Equity instruments                                                                       | BSA<br>2011–2 | BSA<br>2013 | BSA<br>2014 | BSA<br>2015–1 | BSA<br>2015–2 | BSAAR<br>2011 | BSAAR<br>2015 | AGAP<br>Management <sup>(4)</sup> | AGA Management 2016 <sup>(4)</sup> | AGA Bonus <sup>(4)</sup> |
| 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                           | 06/23/17                 |
| 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<br>12/30/16              | 12/30/16                           | 09/20/17                 |
| 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 <sup>(3)</sup>              | 350,000                            | 50,000                   |
| 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                            | 28,556                   |
| 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                            | 20,358                   |
| Mondher Mahjoubi                                                                         | –             | –           | –           | –             | –             | –             | –             | 3,000                             | 250,000                            | 16,816                   |
| Yannis Morel                                                                             | –             | –           | –           | –             | –             | 100,000       | 88,000        | 450                               | –                                  | 3,542                    |
| Nicolai Wagtmann <sup>(1)</sup>                                                          | –             | –           | –           | –             | –             | –             | 68,500        | 450                               | –                                  | –                        |
| Hervé Brailly                                                                            | –             | –           | –           | –             | –             | 200,000       | 150,000       | 500                               | –                                  | –                        |
| Gilles Brisson                                                                           | 25,000        | –           | –           | 15,000        | –             | –             | –             | –                                 | –                                  | –                        |
| Patrick Langlois                                                                         | –             | –           | –           | –             | –             | –             | –             | –                                 | –                                  | –                        |
| Irina Staatz–Granzer                                                                     | 25,000        | –           | –           | 10,000        | –             | –             | –             | –                                 | –                                  | –                        |
| Michael A. Caligiuri <sup>(3)</sup>                                                      | –             | 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<br>12/30/17           | –                                  | 09/20/18                 |

## CHAPTER 2 - CORPORATE GOVERNANCE

### 2.3 COMPENSATION

| 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<br>06/30/26 | 12/30/19 | –      |
|------------------------------------------------------------------|----------|----------|----------|----------|----------|----------|-----------|-------------------------|----------|--------|
| Subscription price                                               | 1.77€    | 2.36€    | 8.65€    | 9.59€    | 14.05€   | 2.04€    | 7.20€     | –                       | –        | –      |
| Total number of ordinary<br>shares subscribed as of<br>12/31/17  | 120,560  | 153,640  | 75,000   | –        | –        | 395,000  | 1,940     | –                       | –        | –      |
| Cumulated number of equity<br>instruments cancelled or<br>lapsed | –        | –        | –        | –        | –        |          | 2,720     | –                       | –        | 3,577  |
| Number of equity instruments<br>outstanding as of 12/31/17       | 104,440  | 83,860   | 75,000   | 70,000   | 14,200   | 255,000  | 1,045,722 | 1,000,000               | –        | 24,979 |

(1) Nicolai Wagtmann resigned from his functions as Executive board member on June 23, 2017

(2) In accordance with the recommendations issued by the Compensation and nomination committee, an Executive board shall record, in 2018, the definitive attribution of 15,218 AGA Bonus to Mondher Mahjoubi and 2,656 AGA Bonus to Yannis Morel

(3) Michael Caligiuri resigned from his functions as member of the Supervisory board on April 10, 2017

(4) The achievement of the performance criteria gives right to the conversion of one preferred shares into a maximum of 200 ordinary shares

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:

**Table 9-1 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 attributed during the fiscal year | Definitive acquisition date | Availability date | Performance criteria         |
|----------------------------------|-----------------------------------------|--------------------------|-------------------------------------------------------------------|-----------------------------|-------------------|------------------------------|
| Jérôme Tiollier                  | 09/20/17                                | AGA Bonus                | 2,385 <sup>(2)</sup>                                              | 09/20/18                    | 09/20/19          | Annual individual objectives |
| Marcel Rozencweig <sup>(1)</sup> | –                                       | –                        | –                                                                 | –                           | –                 | –                            |
| Pierre Dodion <sup>(3)</sup>     | 09/20/17                                | AGA Bonus                | –                                                                 | –                           | –                 | –                            |
| Laure-Hélène Mercier             | 09/20/17                                | AGA Bonus                | 2,236 <sup>(2)</sup>                                              | 09/20/18                    | 09/20/19          | Annual individual objectives |

(1) Executive committee member until September 30, 2017

(2) In accordance with the recommendations issued by the Compensation and nomination committee, an Executive board shall record, in 2018, the definitive attribution of 15,218 AGA Bonus to Mondher Mahjoubi and 2,656 AGA Bonus to Yannis Morel

(3) Pierre Dodion did not opt for the payment of a part of his compensation into free shares and does not benefit from AGA Bonus

**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 <sup>(1)</sup> | 07/29/11                | BSA 2-2011               | 700                                                     | €0.01                                | €1.77          |
| Marcel Rozencweig <sup>(1)</sup> | 07/16/14                | BSA 2014                 | 37,500                                                  | €0.01                                | €8.65          |

(1) Member of the Executive board until September 30, 2017

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<sup>(2)</sup>**

|              | Date of Executive board | Number of free shares | Acquisition conditions                                                                     |
|--------------|-------------------------|-----------------------|--------------------------------------------------------------------------------------------|
| Yannis Morel | 01/26/2015              | 549                   | Corresponding to 300% of the premium invested in the PEE by the beneficiary <sup>(1)</sup> |

(1) See paragraph 2.4.3 "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:

**Table 11 – Additional information on conditions of compensation and other benefits offered to Executive board members**

|                                                                                                                                    | Work contract | Complementary retirement savings scheme <sup>(4)</sup> | Benefits or advantages due or likely to be due in the case of retirement or change of position | Benefits due to non-competition clause |
|------------------------------------------------------------------------------------------------------------------------------------|---------------|--------------------------------------------------------|------------------------------------------------------------------------------------------------|----------------------------------------|
| Mondher Mahjoubi,<br>Chairman of the Executive board<br>Start of term : 2017<br>End of term : 2019                                 | Non           | Oui                                                    | Non                                                                                            | Oui <sup>(1)</sup>                     |
| Yannis Morel, EVP Stratégie<br>Prdouits & Business Development <sup>(2)</sup><br>Start of term : 2015<br>End of term :<br>en cours | Oui           | Oui                                                    | Non                                                                                            | Non                                    |
| Nicolai Wagtman<br>EVP Chief Scientific Officer <sup>(3)</sup><br>Start of term : 2014<br>Resignation on June 23, 2017             | Oui           | Oui                                                    | Non                                                                                            | Non                                    |

(1) The mandate agreement entered into between the Company and Mondher Mahjoubi, Chairman of the Executive board provides that in consideration for a non-competition and non-solicitation obligation, Mondher Mahjoubi shall receive, as from the end of his functions, a lump sum amounting to two years of fixed and variable compensation, which will be paid monthly on a 24-month period.

(2) Yannis 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 2017, such as the other members of the Executive board.

(3) Nicolai Wagtman 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 2017, such as the other members of the Executive board.

(4) The characteristics of the collective retirement plan with defined contributions ("Article 83" retirement plan) are described in Note 20 j) of the Consolidated Accounts for the year ended December 31, 2016 contained in paragraph 3.3.1 of this Reference document.

Savings scheme amounted to 982,000 euros.

**2.3.4. 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 March 6, 2018**

| Executive board, Supervisory board or Executive Committee | Number of shares directly owned (I) | Number of shares owned by related entities <sup>(1)</sup> (II) | Total (III) (I+II) | Total number of new shares upon exercise of, warrants redeemable warrants, AGA and AGAP (IV) | Total (III+IV)    | Percentage of diluted capital <sup>(2)</sup> |
|-----------------------------------------------------------|-------------------------------------|----------------------------------------------------------------|--------------------|----------------------------------------------------------------------------------------------|-------------------|----------------------------------------------|
| <b>Executive board members</b>                            |                                     |                                                                |                    |                                                                                              |                   |                                              |
| Mondher Mahjoubi                                          | 0                                   |                                                                | 0                  | 866,816                                                                                      | 866,816           | 1.42%                                        |
| Yannis Morel                                              | 54,937                              |                                                                | 54,937             | 181,542                                                                                      | 236,479           | 0.39%                                        |
| <b>Supervisory board members</b>                          |                                     |                                                                |                    |                                                                                              |                   |                                              |
| Hervé Brailly                                             | 1,024,784                           |                                                                | 1,024,784          | 450,000                                                                                      | 1,474,784         | 2.42%                                        |
| Gilles Brisson                                            | 48,059                              |                                                                | 48,059             | 50,000                                                                                       | 98,059            | 0.16%                                        |
| Patrick Langlois                                          | 4,141                               | 4,000                                                          | 8,141              | 7,000                                                                                        | 15,141            | 0.02%                                        |
| Novo Nordisk                                              | 8,908,456                           |                                                                | 8,908,456          | 0                                                                                            | 8,908,456         | 14.59%                                       |
| Irina Staatz Granzer                                      | 100                                 |                                                                | 100                | 45,000                                                                                       | 45,100            | 0.07%                                        |
| Véronique Chabernaud                                      | 10                                  |                                                                | 10                 | 24,200                                                                                       | 24,210            | 0.04%                                        |
| Bpifrance Participations                                  | 4,396,682                           |                                                                | 4,396,682          | 0                                                                                            | 4,396,682         | 7.20%                                        |
| Jean-Yves Blay                                            | 0                                   |                                                                | 0                  | 0                                                                                            | 0                 | 0.00%                                        |
| <b>Executive committee members</b>                        |                                     |                                                                |                    |                                                                                              |                   |                                              |
| Jérôme Tiollier                                           | 130,982                             |                                                                | 130,982            | 92,385                                                                                       | 223,367           | 0.37%                                        |
| Pierre Dodion                                             | 372                                 |                                                                | 372                | 107,000                                                                                      | 107,372           | 0.18%                                        |
| Laure Hélène Mercier                                      | 6,076                               |                                                                | 6,076              | 146,736                                                                                      | 152,812           | 0.25%                                        |
| <b>TOTAL</b>                                              | <b>14,574,599</b>                   |                                                                | <b>14,574,599</b>  | <b>1,970,679</b>                                                                             | <b>16,549,278</b> | <b>27.10%</b>                                |
| <b>Other shareholders</b>                                 | <b>43,025,501</b>                   |                                                                | <b>43,025,501</b>  | <b>1,488,072</b>                                                                             | <b>44,509,573</b> | <b>72.90%</b>                                |
| <b>TOTAL</b>                                              | <b>57,600,100</b>                   |                                                                | <b>57,600,100</b>  | <b>3,458,751</b>                                                                             | <b>61,058,851</b> | <b>100.00%</b>                               |

(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.

## 2.4. EMPLOYEES

### 2.4.1. Employee shareholding

No equity instrument was attributed to the employees during the 2017 fiscal year.

However, the Executive board of April 3, 2018, authorized in 2017 by the Supervisory board upon recommendation of the Compensation and nomination committee, attributed the following equity instruments, which were voted by the Annual General Meeting held on June 23, 2017:

| Date of the Executive board | Nature of the instrument | Total number of instruments subscribed |
|-----------------------------|--------------------------|----------------------------------------|
| 04/03/2018                  | AGAP 2017-1 Employees    | 5,725 <sup>(1)</sup>                   |
| 04/03/2018                  | AGA 2017-1 Employees     | 114,500                                |

(1) For reminder, each AGAP (see definition in 2.1), gives right to a maximum of 100 ordinary shares depending on the achievement of performance criteria over a three-year period, as described under 4.3.3

The equity instruments attributed to the Executive board and Executive committee members are described under Table 8.

The Company's employees are or were, for most of them, beneficiaries of equity instruments such as stock options, free shares, warrants, redeemable warrants, AGA employees and/or AGAP Employees attributed 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 716,374 shares, representing 1.24% of the shares (of the undiluted share capital) issued on December 31, 2017.

### 2.4.2. Employee profit sharing

There is no profit-sharing agreement.

### 2.4.3. 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 investing 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.

## 2.5. INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURE

The internal control mechanism set up by the Company is 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 both the parent company, Innate Pharma, and its wholly-owned subsidiary, Innate Pharma Inc... Internal control procedures specific to each subsidiary may be put in place in the future, based on their specific operations and risks.

### 2.5.1. 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 into account the significant risks, whether operational, financial or compliance risks.

The internal control system aims at providing the Company with reasonable assurance that:

It is complying 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.

The Company's internal control process contributes to the management of the risk that the Company will not achieve the objectives that it has self-imposed. 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 applicable laws and regulations.

The Company's internal control process is nevertheless essentially based on human operation. Thus, while it provides a reasonable degree of assurance, it cannot provide an absolute guarantee that the risks the Company faces are fully controlled.

### 2.5.2. Company policy regarding internal control

The internal control policy is 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 supported the installation and retention of a quality system (certified ISO 9001) since 2005, a mechanism of internal control 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 highly exposed to various financial, legal, strategic and operational risks. Innate Pharma is therefore especially committed to identifying and controlling these risks and aims to be able to give its

shareholders an accurate view 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 considers its internal control mechanism to be 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 the relevant activity) and to internal control.

### 2.5.3. 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 Nomination committee and the Transaction committee are the key tools the Supervisory board has at its disposal in relation to internal control tasks.

Members of the Executive board, of the Executive committee, the intermediate management and the employees are the key players of the internal control process.

The Quality System and the Risk Management Mechanism are monitored by the Director of Quality & Compliance in collaboration with the Director of Accounting & Finance, for aspects related to internal control and financial risks. The Director of Accounting & 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.

### 2.5.4. Distribution of relevant information

#### 2.5.4.1. 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 inside information. A list of permanent insiders was drawn-up and a list of occasional "insiders" (who are party to certain inside information) is drawn-up whenever specific information is considered to be privileged.

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](http://www.innate-pharma.com).

#### 2.5.4.2. Internal communication

Internally, the Company has set up certain tools to distribute and share information.

Information regarding the Company's policies and objectives are discussed during an annual "strategic goals" meeting with all of the employees. The Executive committee members share information regarding the Company and their own field with their teams through various ad hoc forums.

On a monthly basis, Executive committee reviews 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.

### 2.5.5. 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 the internal control system and operational control. 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; and
- 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.

## 2.5.6. Control environment

### 2.5.6.1. Internal control procedures relating to operational processes

Since its inception, the Company has adopted a quality approach which led to the ISO 9001 certification in 2005 for its research and development activities in the field of immunotherapy medication. Since then, the certification has been renewed every year.

The Quality System is one of the major mechanism 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 and skills management;

- Research and development (pre-clinical and clinical);
- Pharmaceutical operations;
- Procurement;
- Animal facilities;
- Management of scientific equipment;
- Management of buildings and facilities; and
- 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).

### 2.5.6.2. 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 utilizes 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 the account's 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; and
- Responsibility for external financial communication is entrusted exclusively to the members of the Executive committee and to the 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 consultancy 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 consultancy contract, which terminated in June 2017.

Laure-Hélène Mercier was appointed to the Executive committee as EVP Finance in 2016.

The Company has a regular dialogue with its Statutory Auditors, its Audit committee and/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 controls.

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.

As part of the annual closing 2017, the accounting team has been strengthened with the arrival of a new person as accountant and a student as training contract.

#### 2.5.6.3. Internal control system in place

Through the yearly update of risk, which mapping enabled 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 has also been formalized.

### 2.5.7. 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 on the processes related to risk management and internal control. In addition, 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.

Despite the procedures and mechanisms stated previously, we identified during the 2017 period a significant deficiency of our internal control related to subcontracting clinical costs. This deficiency resulted from the use of two erroneous data in relation to a clinical study (date of the termination of the study and number of expected visits). Therefore, at the beginning of the year 2018, the Company modified its internal controls aiming to identify this type of issues in order to strengthen the appropriateness and effectiveness of its controls.

### 2.5.8. Summary of actions taken in 2017

During the year 2016, the Company:

- initiated a project of dematerialization and automation of data entries related to purchase invoices. This project was finalized during the year 2017 and the dedicated software is operational since September 2017.
- implemented a new functionality of the IP Center aiming at recording the staff's participation in 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. In 2017,

the scope of this functionality was widened to general travels (non-scientific congress, board meetings, international supplier visits, FDA visits, etc.)

In addition to this, in 2017, the Company initiated a work aiming to migrate the functionality of IP Center named « Clinique » into web format. Furthermore, a recovery test was implemented in order to ensure third parties would be able to solve issues related to IP Center (in case of unforeseen unavailability of our usual provider).

Finally, the Company drew up an Audit committee charter that should be approved in March 2018.

### 2.5.9. 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.

### 2.5.10. 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 to be satisfactory.

The manner in which 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 various sub-committees.

The quality system, the internal control system as well as the meetings of the Executive board and of the Executive

2.6 STATUTORY AUDITORS' REPORT ON THE REPORT PREPARED BY THE CHAIRMAN OF THE SUPERVISORY BOARD OF INNATE PHARMA

committee enables the Company to monitor and control its risks appropriately as they result from the macro risk. 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

map.

market practices in order to maintain an appropriate standard in this area.

Regarding the financial risks related to the climate change, the Company did not identify a significant risk likely to have an impact on its activities.

## 2.6. STATUTORY AUDITORS' REPORT ON THE REPORT PREPARED BY THE CHAIRMAN OF THE SUPERVISORY BOARD OF INNATE PHARMA

The findings on the verifications made by the auditors on the Governance report are included into the Auditor's report on the annual accounts published on the Company's internet website;

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## 3.1. MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL SITUATION

Innate Pharma S.A. is a clinical-stage biotechnology company dedicated to improving cancer treatment and clinical outcomes for patients through first-in-class therapeutic antibodies that harness the innate immunity.

Innate Pharma specializes in immuno-oncology, 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.

The Company's broad pipeline includes four first-in-class clinical stage antibodies as well as preclinical candidates and technologies that have the potential to address a broad range of cancer indications with high unmet medical needs.

Innate Pharma has pioneered the discovery and development of checkpoint inhibitors, with a unique expertise and understanding of Natural Killer cell biology. This innovative approach has resulted in major alliances with leaders in the biopharmaceutical industry including AstraZeneca, Bristol-Myers Squibb, Novo Nordisk A/S and Sanofi. Innate Pharma is building the foundations to become a fully-integrated biopharmaceutical company. Over the short-term, the Company's potential clients are actors from the pharmaceutical industry, via development or license agreements. Over the long-term, the Company may be able to deliver itself its products to patients or through the intermediary of partners.

As of December 31, 2017, Innate Pharma SA fully owns a 100% participation into Innate Pharma, Inc.

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, 2017 were approved by the Executive board on March 6, 2018 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, 2016 and 2017 is included in the management report ("Rapport de gestion") from the Executive board presented to the General meeting of shareholders on May 29, 2018 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, 2017 were approved by the Executive board on March 6, 2018 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, 2017, 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 €65.7 million and €44.0 million for the fiscal years ended December 31, 2016 and 2017, from the following sources:

| Year ended December 31 (in thousand euros)          | 2017          | 2016          |
|-----------------------------------------------------|---------------|---------------|
| Revenue from collaboration and licensing agreements | 32,631        | 56,159        |
| Government financing for research expenditures      | 11,402        | 9,561         |
| <b>Revenue and other income</b>                     | <b>44,033</b> | <b>65,721</b> |

##### Revenue from collaboration and licensing agreements

Revenue from collaboration and licensing agreements amounted to €32.6 and €56.2 million for the fiscal years ended December 31, 2017 and 2016, respectively. These revenues mainly result from the agreements signed with 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. €0.4 million for the fiscal year 2016. This payment was entirely recognized in revenue as of June 30, 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 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. The related milestone payment was collected in January 2017 generating an exchange gain of €0.3 million.

#### **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 2017 amounts to €32.3 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. As of December 31, 2017, the amount not yet in revenue amounts to €134.9 million (€47.9 million as "Deferred revenue - Current portion" and €87.0 million as "Deferred revenue - Non-current portion").

#### Government funding for research expenditures

The table below details government financing for research expenditure for the fiscal years ended December 31, 2016 and 2017:

| Year ended December 31 (in thousand euros)            | 2017          | 2016         |
|-------------------------------------------------------|---------------|--------------|
| Research tax credit                                   | 11,041        | 9,082        |
| French and foreign public grants                      | 361           | 479          |
| <b>Government financing for research expenditures</b> | <b>11,402</b> | <b>9,561</b> |

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, 2016 and 2017:

| Year ended December 31 (in thousand euros)               | 2017            | 2016          |
|----------------------------------------------------------|-----------------|---------------|
| R&D expenses eligible for the research tax credit        | 37,075          | 30,203        |
| Grants received, net                                     | (334)           | -             |
| <b>Net expenses eligible for the research tax credit</b> | <b>(36,741)</b> | <b>30,203</b> |

Net expenses eligible for the research tax credit increased by 23% compared to the fiscal year 2016 whilst the R&D expenses increased by 38%. 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 2017, the rise of the eligible expenses mainly results from the increase of the amortization expense relating to the anti-NKG2A intangible asset. The inclusion of this amortization expense for the calculation of the research tax credit results from the decision of the Administrative appeal court of Bordeaux

to include this type 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 criteria 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). For the fiscal year 2017, the Company did not exceed these criteria and is able to continue to benefit of this status and related advantages and in particular the early tax credit reimbursement

During the fiscal years 2016 and 2017, the income resulting from grants relates to an European grant in the

context of the FP-7 Program 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, 2016 and 2017:

| Year ended December 31 (in thousand euros) | 2017            | 2016            |
|--------------------------------------------|-----------------|-----------------|
| Research and development expenses          | (67,000)        | (48,628)        |
| General and administrative expenses        | (17,015)        | (9,522)         |
| <b>Net operating expenses</b>              | <b>(84,015)</b> | <b>(58,150)</b> |

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 €48.6 million and €67.0 million for the fiscal years ended December 31, 2016 and 2017, respectively representing 84% and 80% of net operating expenses. The rise in R&D expenses between 2016 and 2017 mainly results from an increase in 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 €9.5 and €17.0 million for the fiscal years ended December 31, 2016 and 2017, respectively representing 16% and 20% of the net operating expenses. This increase mainly results from the increase in staff costs (in particular due to the IFRS 2 expenses related to share-based payments), in consulting fees in a context of the Company's structuring in a context of strong expansion and a provision for late payment related to the overdue payment of the withholding tax due for the acquisition of the antibody anti-NKG2A (monalizumab) in 2014 and 2016.

### 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, 2016 and 2017:

| Year ended December 31 (in thousand euros)           | 2017            | 2016            |
|------------------------------------------------------|-----------------|-----------------|
| Other purchases and external expenses                | (47,609)        | (36,022)        |
| Employee benefit other than share-based compensation | (15,163)        | (12,796)        |
| Share-based compensation                             | (9,985)         | (1,032)         |
| Depreciation and amortization                        | (4,396)         | (3,263)         |
| Cost of supplies and consumable materials            | (4,287)         | (2,852)         |
| Intellectual property expenses                       | (1,499)         | (1,235)         |
| Other income and (expenses), net                     | (1,076)         | (950)           |
| <b>Net operating expenses</b>                        | <b>(84,015)</b> | <b>(58,150)</b> |

Cost of supplies and consumable materials

The cost of supplies and consumable materials amounted to €2.9 million and €4.3 million for the fiscal years ended December 31, 2016 and 2017, respectively. The increase in

this line item results from the growth in purchases used in the Company's laboratories, which is mainly due to the staff growth.

Intellectual property expenses

Intellectual property expenses amounted to €1.2 million for the fiscal year ended December 31, 2016 and €1.5 million for the fiscal year 2017.

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 €36.0 million and €47.6 million during the fiscal years ended December 31, 2016 and 2017, respectively, broken down as follows:

| Year ended December 31 (in thousand euros)    | 2017            | 2016            |
|-----------------------------------------------|-----------------|-----------------|
| Sub-contracting                               | (37,996)        | (28,329)        |
| Non-scientific consultancy                    | (4,357)         | (3,371)         |
| Leases, maintenance and utility               | (1,781)         | (1,418)         |
| Travel and conference costs                   | (1,294)         | (1,223)         |
| Scientific consultancy and services           | (845)           | (585)           |
| Marketing, communication and public relations | (649)           | (508)           |
| Attendance fees                               | (205)           | (200)           |
| Insurance                                     | (169)           | (140)           |
| Others                                        | (313)           | (248)           |
| <b>Other purchases and external expenses</b>  | <b>(47,609)</b> | <b>(36,022)</b> |

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 2016 and 2017 mainly results from consulting 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 €12.8 million and €15.2 million for the fiscal years ended December 31, 2016 and 2017, respectively.

This includes salaries and social benefit costs. On average, Innate Pharma had 133 employees during the fiscal year ended December 31, 2016 and 171 employees during the fiscal year ended December 31, 2017.

The proportion of total staff, excluding Executive committee members, allocated to R&D operations was 77% and 80% for the fiscal years ended December 31, 2016 and 2017 respectively.

The average amount of staff costs per employee was €96 and €88 thousand for fiscal years ended December 31, 2016 and 2017 respectively.

#### Share-based compensation

Share-based compensation amounted to €1.0 million for the fiscal years ended December 31, 2016 and €10.0 million for 2016 and 2017, respectively.

In accordance with IFRS 2, these costs correspond to the fair value of the equity instruments allocated to directors and employees.

The cost recognized in 2017 results from the issuance in 2016 of free shares and free preferred shares including a condition requiring presence and from warrants issued in 2017.

#### Depreciation and amortization

Depreciation and amortization amounted €3.3 and €4.4 million for the fiscal years ended December 31, 2016 and 2017, 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 and €3.0 million for fiscal year 2017.

#### Other income and expenses, net

This item represented a net expense that amounted to €1.0 million and €1.1 million for the fiscal years ended December 31, 2016 and 2017, respectively.

## 3.1.1.1.4. Breakdown of net income (loss)

| Year ended December 31 (in thousand euros) | 2017            | 2016          |
|--------------------------------------------|-----------------|---------------|
| Revenue and other income                   | 44,033          | 65,721        |
| Net operating expenses                     | (84,015)        | (58,150)      |
| <b>Operating income (loss)</b>             | <b>(39,983)</b> | <b>7,571</b>  |
| Financial income (expense), net            | (8,034)         | 5,370         |
| <b>Net income (loss) before tax</b>        | <b>(48,016)</b> | <b>12,941</b> |
| Income tax expense                         | (368)           | (301)         |
| <b>Net income (loss)</b>                   | <b>(48,385)</b> | <b>12,640</b> |
| (in € per share)                           |                 |               |
| – basic                                    | (0.89)          | 0.23          |
| – diluted                                  | (0.89)          | 0.23          |

## 3.1.1.1.5. Net financial income

The net financial result amounted respectively to a €5.4 million income for the fiscal year ended December 31, 2016 and a net financial loss amounting to €8.0 million for the fiscal year ended December 31, 2017,

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 (2.3% as of December 31, 2017) includes some financial instruments presenting a level of risk, which is considered as very low. In Particular, the Company held an

investment which risk is the credit risk of the Company Morgan Stanley. The Company estimated the credit risk related to the issuer of this investment and concluded that is not necessary to record an allowance.

The balance of cash, cash equivalents and short term investments was €197.7 million and €116.1 million for the fiscal years ended December 31, 2016 and 2017, respectively. In addition, the Company held €33.0 million and €60.5 million of non-current financial assets at December 31, 2016 and 2017, respectively. This decrease in our cash position resulted from the financing of our activities and especially our R&D expenses.

## 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 concluded that it was subject to the regime of capital gains income from intellectual property and therefore benefits from the reduced 15% tax rate. During the fiscal year 2017, the Company finally concluded that, this regime shall not apply and recorded an additional tax

expense amounting to €368 thousand which refers the difference between the standard tax rate of 33% and the 15% tax rate.

In addition, 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 result per authorized and issued share came to a €0.23 gain per share and a €0.88 loss per share for the

fiscal years ended December 31, 2016 and 2017, 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. This upfront payment allows the Company to have a high risk hedging to cover the risk of foreign exchange (EUR/USD). Holding a US Dollars portfolio impacts the financial statements as it generates significant foreign exchange gains or losses in the profit & loss.

Our policy does not include the use of hedging instruments.

### 3.1.3. Post balance sheet events

On January 30, 2018, the Company announced that it has entered into a clinical collaboration with Medimmune, the global biologics research and development arm of AstraZeneca. The Phase I/II (STELLAR-001) will evaluate the

safety and efficacy of durvalumab, an anti-PD-L1 immune checkpoint inhibitor, in combination with Innate's investigational anti-C5aR monoclonal antibody, IPH5401, as a treatment for patients with selected 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 €116.1 million as of December 31, 2017, compared with €197.7 million as of December 31, 2016. 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 (€60.5 thousand and €33.0 thousand as of 31 December

2017 and 2016 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, 2017:

| <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         |
| <b>Total</b>  | <b>177.8 million euros</b> |

### 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 €400 thousand as of December 31, 2017, of which €158 thousand in short term liabilities and €242 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. As of December 31, 2017, the financial liabilities related to the future payments to Sogébail for the financing of these refurbishing works amounted to €1,276 thousand (excluding VAT), and were presented by the Company for respectively €507 thousand and

€769 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 €386 thousand at December 31, 2017, of which €152 thousand are repayable in the short term and €234 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 €563 thousand as of December 31, 2017, of which €229 thousand in the short term and €334 thousand in the long term.

The following table shows the simplified schedule of repayment for these financial liabilities (principal only) at December 31, 2017:

| <b>Schedule of repayment of financial liabilities</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>Total</b> |
|-------------------------------------------------------|-------------|-------------|-------------|--------------|
| Lease-financing – Real estate transaction 2008        | 665         | 696         | 315         | 1,676        |
| Down-payment – Real estate transaction 2008           | (153)       | (160)       | (73)        | (386)        |
| Lease-financing – Building equipments 2016            | 229         | 231         | 103         | 565          |
| <b>Total</b>                                          | <b>741</b>  | <b>767</b>  | <b>345</b>  | <b>1,853</b> |

#### Real-estate loan

As of July 17, 2017, the Company took out a loan amounting to €15.2 million in order to finance the acquisition of a land and the construction of its future

headquarters. As of December 31, 2017, the Company raised this loan to €1.3 million.

#### Other financial liabilities

During the fiscal year 2016 and 2017, the Company also uses lease-financing and bank loans to finance the acquisition of laboratory equipment and to set up new

laboratories. The debt related to these loans amounts to €1.6 million as of December 31, 2017.

### 3.2.1.3. Off-balance-sheet commitments

The Company's off-balance-sheet commitments are described in Note 17 to its 2017 Consolidated Accounts.

## 3.2.2. Cash flows

See the cash flow tables in 1.1 of this reference document.

### 3.2.2.1. Cash flows from operating activities

The net cash flow used in operations amounts to €36.9 million and €48.1 million for the respected fiscal years 2016 and 2017. This downgrading of our cash position in

resulted from the financing of our activities and especially our R&D expenses

### 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 €2.4 and €1.6 million for the fiscal years ended December 31, 2017 and 2016, respectively. This investment amounting to €2.4 million were financed through a loan of €0.5 million. The Company renews some of its existing laboratory equipment and acquires new equipment every year.

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 amounting to €2.0 million and partly in shares amounting to €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.

In July 2017, the Company acquired a Company named NN C5aR for the purpose of acquiring the exclusive development and commercial rights and proceeds relating to the anti-C5aR antibody. The terms of the agreement provide for an upfront payment of €40m, of which €37.2m were paid in the form of new shares in the Company and €2.8m were paid in cash.

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 2017 Consolidated accounts that are in section 1.1). 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, 2016 and 2017 mainly results from the reimbursement of the lease-financing transactions relating to real estate and equipment and the subscription of loans following the acquisition of R&D

equipment and the project of construction of the future headquarters. During the fiscal year 2017, the Company collected a total amount of €0.5 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 2017 Consolidated accounts, section 1.1 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 Sogébail, 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 2017 Consolidated accounts, section 1.1.

#### 3.2.5.1. Expenses and investments

The Company expects having to repay between 2018 and 2021 a total of €1.1 million in repayable loans Bpifrance.

#### 3.2.5.2. Financial resources

In addition to cash, cash equivalents and current financial assets as of December 31, 2017, amounting to €116.1 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 €60.5 million (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, 2016 with corresponding reports from the statutory auditors, including in sections 3.3.1 and 3.3.2 of the Reference document D.17-0282 registered with the AMF on March 31, 2017.
- 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 March 31, 2016.
- 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 April 25, 2016 (D.16-0397) and March 31, 2017 (D.17-0282).



**3.3.1. Consolidated financial statements prepared under International Financial Reporting Standards as of December 31, 2017**

International Financial Reporting Standards

**Statement of financial position  
(in thousand euros)**

|                                                                                 |             | <b>As of December 31,</b> |                |
|---------------------------------------------------------------------------------|-------------|---------------------------|----------------|
|                                                                                 | <b>Note</b> | <b>2017</b>               | <b>2016</b>    |
| <b>Assets</b>                                                                   |             |                           |                |
| Cash and cash equivalents                                                       | 4           | 99,367                    | 175,906        |
| Short term investments                                                          | 4           | 16,743                    | 21,782         |
| Current receivables                                                             | 5           | 21,412                    | 32,390         |
| <b>Total current assets</b>                                                     |             | <b>137,521</b>            | <b>230,078</b> |
| Intangible assets                                                               | 6           | 46,192                    | 9,075          |
| Tangible assets                                                                 | 7           | 10,729                    | 9,094          |
| Non-current financial assets                                                    | 4           | 60,469                    | 32,975         |
| Other non-current assets                                                        |             | 111                       | 355            |
| <b>Total non-current assets</b>                                                 |             | <b>117,501</b>            | <b>51,499</b>  |
| <b>Total assets</b>                                                             |             | <b>255,023</b>            | <b>281,577</b> |
| <b>Liabilities</b>                                                              |             |                           |                |
| Trade payables                                                                  | 8           | 24,657                    | 20,265         |
| Financial liabilities – current portion                                         | 9           | 1,343                     | 1,264          |
| Deferred revenue – current portion                                              | 13          | 47,909                    | 54,912         |
| <b>Total current liabilities</b>                                                |             | <b>73,909</b>             | <b>76,441</b>  |
| Financial liabilities – non-current portion                                     | 9           | 4,521                     | 4,063          |
| Defined benefit obligations                                                     | 10          | 2,621                     | 2,418          |
| Deferred revenue – non-current portion                                          | 13          | 87,005                    | 112,348        |
| Provisions                                                                      | 17          | 1,012                     | 136            |
| <b>Total non-current liabilities</b>                                            |             | <b>95,158</b>             | <b>118,965</b> |
| Share capital                                                                   | 11          | 2,880                     | 2,696          |
| Share premium                                                                   |             | 234,874                   | 187,571        |
| Retained earnings                                                               |             | (103,595)                 | (116,235)      |
| Net income (loss)                                                               |             | (48,385)                  | 12,640         |
| Other reserves                                                                  |             | 180                       | (503)          |
| <b>Total shareholders' equity attributable to equity holders of the Company</b> |             | <b>85,956</b>             | <b>86,169</b>  |
| <b>Total liabilities and equity</b>                                             |             | <b>255,023</b>            | <b>281,577</b> |

**Statement of income (loss)**  
**(in thousand euros)**

|                                                                                   |      | Year ended December 31, |                 |
|-----------------------------------------------------------------------------------|------|-------------------------|-----------------|
|                                                                                   | Note | 2017                    | 2016            |
| Revenue from collaboration and licensing agreements                               | 13   | 32,631                  | 56,159          |
| Government financing for research expenditures                                    | 13   | 11,402                  | 9,561           |
| <b>Revenue and other income</b>                                                   |      | <b>44,033</b>           | <b>65 721</b>   |
| Research and development                                                          | 14   | (67,000)                | (48,628)        |
| General and administrative                                                        | 14   | (17,015)                | (9,522)         |
| <b>Net operating expenses</b>                                                     |      | <b>(84,015)</b>         | <b>(58,150)</b> |
| <b>Operating income (loss)</b>                                                    |      | <b>(39,983)</b>         | <b>7,571</b>    |
| Financial income                                                                  | 15   | 2,501                   | 7,327           |
| Financial expenses                                                                | 15   | (10,535)                | (1,957)         |
| <b>Net income (loss) before tax</b>                                               |      | <b>(48,016)</b>         | <b>12,941</b>   |
| Income tax expense                                                                | 16   | (368)                   | (301)           |
| <b>Net income (loss)</b>                                                          |      | <b>(48,385)</b>         | <b>12,640</b>   |
| <b>Net income (loss) per share attributable to equity holders of the Company:</b> |      |                         |                 |
| Weighted average number of shares (in thousand):                                  |      | 54,352                  | 53,869          |
| (in € per share)                                                                  |      |                         |                 |
| – Basic loss per share                                                            | 19   | (0.89)                  | 0.23            |
| – Diluted loss per share                                                          | 19   | (0.89)                  | 0.23            |

**Statement of comprehensive income (loss)**  
**(in thousand euros)**

| In thousand euros                                                                          | Note | Year ended December 31, |               |
|--------------------------------------------------------------------------------------------|------|-------------------------|---------------|
|                                                                                            |      | 2017                    | 2016          |
| <b>Net loss for the period</b>                                                             |      | <b>(48,385)</b>         | <b>12,640</b> |
| <i>Elements which will be recycled in the consolidated statement of income (loss):</i>     |      |                         |               |
| Change in fair value of current financial instruments                                      | 4    | 437                     | 315           |
| Foreign currency translation gain / (loss)                                                 |      | 68                      | (18)          |
| <i>Elements which will not be recycled in the consolidated statement of income (loss):</i> |      |                         |               |
| Actuarial gains and (losses) related to employee benefits                                  | 10   | 178                     | (69)          |
| <b>Other comprehensive income (loss)</b>                                                   |      | <b>683</b>              | <b>228</b>    |
| <b>Comprehensive income (loss)</b>                                                         |      | <b>(47,702)</b>         | <b>12,868</b> |

**Statement of cash flows**  
(in thousand euros)

|                                                                 |          | Year ended December 31, |                 |
|-----------------------------------------------------------------|----------|-------------------------|-----------------|
|                                                                 | Notes    | 2017                    | 2016            |
| <b>Net income (loss)</b>                                        |          | <b>(48,385)</b>         | <b>12,640</b>   |
| Depreciation and amortization                                   | 6, 7     | 4,393                   | 3,263           |
| Provisions for defined benefit obligations                      | 10       | 381                     | 609             |
| Provisions for charges                                          | 14       | 877                     | 136             |
| Share-based compensation expense                                | 14       | 9,829                   | 1,031           |
| Change in valuation allowance on financial assets               |          | (26)                    | (826)           |
| Gains (losses) on financial assets                              |          | 3,381                   | (834)           |
| Change in valuation allowance on financial instruments          |          | (204)                   | (183)           |
| Gains on assets and other financial assets                      | 15       | (1,442)                 | (1,699)         |
| Interest paid                                                   | 15       | 113                     | 124             |
| Others                                                          |          | –                       | (324)           |
| <b>Operating cash flow before change in working capital</b>     |          | <b>(31,080)</b>         | <b>13,937</b>   |
| Change in working capital <sup>(1)</sup>                        |          | (16,980)                | (50,788)        |
| <b>Net cash generated from / (used in) operating activities</b> |          | <b>(48,060)</b>         | <b>(36,851)</b> |
| Acquisition of property and equipment                           |          | (2,694)                 | (1,350)         |
| Acquisition of intangible assets                                |          | (3,062)                 | (8,043)         |
| Purchase of current financial instruments                       | 4        | (2,543)                 | (16,629)        |
| Purchase of non-current financial instruments                   | 4        | (40,729)                | (1,525)         |
| Disposal of current financial instruments                       |          | 5,646                   | 78,565          |
| Disposal of non-current financial instruments                   | 4        | 12,750                  | 7,793           |
| Gains on assets and other financial assets                      | 15       | 1,442                   | 1,699           |
| <b>Net cash generated from / (used in) investing activities</b> |          | <b>(29,460)</b>         | <b>60,510</b>   |
| Proceeds from the exercise / subscription of equity instrument  | 11       | 491                     | 193             |
| Collection of new loans                                         | 9        | 1,739                   | –               |
| Repayment of financial liabilities                              | 9        | (1,202)                 | (685)           |
| Interest paid                                                   | 15       | (113)                   | (124)           |
| Purchase/sale of treasury shares                                |          | –                       | 14              |
| <b>Net cash generated from / (used in) financing activities</b> |          | <b>915</b>              | <b>(602)</b>    |
| Effect of the exchange rate changes                             |          | 68                      | (23)            |
| <b>Net increase / (decrease) in cash and cash equivalents</b>   |          | <b>(76,539)</b>         | <b>23,036</b>   |
| Cash and cash equivalents at the beginning of the year          | 4        | 175,906                 | 152,870         |
| <b>Cash and cash equivalents at the end of the year</b>         | <b>4</b> | <b>99,367</b>           | <b>175,906</b>  |

### 3.3 INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

International Financial Reporting Standards

| Change in working capital           | Note | 2017             | 2016             | Variance        |
|-------------------------------------|------|------------------|------------------|-----------------|
| Current receivables and prepayments | 5    | 21,412           | 32,390           | 10,978          |
| Deferred revenue                    | 13   | (134,914)        | (167,261)        | (32,356)        |
| Trade payables                      | 8    | (24,583)         | (20,195)         | 4,388           |
| <b>Change in working capital</b>    |      | <b>(138,085)</b> | <b>(155,066)</b> | <b>(16,980)</b> |

| 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           |
| <b>Change in working capital</b>    |      | <b>(155,066)</b> | <b>(205,854)</b> | <b>(50,788)</b> |

**Statement of changes in shareholders' equity  
(in thousand euros)**

|                                                                                                                 | Note | Number of<br>shares (in<br>thousand) | Share<br>capital | Share<br>premium | Consolidated<br>reserves | Net loss        | Other<br>comprehensive<br>income | Total attributable<br>to equity holders<br>of the Company |
|-----------------------------------------------------------------------------------------------------------------|------|--------------------------------------|------------------|------------------|--------------------------|-----------------|----------------------------------|-----------------------------------------------------------|
| <b>Balance as of December 31, 2015</b>                                                                          |      | <b>53,834</b>                        | <b>2,692</b>     | <b>186,337</b>   | <b>(109,525)</b>         | <b>(6,706)</b>  | <b>(730)</b>                     | <b>72,067</b>                                             |
| Net income for the year ended<br>December 31, 2016                                                              |      | –                                    | –                | –                | –                        | 12,640          | –                                | 12,640                                                    |
| Change in fair value of marketable<br>securities available for sale                                             | 4    | –                                    | –                | –                | –                        | –               | 315                              | 315                                                       |
| Actuarial gains and (losses) on defined<br>benefit obligations                                                  | 10   | –                                    | –                | –                | –                        | –               | (69)                             | (69)                                                      |
| Foreign currency exchange variation                                                                             |      | –                                    | –                | –                | –                        | –               | (18)                             | (18)                                                      |
| <b>Total comprehensive income for the year</b>                                                                  |      | <b>–</b>                             | <b>–</b>         | <b>–</b>         | <b>–</b>                 | <b>12,640</b>   | <b>228</b>                       | <b>12,868</b>                                             |
| Net loss appropriation for the year<br>ended December 31, 2015                                                  |      | –                                    | –                | –                | (6,706)                  | 6,706           | –                                | –                                                         |
| Exercise and subscription of equity<br>instruments                                                              |      | 87                                   | 4                | 189              | –                        | –               | –                                | 193                                                       |
| Share-based payment                                                                                             | 11   | –                                    | –                | 1,032            | –                        | –               | –                                | 1,032                                                     |
| Treasury shares subject to the liquidity<br>agreement                                                           | 15   | –                                    | –                | 14               | –                        | –               | –                                | 14                                                        |
| Others                                                                                                          |      | –                                    | –                | –                | (4)                      | –               | –                                | (4)                                                       |
| <b>Total contributions by and<br/>distributions to owners of the<br/>Company, recognized directly in equity</b> |      | <b>87</b>                            | <b>4</b>         | <b>1,234</b>     | <b>(6,710)</b>           | <b>6,706</b>    | <b>–</b>                         | <b>1,234</b>                                              |
| <b>Balance as of December 31, 2016</b>                                                                          |      | <b>53,921</b>                        | <b>2,696</b>     | <b>187,571</b>   | <b>(116,235)</b>         | <b>12,640</b>   | <b>(503)</b>                     | <b>86,169</b>                                             |
| Net income for the year ended<br>December 31, 2017                                                              |      | –                                    | –                | –                | –                        | (48,385)        | –                                | (48,385)                                                  |
| Change in fair value of marketable<br>securities available for sale                                             | 4    | –                                    | –                | –                | –                        | –               | 437                              | 437                                                       |
| Actuarial gains and (losses) on defined<br>benefit obligations                                                  | 10   | –                                    | –                | –                | –                        | –               | 178                              | 178                                                       |
| Foreign currency exchange variation                                                                             |      | –                                    | –                | –                | –                        | –               | 68                               | 68                                                        |
| <b>Total comprehensive income for the year</b>                                                                  |      | <b>–</b>                             | <b>–</b>         | <b>–</b>         | <b>–</b>                 | <b>(48,385)</b> | <b>683</b>                       | <b>(47,702)</b>                                           |
| Net loss appropriation for the year<br>ended December 31, 2016                                                  |      | –                                    | –                | –                | 12,640                   | (12,640)        | –                                | –                                                         |
| Exercise and subscription of equity<br>instruments                                                              |      | 342                                  | 17               | 474              | –                        | –               | –                                | 491                                                       |
| Share-based payment in the context of<br>the acquisition of C5aR                                                | 6    | 3,344                                | 167              | 36,999           | –                        | –               | –                                | 37,166                                                    |
| Share-based payment                                                                                             | 11   | –                                    | –                | 9,829            | –                        | –               | –                                | 9,204                                                     |
| <b>Total contributions by and<br/>distributions to owners of the<br/>Company, recognized directly in equity</b> |      | <b>3,686</b>                         | <b>184</b>       | <b>47,302</b>    | <b>12,640</b>            | <b>(12,640)</b> | <b>–</b>                         | <b>47,486</b>                                             |
| <b>Balance as of December 31, 2017</b>                                                                          |      | <b>57,607</b>                        | <b>2,880</b>     | <b>234,874</b>   | <b>(103,595)</b>         | <b>(48,385)</b> | <b>180</b>                       | <b>85,956</b>                                             |

## Notes to the Consolidated Financial Statements

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## 1. The Company

Innate Pharma S.A. is a clinical-stage biotechnology company dedicated to improving cancer treatment and clinical outcomes for patients through first-in-class therapeutic antibodies that harness the innate immunity.

Innate Pharma specializes in immuno-oncology, 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.

The Company's broad pipeline includes four first-in-class clinical stage antibodies as well as preclinical candidates and technologies that have the potential to address a broad range of cancer indications with high unmet medical needs.

Innate Pharma has pioneered the discovery and development of checkpoint inhibitors, with a unique expertise and understanding of Natural Killer cell biology. This innovative approach has resulted in major alliances with leaders in the biopharmaceutical industry including AstraZeneca, Bristol-Myers Squibb, Novo Nordisk A/S and Sanofi. Innate Pharma is building the foundations to become a fully-integrated biopharmaceutical company. Over the short-term, the Company's potential clients are actors from the pharmaceutical industry, via development or license agreements. Over the long-term, the Company may be able to deliver itself its products to patients or through the intermediary of partners.

From its inception to the fiscal year ended December 31, 2015, the Company has incurred losses. The fiscal year ended December 31, 2016 was the first period for which the Company generated a net profit (€12.6 million), the fiscal year December 31, 2017 generating a €48.3 million loss. As of December 31, 2017, the shareholders' equity amounted to €85.9 million. Subject to perceive new

milestone payments related to its collaboration agreements, the Company anticipates incurring additional losses until such time, if ever, that it can generate significant revenue from its product candidates in development.

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, 2017, 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 7, 2018. They will be submitted for approval at the Shareholders' General Meeting scheduled on May 29, 2018, which has the ability to amend them.

#### Key events of the fiscal year ended December 31, 2017 having an impact on the financial statements

- 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.
- On June 2, 2017, the Company announced that it entered into an agreement with Novo Nordisk A/S granting Innate Pharma full worldwide exclusive rights to develop and commercialize a first-in-class clinical-stage anti-C5aR antibody (IPH5401). The terms of the transaction provide for a total upfront payment of €40.0m, of which €37.2m were paid in new Innate Pharma shares and €2.8m in cash. Novo Nordisk A/S will be eligible for €370.0m in development, regulatory and sales milestone payments. Novo Nordisk A/S will also be eligible for double digit royalties on net sales. After the issuance of the new Innate Pharma shares, the stake of Novo Nordisk A/S in Innate Pharma increased from 10.3% to 15.5%. As part of the agreement signed with Novo Nordisk as mentioned above, the Company has applied a withholding tax resulting from the absence of a tax treaty between France and Denmark.
- On July 3, 2017, the Company subscribed to a loan towards Société Générale in order to finance the

building of its future headquarters. The maximum amount of this loan will be €15.2m. The Company will use it over the period of the works according to the payments that will be made to the suppliers. This period will end on September 1, 2019. The reimbursement of the capital will begin on September 1, 2019 over a 12 year period. As a

counterpart of this loan, the Company subscribed to financial instruments towards Société Générale for an amount of €15.2m and granted a collateral on these instruments. The maturity date of these instruments is as follows: €4.2m as of July 2024, €5.0m as of July 2027 and €6.0m as of July 2031.

#### Key events of the fiscal year ended December 31, 2016 having an impact on the financial statements

- 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).

## **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, 2017 (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, 2017.

Comparative figures are presented for December 31, 2016.

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, 2017 are the following:

- Amendments to IAS 7 "Statement of cash flows – Disclosure initiative";
- Amendments to IAS 12 "Income taxes" to clarify the recognition of deferred tax assets for unrealized losses";
- Annual improvements of the cycle 2014–2016 (amendments to IFRS 12).

None of these amendments and interpretations has had an impact on the Consolidated Financial Statements as of December 31, 2017.

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 has completed the assessment of the impact of IFRS 9 on its financial instruments. The Company does not expect the adoption of IFRS 9 on its consolidated financial statements to be significant as of January 1, 2018. The adoption of IFRS 9 primarily impacts the measurement of available-for-sale investments (OPCVM) currently designated at fair value through other comprehensive income, which will have to be accounted for in profit and loss under IFRS 9.
- On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers and final clarifications to IFRS 15 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, 2018. The Company has performed an assessment of the impact of IFRS 15 on revenue derived from its material contracts (AstraZeneca and Sanofi). The impact which will be recognized in the 2018 financial statements is presented below.

- 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.
- 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.
- Amendments to IFRS 4 following the issuance of IFRS 9
- Amendments to IFRS 10 and IAS 28 Sales or contributions of assets between an investor and its associate/joint venture.
- Amendments to IAS 28 regarding "Long-term interests in associates and Joint-Ventures"
- Amendments to IAS 40 to clarify transfers of property to, or from, investment property.
- IFRIC 22 "Foreign currency transactions and advance consideration"
- IFRIC 23 "Uncertainty over income tax treatments"
- Annual improvements of the cycle 2014–2016 (amendments to IFRS 1 and IAS 28).

The Company has not early adopted the new accounting standards, amendments and interpretations.

Accounting policies and assessment principles adopted for the December 31, 2017 financial statements are identical to those adopted for the comparative year.

#### Financial impacts related to the application of the standard IFRS 15 « Revenue from contracts with Customers »

The standard IFRS 15 will have a significant impact on the recognition on the upfront received in 2015 as part of the licence agreement signed with AstraZeneca. The agreement signed with AstraZeneca includes, besides the USD 250 million initial upfront payment received by

Innate Pharma in June 2015, cash transactions between the parties related to their respective research commitments. According to the requirements of IFRS 15 related to amounts owed to customers, the Company concluded that USD70 million to be paid by

## 3.3 INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

## International Financial Reporting Standards

Innate Pharma to fund AstraZeneca research will be recognized as a reduction of revenue instead of subcontracting costs over the duration of the contract.

Amounts still owed to AstraZeneca as of the reporting date represent a liability which must be translated at the appropriate €/USD exchange rate with resulting exchange gains or losses recognized in profit and loss.

Furthermore, the difference of accounting treatment between French Gaap and IFRS will generate at each financial closing a deferred tax asset or liability. According to IAS 12, in the situation of a deferred tax

liability (which is the case for the first application of IFRS 15 as of January 1, 2018), if the Company has carryforwards tax losses, a deferred tax asset must be recognized for the amount of the deferred tax liability.

The Company decided to apply the retrospective method. The impact of the application of the new standard will be recognized in the 2018 financial statements under the opening shareholder's equity. The main impacts on the balance sheet are the following:

| In thousand euros                  | 2018 opening | IFRS 15 impact | Revised 2018 |
|------------------------------------|--------------|----------------|--------------|
| <b>BALANCE SHEET – LIABILITIES</b> |              |                |              |
| Retained earnings                  | (103,595)    | 16,629         | (86,966)     |
| Deferred tax liability             | –            | 3,924          | 3,924        |
| Deferred income                    | 134,914      | (58,850)       | 76,064       |
| Trade payables                     | 24,657       | 42,221         | 66,878       |
| <b>BALANCE SHEET – ASSETS</b>      |              |                |              |
| Deferred tax asset                 | –            | 3,924          | 3,924        |

### Estimate of the impact of the standards IFRS 9, 15 and 16

| Standards                           | Work progress                                                                                                                                  | Estimate of the impacts                                                                                                                                                                                                                                                                                                                                                                                          |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>IFRS 9</b> Financial instruments | The Company has completed the assessment of the impact of IFRS 9 on its financial instruments (especially the available-for-sale investments). | The only impact of IFRS 9 concerns the measurement of available-for-sale investments (OPCVM) currently designated at fair value through other comprehensive income, which will have to be accounted for in profit and loss under IFRS 9. Consequently, a €653 thousand reclassification will be implemented in the opening statement of financial position from the "Other reserves" to the "Retained earnings". |
| <b>IFRS 16</b> Lease                | The Company has identified various commitments expected to be recognized in the statement of financial position under IFRS 16.                 | The Company has completed its impact analysis of IFRS 16. The impact of IFRS 16 is not expected to be material. The items to be recognized in the statement of financial position are presently disclosed in Note 17 Commitments, contingencies and litigation (buildings, photocopyers and company cars). IFRS 16 will become effective as of January 1, 2019.                                                  |

### 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 |
|-----------------------------------------|----------------|

|                                       |               |
|---------------------------------------|---------------|
| 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.

##### 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.

**f) 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.

**g) Financial instruments**Classification 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.

### **h) 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.

### **i) 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 2016 during the year 2017. It has requested the reimbursement of the 2017 Research Tax Credit in 2018 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 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 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

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.

## j) 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 2.2% of the annual employee's wage, with the Company paying 1.4% 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.

#### k) Leases

##### Finance 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.

#### l) 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.

#### m) 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.

#### n) Revenue and other income

##### Revenue 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.

#### **o) 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.

#### **p) 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.

#### **q) 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.

#### r) 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.

#### s) 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 prorata temporis on the basis of the estimated duration of its involvement or over the completion of the engaged costs. In the first situation, the recognition of revenue depends on the estimate of the duration of the works. The durations are updated when necessary to take into account the progress of developments and the remaining services to be rendered. In the second situation, the recognition of revenue depends on the recognition of the costs.
- the measurement of the subcontracting costs relating to the clinical trial costs: the completion of the subcontracting costs related to clinical trials is based on to allocation keys: time, for the services defined as fixed and linear and the number of visits for services resulting from the recruitment rate. If the Company is not sponsor of the trial, the criteria "visits" is replaced by the criteria "patients". For each clinical trial, these allocation keys are applied

to the study's budget. This methodology involves two types of estimation: the budget, the timeline of the clinical trial (for the allocation key "time") and the total number of visits (or "patients") for the criteria "visit" or ("patient"). Both estimated data are defined by the Clinical operations department and validated by the Management Team.

- 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 €2,255 thousand and a seniority award accrual of €366 thousand as of December 31, 2017 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, 2017, cash and cash

equivalents amounted to €99.4 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.

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 and the borrowings subscribed in 2017 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 2.3% of portfolio is exposed to credit risk.

More precisely, the Company holds a debt instrument which have a risk related to the credit risk of the Company Morgan Stanley. 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, 2017. 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.

## CHAPTER 3 - FINANCIAL INFORMATION

### 3.3 INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

#### International Financial Reporting Standards

#### 4. Cash, cash equivalents and financial assets

(in thousand euros)

|                                                    | As of December 31, |                |
|----------------------------------------------------|--------------------|----------------|
|                                                    | 2017               | 2016           |
| Cash and cash equivalents                          | 99,367             | 175,906        |
| Short-term investments                             | 16,743             | 21,782         |
| Non-current financial assets                       | 60,469             | 32,975         |
| <b>Cash, cash equivalents and financial assets</b> | <b>176,578</b>     | <b>230,664</b> |

The variation of financial assets (current and non-current) for the fiscal years 2016 and 2017 are the following:

| (in thousand euros)           | December 31, 2016 | Acquisitions  | Disposals       | Variance of fair value through P&L | Variance of fair value through OCI | Variance of accrued interests | F/X variance   | December 31, 2017 |
|-------------------------------|-------------------|---------------|-----------------|------------------------------------|------------------------------------|-------------------------------|----------------|-------------------|
| Current                       | 21,782            | 2,543         | (5,646)         | –                                  | 188                                | (20)                          | (2,103)        | 16,744            |
| Non-current                   | 32,975            | 40,728        | (11,895)        | (41)                               | 259                                | 281                           | (1,840)        | 60,468            |
| <b>Total financial assets</b> | <b>54,757</b>     | <b>43,271</b> | <b>(17,541)</b> | <b>(41)</b>                        | <b>447</b>                         | <b>261</b>                    | <b>(3,943)</b> | <b>77,212</b>     |

| (in thousand euros)           | December 31, 2015 | Acquisitions  | Disposals       | Variance of fair value through P&L | Variance of fair value through OCI | Variance of accrued interests | F/X variance | December 31, 2016 |
|-------------------------------|-------------------|---------------|-----------------|------------------------------------|------------------------------------|-------------------------------|--------------|-------------------|
| Current                       | 83,040            | 16,629        | (78,565)        | 101                                | 123                                | (54)                          | 508          | 21,782            |
| Non-current                   | 37,794            | 1,504         | (7,803)         | 725                                | 192                                | 237                           | 326          | 32,975            |
| <b>Total financial assets</b> | <b>120,834</b>    | <b>18,133</b> | <b>(86,368)</b> | <b>826</b>                         | <b>315</b>                         | <b>183</b>                    | <b>834</b>   | <b>54,757</b>     |

#### 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, |                |
|----------------------------------|--------------------|----------------|
|                                  | 2017               | 2016           |
| Current accounts                 | 29,829             | 65,516         |
| Interest-bearing accounts        | 5,982              | 54,656         |
| Fixed-term accounts              | 65,556             | 55,735         |
| <b>Cash and cash equivalents</b> | <b>99,367</b>      | <b>175,906</b> |

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.

### 3.3 INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

International Financial Reporting Standards

#### Short term investments

| (in thousand euros)           | As of December 31, |               |
|-------------------------------|--------------------|---------------|
|                               | 2017               | 2016          |
| Commercial papers             | –                  | 5,810         |
| Mutual funds ("OPCVM")        | 16,743             | 15,972        |
| <b>Short term investments</b> | <b>16,743</b>      | <b>21,782</b> |

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, 2017, the Company owns shares of two mutual funds 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.

## CHAPTER 3 - FINANCIAL INFORMATION

### 3.3 INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

#### International Financial Reporting Standards

##### Non-current financial assets

| (in thousand euros)                     | As of December 31, |               |
|-----------------------------------------|--------------------|---------------|
|                                         | 2017               | 2016          |
| Mutual funds ("OPCVM")                  | 32,392             | 10,085        |
| Other non-current financial instruments | 24,433             | 16,608        |
| Medium-term notes                       | 1,598              | 4,748         |
| Other non-current financial assets      | 2,046              | 1,534         |
| <b>Non-current financial assets</b>     | <b>60,469</b>      | <b>32,975</b> |

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, 2017, 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, 2017 |               |                | As of December 31, 2016 |               |                |
|--------------------------------------------------------|-------------------------|---------------|----------------|-------------------------|---------------|----------------|
|                                                        | €                       | \$            | Total          | €                       | \$            | Total          |
| Cash and cash equivalents                              | 62,480                  | 36,887        | 99,367         | 133,707                 | 42,199        | 175,906        |
| Short term investments and other non-current financial | 54,751                  | 22,461        | 77,211         | 19,623                  | 35,134        | 54,757         |
| <b>Total</b>                                           | <b>117,231</b>          | <b>59,348</b> | <b>176,578</b> | <b>153,330</b>          | <b>77,333</b> | <b>230,664</b> |

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, |      |
|------------------------------------------------------------------------|--------------------|------|
|                                                                        | 2017               | 2016 |
| Change in fair value through profit or loss <sup>(1)</sup>             | (40)               | 824  |
| Change in fair value through other comprehensive income <sup>(2)</sup> | 437                | 315  |

(1) See Note 15 – this amount is an offset of €651 thousand of unrealized gains and €691 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, |               |
|----------------------------------------------------------------------|--------------------|---------------|
|                                                                      | 2017               | 2016          |
| Research Tax Credit and other tax credits (e.g. CICE) <sup>(1)</sup> | 11,273             | 8,925         |
| Prepaid expenses                                                     | 5,898              | 6,323         |
| VAT refund                                                           | 2,675              | 2,087         |
| Trade account receivables                                            | –                  | 14,230        |
| Prepayments made to suppliers                                        | 430                | 513           |
| Brokering/liquidity agreement – cash                                 | 730                | –             |
| Refund to be received (“CVAE”)                                       | 267                | –             |
| Other                                                                | 139                | 312           |
| <b>Receivables and other current assets</b>                          | <b>21,412</b>      | <b>32,390</b> |

(1) CICE (Crédit d'Impôt pour la Compétitivité et l'Emploi) is a tax credit to aid competitiveness and promote employment.

The Company received the reimbursement of the Research Tax Credit for the year 2016 during the year 2017. It has requested the reimbursement of the 2017 Research Tax Credit in 2018 under the European Community tax rules for small and medium firms in compliance with the

applicable regulation. The amount recognized as of December 31, 2017 in the statement of financial position primarily relates to the 2017 Research Tax Credit.

Changes in the Research Tax Credit over the last two periods are presented as follows (in thousand euros):

|                                |               |
|--------------------------------|---------------|
| <b>As of January 1, 2016</b>   | <b>7,035</b>  |
| Other operating income         | 9,061         |
| Payment received               | (7,035)       |
| <b>As of December 31, 2016</b> | <b>9,061</b>  |
| Other operating income         | 11,022        |
| Payment received               | (9,061)       |
| <b>As of December 31, 2017</b> | <b>11,022</b> |

The net book value of the receivables is considered to be a reasonable approximation of their estimated fair value. “Trade account receivables”, in 2016, relate to Bristol-Myers Squibb.

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<br>licenses | Other<br>intangible<br>assets | In Progress | Total         |
|-------------------------------------|-----------------------|-------------------------------|-------------|---------------|
| <b>Year ended December 31, 2016</b> |                       |                               |             |               |
| <b>Net opening balance</b>          | <b>9,732</b>          | <b>-</b>                      | <b>-</b>    | <b>9,732</b>  |
| Reclassification                    | 31                    | -                             | -           | 31            |
| Acquisitions                        | 1,665                 | 44                            | 9           | 1,718         |
| Disposals                           | -                     | -                             | -           | -             |
| Transfers                           | -                     | -                             | -           | -             |
| Depreciation                        | (2,406)               | -                             | -           | (2,406)       |
| <b>Net closing balance</b>          | <b>9,022</b>          | <b>44</b>                     | <b>9</b>    | <b>9,075</b>  |
| <b>Year ended December 31, 2017</b> |                       |                               |             |               |
| <b>Net opening balance</b>          | <b>9,022</b>          | <b>44</b>                     | <b>9</b>    | <b>9,075</b>  |
| Acquisitions                        | 40,000                | 227                           | -           | 40,227        |
| Disposals                           | -                     | -                             | -           | -             |
| Transfers                           | -                     | 9                             | (9)         | -             |
| Depreciation                        | (3,009)               | (101)                         | -           | (3,110)       |
| <b>Net closing balance</b>          | <b>46,013</b>         | <b>179</b>                    | <b>-</b>    | <b>46,192</b> |

### 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).

As of December 31, 2017, the net book value of the asset amounts to €4.5 million (€7.5 million as of December 31, 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

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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.

#### Rights acquired from Novo Nordisk A/S

On June 2, 2017, Innate Pharma announces that it enters into an agreement with Novo Nordisk A/S granting Innate Pharma full worldwide exclusive rights to develop and commercialize a first-in-class clinical-stage anti-C5aR antibody (IPH5401). The terms of the

transaction provide for a total upfront payment of €40m, of which €37.2m will be paid in new Innate Pharma shares and €2.8m in cash. This amount was recognized as intangible asset. This asset is not amortized and is part of an annual impairment test.

## 7. Tangible assets

|                                     | Land and<br>buildings <sup>(1)</sup> | Laboratory<br>equipments and other<br>tangible assets | In Progress | Total         |
|-------------------------------------|--------------------------------------|-------------------------------------------------------|-------------|---------------|
| <b>Year ended December 31, 2016</b> |                                      |                                                       |             |               |
| <b>Net opening balance</b>          | <b>4,197</b>                         | <b>1,940</b>                                          | <b>166</b>  | <b>6,304</b>  |
| Reclassification                    | –                                    | (14)                                                  | (17)        | (31)          |
| Acquisitions <sup>(2)</sup>         | –                                    | 3,649                                                 | 30          | 3,679         |
| Disposals                           | –                                    | (2)                                                   | –           | (2)           |
| Transfer                            | –                                    | 149                                                   | (149)       | –             |
| Depreciation                        | (297)                                | (560)                                                 | –           | (857)         |
| <b>Net closing balance</b>          | <b>3,900</b>                         | <b>5,164</b>                                          | <b>30</b>   | <b>9,094</b>  |
| <b>Year ended December 31, 2017</b> |                                      |                                                       |             |               |
| <b>Net opening balance</b>          | <b>3,900</b>                         | <b>5,164</b>                                          | <b>30</b>   | <b>9,094</b>  |
| Acquisitions                        | 491                                  | 2,446                                                 | 34          | 2,971         |
| Disposals                           | –                                    | (50)                                                  | –           | (50)          |
| Transfer                            | –                                    | 30                                                    | (30)        | –             |
| Depreciation                        | (297)                                | (987)                                                 | –           | (1,284)       |
| <b>Net closing balance</b>          | <b>4,093</b>                         | <b>6,602</b>                                          | <b>34</b>   | <b>10,729</b> |

(1) The Company owns two lands. The one on which stands the buildings purchased in 2008 (gross value 772 thousand euros), and a second one, adjacent to the first one, acquired in December 2017 (gross value 491 thousand euros). They are not amortized.

(2) Of which €930 thousand financed through loans (€ 491 thousand for the acquisition of the land and €439 thousand for the acquisition of R&D equipments).

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The table above includes the following tangible assets purchased through finance-lease agreements (in thousand euros):

|                                            | As of December 31, |              |
|--------------------------------------------|--------------------|--------------|
|                                            | 2017               | 2016         |
| Cost of land and building                  | 6,633              | 6,633        |
| Accumulated depreciation                   | (3,052)            | (2,761)      |
| <b>Net book value of land and building</b> | <b>3,581</b>       | <b>3,872</b> |
| Cost of the equipment                      | 3,675              | 3,675        |
| Accumulated depreciation                   | (1,771)            | (1,507)      |
| <b>Net book value of the equipment</b>     | <b>1,904</b>       | <b>2,168</b> |

## 8. Trade payables

This line item is analyzed as follows:

|                                         | As of December 31, |               |
|-----------------------------------------|--------------------|---------------|
| In thousand euros                       | 2017               | 2016          |
| Suppliers (except asset suppliers)      | 19,970             | 15,599        |
| Tax and social liabilities              | 4,404              | 4,391         |
| Other payables                          | 209                | 205           |
| <i>Operating trade payables</i>         | <i>24,583</i>      | <i>20,195</i> |
| Property, Plant and Equipment suppliers | 74                 | 70            |
| <b>Trade payables</b>                   | <b>24,657</b>      | <b>20,265</b> |

The book value of trade payables is considered to be a reasonable approximation of their fair value.

## 9. Financial liabilities

This line item was broken down per maturity and is analyzed as follows:

|                                                  | As of December 31, |              |                |              |
|--------------------------------------------------|--------------------|--------------|----------------|--------------|
| In thousand euros                                | 2016               | Collection   | Reimbursements | 2017         |
| BPI PTZI IPH41                                   | 1,425              | –            | (300)          | 1,125        |
| Lease finance obligations – Real estate property | 3,100              | –            | (861)          | 2,239        |
| Down-Payment                                     | (530)              | –            | 144            | (386)        |
| Lease finance obligations – Equipments           | 1,332              | –            | (172)          | 1,160        |
| Loans – Equipments                               | –                  | 439          | (13)           | 426          |
| Loan – Future headquarters                       | –                  | 1,300        | –              | 1,300        |
| <b>Total</b>                                     | <b>5,327</b>       | <b>1,739</b> | <b>(1,201)</b> | <b>5,864</b> |

| In thousand euros                                   | As of December 31, |              |
|-----------------------------------------------------|--------------------|--------------|
|                                                     | 2017               | 2016         |
| Bpifrance PTZI IPH41                                | 375                | 375          |
| Lease finance obligations – Real estate property    | 741                | 718          |
| Lease finance obligations – Equipments              | 173                | 171          |
| <b>Loans</b>                                        | 54                 | –            |
| <b>Total – Current financial liabilities</b>        | <b>1,343</b>       | <b>1,264</b> |
| Bpifrance PTZI IPH41                                | 750                | 1,050        |
| Lease finance obligations – Real estate transaction | 1,112              | 1,853        |
| Lease finance obligations – Equipments              | 989                | 1,160        |
|                                                     | 1,672              | –            |
| <b>Total – Non-current financial liabilities</b>    | <b>4,521</b>       | <b>4,063</b> |
| <b>Total financial liabilities</b>                  | <b>5,864</b>       | <b>5,327</b> |

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 €386 thousand as of December 31, 2017 (€530 thousand as of December 31, 2016).

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.

On July 3, 2017, the Company borrowed from “Société Générale” in order to finance the construction of its future headquarters. This loan amounting to a maximum of €15.2m will be raised during the period of the construction at the same rate of the supplier payments. This period of raising is limited to August 31, 2019. The reimbursement of the capital will begin from September 1, 2019 to August 31, 2031 (12 years). In counterpart, the Company authorized collateral over financial “Société Générale” instruments amounting to €15.2 m. The maturity of the instruments are the following: €4.2 m in July 2024, €5.0 m in July 2027 and €6.0 in July 2031. As of December 31, 2017, this loan has been raised to an amount of €1.3 million.

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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          | 750                   | –            | 1,125        |
| Lease finance obligations – Real estate property | 894          | 1,345                 | –            | 2,239        |
| Down-payment                                     | (153)        | (233)                 | –            | (386)        |
| Lease finance obligations – Equipments           | 173          | 701                   | 288          | 1,160        |
| Loans – Equipments                               | 54           | 219                   | 153          | 426          |
| Loan – Future headquarters                       | –            | 340                   | 960          | 1,300        |
| <b>Total</b>                                     | <b>1,343</b> | <b>3,121</b>          | <b>1,400</b> | <b>5,864</b> |

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          | 750                   | –            | 1,125        |
| Lease finance obligations – Real estate property | 956          | 1,376                 | –            | 2,332        |
| Down-payment                                     | (167)        | (241)                 | –            | (408)        |
| Lease finance obligations – Equipments           | 179          | 717                   | 289          | 1,185        |
| Loans–Equipments                                 | 57           | 228                   | 157          | 442          |
| Loan – Future headquarters                       | –            | 417                   | 1,047        | 1,464        |
| <b>Total</b>                                     | <b>1,400</b> | <b>3,247</b>          | <b>1,493</b> | <b>6,140</b> |

#### Fair value of financial liabilities

The fair value of financial liabilities, calculated on the basis of discounted future cash flow, was €5,402 thousand and

€5,020 thousand as of December 31, 2017 and 2016, respectively, using level 3 fair value measurements.

## 10. Defined benefit obligations

| Defined benefit obligations                | As of December 31, |              |
|--------------------------------------------|--------------------|--------------|
|                                            | 2017               | 2016         |
| Allowance for retirement defined benefit   | 2,255              | 2,082        |
| Allowance for seniority awards             | 366                | 336          |
| <b>Total – Defined benefit obligations</b> | <b>2,621</b>       | <b>2,418</b> |

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, 2016

and 2017 amounted to €785 thousand and €982 thousand respectively.

French law also requires payment of a lump sum retirement indemnity to employees based on years of service and 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 19) 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 €366 thousand as of December 31, 2017 (€336 thousand as of December 31, 2016).

The main actuarial assumptions used to evaluate retirement benefits are the following:

|                                                   | As of December 31,                |                                   |
|---------------------------------------------------|-----------------------------------|-----------------------------------|
|                                                   | 2017                              | 2016                              |
| <i>Economic assumptions</i>                       |                                   |                                   |
| Discount rate (iBoxx Corporate AA) for retirement | 1,70%                             | 1,50%                             |
| Annual rate of increase in wages                  | 3%                                | 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                    | 45,20%                            | 49%                               |
| Age at retirement                                 |                                   |                                   |
| – Executives                                      | 64 years                          | 64 years                          |
| – Non-executives                                  | 62 years                          | 62 years                          |
| Mortality table                                   | TH-TF 00-02                       | TH-TF 00-02                       |
| Annual mobility                                   | All personnel                     | All personnel                     |
| 16–24 years                                       | 4%                                | 4%                                |
| 25–29 years                                       | 2.5%                              | 2.5%                              |
| 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%                                |

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Amounts recognized in the statement of financial position are determined as follows (in thousand euros):

|                                                 |              |
|-------------------------------------------------|--------------|
| <b>As of December 31, 2015</b>                  | <b>1,740</b> |
| Service cost                                    | 336          |
| Net actuarial cost recognized during the period | 240          |
| Actualization costs                             | 33           |
| Finance costs                                   | –            |
| Actuarial (gain) / loss                         | 69           |
| <b>As of December 31, 2016</b>                  | <b>2,418</b> |
| Service cost                                    | 363          |
| Actualization costs                             | 36           |
| Finance costs                                   | –            |
| Actuarial (gain) / loss                         | (196)        |
| <b>As of December 31, 2017</b>                  | <b>2,621</b> |

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, 2017 and 2016 in other comprehensive income for an amount of €178 thousand (income) and €69 thousand (expense) in 2017 and 2016, respectively. An increase/decrease of +/- 50 basis points in the discount rate would result in a decrease/increase of the total benefit obligation of €210 thousand.

The main actuarial assumptions used to evaluate seniority awards as of December 31, 2017 are the following:

- Discount rate: 0.95%
- Rate of annual increase in wages: 3%
- Rate of contributions: 45.20%
- Rate of wage costs: 23.29%
- 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, 2017 and 2016 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, |               |
|-----------------------------------------------------------------------------------------------------|--------------------|---------------|
|                                                                                                     | 2017               | 2016          |
| Common shares, opening                                                                              | 53,921             | 53,834        |
| Share capital increase resulting from the exercise of securities giving access to the share capital | 91                 | 87            |
| Share capital increase resulting from anti C5aR acquisition                                         | 3,344              | –             |
| Share capital increase resulting from the definitive acquisition of free shares                     | 244                | –             |
| Share capital increase resulting from the definitive acquisition of preferred shares (B Shares)     | 7                  | –             |
| <b>Common shares (A Shares), closing</b>                                                            | <b>57,600</b>      | <b>53,921</b> |
| <b>Preferred shares (B Shares), closing</b>                                                         | <b>7</b>           | <b>–</b>      |

### Details of changes in share capital over the two last fiscal years:

On January 6, 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 30, 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 3, 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.

On January 24, 2017, subsequent to the exercise of BSAAR 2012, BSA 2011–2 and BSA 2014, the Executive board minuted an increase in capital amount nominal of €1,947.5 (3,950 shares), bringing the capital to €2,698,012.70.

On February 10, 2017, subsequent to the exercise of BSAAR 2012 and BSA 2013, the Executive board minuted an increase in capital amount nominal of €2,525 (50,500 shares), bringing the capital to €2,700,537.70.

On June 14, 2017, subsequent to the exercise of BSAAR 2012, the Executive board minuted an increase in capital amount nominal of €92.5 (1,850 shares), bringing the capital to €2,700,630.20.

On July 13, 2017, subsequent to a capital increase remunerating a contribution in kind, the Executive board minuted an increase in capital amount nominal of €167,187.4 (3,343,748 shares), bringing the capital to €2,867,817.60.

On October 23, 2017, subsequent to the definitive acquisition of AGA and AGAP, the Executive board minuted an increase in capital amount nominal of €5,135.05 (98,770 ordinary shares (A Shares) and 3,931 preferred shares (B Shares)), bringing the capital to €2,872,952.65.

On March 6, 2018, subsequent to the definitive acquisition of AGA and AGAP, the Executive Board minuted an increase in capital amount nominal of €7,398.9 (144,978 new ordinary shares (A Shares) and 3,000 new preferred shares (B Shares)), bringing the capital to €2,880,351.55.

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##### Securities giving access to the capital

Operations securities giving access to the capital during the last three fiscal years were as follows:

|                                                 | BSA                    | Options      | BSAAR            | AGAP<br>Management           | AGAP<br>Employees            | AGA<br>Management      | AGA<br>Employees         | AGA<br>Bonus                  |
|-------------------------------------------------|------------------------|--------------|------------------|------------------------------|------------------------------|------------------------|--------------------------|-------------------------------|
| <b>Balance as of December 31, 2014</b>          | <b>685,800</b>         | <b>6,075</b> | <b>761,750</b>   |                              |                              |                        |                          |                               |
| Cancelled warrants and options in 2015          |                        |              |                  |                              |                              |                        |                          |                               |
| Exercised warrants and options in 2015          | (309,300)              | (121,500)    | (380,950)        |                              |                              |                        |                          |                               |
| BSA attributed on 04/27/15                      | 70,000                 |              |                  |                              |                              |                        |                          |                               |
| BSA attributed on le 07/01/15                   | 14,200                 |              |                  |                              |                              |                        |                          |                               |
| BSAAR attributed on le 07/01/15                 |                        |              | 1,050,382        |                              |                              |                        |                          |                               |
| <b>Balance as of December 31, 2015</b>          | <b>460,700</b>         |              | <b>1,431,182</b> |                              |                              |                        |                          |                               |
| Cancelled warrants and options in 2016          |                        |              | 2,720            |                              |                              |                        |                          |                               |
| Exercised warrants and options in 2016          | (25,000)               |              | (62,290)         |                              |                              |                        |                          |                               |
| AGAP Management attributed on 10/21/16          |                        |              |                  | 2,000 <sup>(3)</sup>         |                              |                        |                          |                               |
| AGAP Employees attributed on 10/21/16           |                        |              |                  |                              | 2,486 <sup>(4)</sup>         |                        |                          |                               |
| AGA Management attributed on 10/21/16           |                        |              |                  |                              |                              | 50,000 <sup>(1)</sup>  |                          |                               |
| AGA Employees attributed on 10/21/16            |                        |              |                  |                              |                              |                        | 99,932 <sup>(2)</sup>    |                               |
| AGAP Management attributed on 12/30/16          |                        |              |                  | 3,000 <sup>(6)</sup>         |                              |                        |                          |                               |
| AGA Management attributed on 12/30/16           |                        |              |                  |                              |                              | 250,000 <sup>(5)</sup> |                          |                               |
| AGA Employees attributed on 12/30/16            |                        |              |                  |                              |                              |                        | 149,943 <sup>(7)</sup>   |                               |
| <b>Balance as of December 31, 2016</b>          | <b>435,700</b>         |              | <b>1,366,172</b> | <b>5,000</b>                 | <b>2,486</b>                 | <b>300,000</b>         | <b>249,875</b>           |                               |
| AGA and AGAP not definitely acquired in 2017    |                        |              |                  | (450) <sup>(8)</sup>         | (105) <sup>(8)</sup>         |                        | (6,127) <sup>(8)</sup>   |                               |
| Exercised warrants and options in 2017          | (88,200)               |              | (3,100)          |                              |                              |                        |                          |                               |
| AGA definitely acquired in 2017                 |                        |              |                  |                              |                              |                        | (243,748) <sup>(9)</sup> |                               |
| BSA attributed on 09/20/17                      | 37,000 <sup>(10)</sup> |              |                  |                              |                              |                        |                          |                               |
| AGA Bonus attributed on 09/20/17                |                        |              |                  |                              |                              |                        |                          | 28,556                        |
| AGA Bonus cancelled following their attribution |                        |              |                  |                              |                              |                        |                          | (3,577)                       |
| <b>Balance as of December 31 2017</b>           | <b>384,500</b>         | <b>0</b>     | <b>1,363,072</b> | <b>4,550 <sup>(11)</sup></b> | <b>2,381 <sup>(11)</sup></b> | <b>300,000</b>         | <b>0</b>                 | <b>24,979 <sup>(12)</sup></b> |

(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.
- (8) At the time of definitive acquisition of (a) AGA Employees 2016-1, AGAP Employees 2016-1 and AGAP Management 2016-1, the Executive board of October 23, 2017 recorded that (i) 450 AGAP Management 2016-1 (giving right, in case of conversion, to a maximum of 90,000 ordinary shares) (ii) 105 AGAP Employees 2016-1 (giving right, in case of conversion, to a maximum of 21,000 ordinary shares) and (iii) 1,162 AGA Employees 2016-1, could not be definitely acquired because the presence condition was not met at the definitive acquisition date and (b) AGA Employees 2016-2, the Executive Board of March 6, 2018, with effect on December 30, 2017, recorded that 4,965 AGA Employees 2016-2 could not be definitely acquired because the presence condition was not met at the definitive acquisition date.
- (9) The Executive Board of October 23, 2017 recorded the definitive acquisition of 98,779 AGA Employees 2016-1 and the Executive Board of March 6, 2018, recorded, with effect on December 30, 2017, the definitive acquisition of 144,978 AGA Employees 2016-2
- (10) Distribution of 40,000 BSA 2017-1 to the independent members newly appointed or renewed by the Annual General Meeting of June 23, 2017 and subscription of 37,000 BSA 2017-1 at the end of the subscription period.
- (11) The Executive Board of October 23, 2017 recorded the definitive acquisition of 1,550 AGAP Management 2016-1 and 2,381 AGAP Employees 2016-1 and the Executive Board of March 6, 2018 recorded, with effect on December 30, 2018, the definitive acquisition of 3,000 AGAP Management 2016-2. The AGAP Management 2016-1 and 2016-2, together, give right, in case of maximum conversion to 910,000 ordinary shares and the AGAP Employees 2016-1 give right, in case of maximum conversion, to a maximum of 476,200 ordinary shares.
- (12) Distribution of 28,556 AGA Bonus 2017-1 definitely attributed at the end of a one-year acquisition period as from September 20, 2017 followed by a one-year retention period starting on September 20, 2018 (number of AGA Bonus 2017-1 definitely attributed to each beneficiary depending on the achievement of their annual individual objectives). Following the waiver of such method of payment by a beneficiary, 3,577 AGA Bonus Management 2017-1 were not attributed. In accordance with the recommendations of the Compensation and nomination committees held on December 8, 2017 and January 30, 2018, adopted on the basis of the 2017 objectives achievement assessment of the Executive Board and Committee members, an Executive Board will record, as soon as possible as from September 20, 2018, the definitive acquisition of 22,055 AGA Bonus Management 2017-1 (see 2.3.2.1.2).

- Circulating securities as of December 31, 2017

The circulating BSA as of December 31, 2017, give right to subscribe 348,500 new ordinary shares with a nominal value of €0.05 per share.

The circulating BSAAR as of December 31, 2017, give right to subscribe 1,363,072 new ordinary shares with a nominal value of €0.05 per share.

The circulating AGA as of December 31, 2017, will give right to the attribution, at the end of the attribution period, to 324,979 new ordinary shares with a nominal value of €0.05 per share.

The 6,931 circulating AGAP as of December 31, 2016, will give right, at the end of the attribution period, to the subscription, in case of achievement of the performance criteria, to the conversion into a maximum of 1,386,200

new ordinary shares with a nominal value of €0.05 per share.

As of December 31, 2017, the BSA, BSAAR, AGA and AGAP, gave right, in case of maximum conversion of the AGAP, to the subscription of a maximum of 3,458,751 new ordinary shares, with a nominal value of €0.05 per share, representing 6,00% 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 7<sup>th</sup>, 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.

The General Meeting of June 2, 2016 authorized the creation of 150,000 BSA giving right to the subscription of 150,000 new shares. The Executive board, meeting on 19 September 2017, upon authorization of the Supervisory Board, attributed 40,000 BSA 2017-1 to newly appointed or renewed members of the Supervisory Board, 37,000 of which were subscribed at the end of the subscription period on November 30, 2017.

The General Meeting of June 23, 2017 authorized the creation of 50,000 free shares to be issued to the benefit of Executive Committee members employed and/or corporate officers of the Company and its consolidated subsidiaries (eligible under articles L. 225-197-1 et. Seq. of the Code of commerce) under their annual variable compensation (the "AGA Bonus"). The Executive board, meeting on September 19, 2017, attributed 28,556 AGA Bonus 2017-1 to the Executive Committee and Executive board members. One Executive committee member has waived the possibility to receive a part of his annual variable compensation in free shares. Thus, the number of AGA Bonus 2017-1 attributed is 24,979.

#### 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, 2017, 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, 2017                  | Book value on the statement of financial position | Fair value through profit and loss <sup>(1)</sup> | Fair value through comprehensive income <sup>(2)</sup> | Receivables <sup>(3)</sup> | Fair value     |
|------------------------------------------|---------------------------------------------------|---------------------------------------------------|--------------------------------------------------------|----------------------------|----------------|
| <b>Financial assets</b>                  |                                                   |                                                   |                                                        |                            |                |
| Other non-current assets .....           | 60,469                                            | 26,030                                            | 32,392                                                 | 2,046                      | 60,469         |
| Current receivables .....                | 21,412                                            | —                                                 | —                                                      | 21,412                     | 21,412         |
| Short-term investments .....             | 16,743                                            | —                                                 | 16,743                                                 | —                          | 16,743         |
| Cash and cash equivalents .....          | 99,367                                            | 99,367                                            | —                                                      | —                          | 99,367         |
| <b>Total financial assets .....</b>      | <b>197,990</b>                                    | <b>125,397</b>                                    | <b>49,135</b>                                          | <b>23,458</b>              | <b>197,990</b> |
| <b>Financial liabilities</b>             |                                                   |                                                   |                                                        |                            |                |
| Other non-current liabilities ..         | 4,521                                             | —                                                 | —                                                      | 4,521                      | 4,521          |
| Non-current financial liabilities .....  | 1,343                                             | —                                                 | —                                                      | 1,343                      | 1,343          |
| Current financial liabilities .....      | 24,657                                            | —                                                 | —                                                      | 24,657                     | 24,657         |
| <b>Total financial liabilities .....</b> | <b>30,521</b>                                     | <b>—</b>                                          | <b>—</b>                                               | <b>30,521</b>              | <b>30,521</b>  |

| As of December 31, 2016                  | Book value on the statement of financial position | Fair value through profit and loss <sup>(1)</sup> | Fair value through comprehensive income <sup>(2)</sup> | Receivables <sup>(3)</sup> | Fair value     |
|------------------------------------------|---------------------------------------------------|---------------------------------------------------|--------------------------------------------------------|----------------------------|----------------|
| <b>Financial assets</b>                  |                                                   |                                                   |                                                        |                            |                |
| 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        |
| <b>Total financial assets .....</b>      | <b>263,053</b>                                    | <b>203,072</b>                                    | <b>26,057</b>                                          | <b>33,924</b>              | <b>263,053</b> |
| <b>Financial liabilities</b>             |                                                   |                                                   |                                                        |                            |                |
| 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         |
| <b>Total financial liabilities .....</b> | <b>25,729</b>                                     | <b>—</b>                                          | <b>—</b>                                               | <b>25,729</b>              | <b>25,729</b>  |

(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 technique 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 €32,631 thousand and €56,159 thousand for the year ended December 31, 2017 and 2016 respectively.

| (in thousand euros)                                              | Year ended<br>December 31, |               |
|------------------------------------------------------------------|----------------------------|---------------|
|                                                                  | 2017                       | 2016          |
| AZ: recognition of the initial payment collected in 2015.....    | 32,346                     | 41,577        |
| BMS: recognition of the initial payment collected in 2011 .....  | -                          | 442           |
| BMS: development milestone.....                                  | -                          | 13,768        |
| BMS: invoicing of FTEs.....                                      | -                          | 485           |
| BMS: exchange gains                                              | 272                        | -             |
| Others.....                                                      | 13                         | (112)         |
| <b>Revenue from collaboration and licensing agreements .....</b> | <b>(32,631)</b>            | <b>56,159</b> |

The following table presents the evolution of the deferred revenue:

| (in thousand euros)                          | AZ initial<br>payment | BMS initial<br>payment | BMS FTEs   | Others   | Total          |
|----------------------------------------------|-----------------------|------------------------|------------|----------|----------------|
| <b>As of December 31, 2015</b>               | <b>208,838</b>        | <b>442</b>             | <b>485</b> | <b>-</b> | <b>209,764</b> |
| Recognition in P&L                           | (41,577)              | (442)                  | (485)      | -        | (42,504)       |
| <b>As of December 31, 2016</b>               | <b>167,261</b>        | <b>-</b>               | <b>-</b>   | <b>-</b> | <b>167,261</b> |
| Recognition in P&L                           | (32,346)              | -                      | -          | -        | (32,346)       |
| <b>As of December 31, 2017<sup>(1)</sup></b> | <b>134,914</b>        | <b>-</b>               | <b>-</b>   | <b>-</b> | <b>134,914</b> |

<sup>(1)</sup> Including €47,909 thousand classified as current liabilities and €87,005 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 million for the year ended December 31, 2016.

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 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 (generating a €0.3 million exchange gain).

- *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 amounts of €32.3 million and €41.6 million for the year ended December 31, 2017 and 2016, respectively. 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, |              |
|-------------------------------------------------------|-------------------------|--------------|
|                                                       | 2017                    | 2016         |
| Research Tax Credit                                   | 11,041                  | 9,082        |
| Grant                                                 | 361                     | 479          |
| <b>Government financing for research expenditures</b> | <b>11,402</b>           | <b>9,561</b> |

#### 14. Operating expenses by nature

(in thousand euros)

Year ended December 31,

|                                                                                | 2017            |                 |                 | 2016           |                 |                 |
|--------------------------------------------------------------------------------|-----------------|-----------------|-----------------|----------------|-----------------|-----------------|
|                                                                                | G&A*            | R&D**           | Total           | G&A            | R&D             | Total           |
| Other purchases and external expenses                                          | (5,602)         | (42,007)        | (47,609)        | (4,809)        | (31,213)        | (36,022)        |
| Employee benefits other than share-based compensation                          | (4,168)         | (10,995)        | (15,163)        | (3,829)        | (8,967)         | (12,796)        |
| Depreciation and amortization                                                  | (328)           | (4,068)         | (4,396)         | (193)          | (3,070)         | (3,263)         |
| Employee benefits – Share-based                                                | (6,288)         | (3,697)         | (9,985)         | (396)          | (636)           | (1,032)         |
| Cost of supplies and consumable materials                                      | –               | (4,287)         | (4,287)         | –              | (2,852)         | (2,852)         |
| Intellectual property expenses                                                 | –               | (1,499)         | (1,499)         | –              | (1,235)         | (1,235)         |
| Provision for late payment interests related to the anti-NKG2A withholding tax | (504)           | –               | (504)           |                |                 |                 |
| Other income and (expenses), net                                               | (124)           | (448)           | (572)           | (295)          | (655)           | (950)           |
| <b>Total net operating expenses</b>                                            | <b>(17,015)</b> | <b>(67,000)</b> | <b>(84,015)</b> | <b>(9,522)</b> | <b>(48,628)</b> | <b>(58,150)</b> |

\* G&A: General and administrative

\*\* R&D: Research and development

#### Other purchases and external expenses

(in thousand euros)

Year ended December 31,

|                                                       | 2017           |                 |                 | 2016           |                 |                 |
|-------------------------------------------------------|----------------|-----------------|-----------------|----------------|-----------------|-----------------|
|                                                       | G&A            | R&D             | Total           | G&A            | R&D             | Total           |
| Subcontracting <sup>(1)</sup>                         | –              | (37,996)        | (37,996)        | –              | (28,329)        | (28,329)        |
| Travel expenses and congress attendance               | (275)          | (1,019)         | (1,294)         | (337)          | (886)           | (1,223)         |
| Non-scientific advisory and consulting <sup>(2)</sup> | (3,794)        | (563)           | (4,357)         | (3,238)        | (133)           | (3,371)         |
| Leasing and maintenance                               | (546)          | (1,235)         | (1,781)         | (404)          | (1,014)         | (1,418)         |
| Scientific advisory and consulting <sup>(3)</sup>     | (1)            | (844)           | (845)           | –              | (585)           | (585)           |
| Marketing, communication and public relations         | (527)          | (122)           | (649)           | (450)          | (58)            | (508)           |
| Attendance fees                                       | (205)          | –               | (205)           | (200)          | –               | (200)           |
| Others, net                                           | (254)          | (228)           | (482)           | (180)          | (208)           | (388)           |
| <b>Other purchases and external expenses</b>          | <b>(5,602)</b> | <b>(42,007)</b> | <b>(47,609)</b> | <b>(4,809)</b> | <b>(31,213)</b> | <b>(36,022)</b> |

(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 2016 and 2017 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 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:

| (in thousand euros)        |                                  |                        | Year ended December 31, |                                  |                        |              |
|----------------------------|----------------------------------|------------------------|-------------------------|----------------------------------|------------------------|--------------|
|                            |                                  |                        | 2017                    |                                  | 2016                   |              |
|                            | Audit Conseil<br>Expertise – PKF | Deloitte &<br>Associés | Total                   | Audit Conseil<br>Expertise – PKF | Deloitte &<br>Associés | Total        |
| Audit fees                 | 157                              | 707                    | 867                     | 99                               | 565                    | 664          |
| Non-audit fees*            | 9                                | 24                     | 30                      | 14                               | 487                    | 501          |
| <b>Total net operating</b> | <b>166</b>                       | <b>731</b>             | <b>897</b>              | <b>113</b>                       | <b>1,052</b>           | <b>1,165</b> |

\* Non-audit fees: these fees correspond to services performed by the auditors related to the production of certification in the context of the declaration of expenses for the obtention of grants; to the verification report of social and environmental information, special reports within the framework of operations on Innate Pharma's capital and its subsidiary NN C5aR (prior its merger into Innate Pharma).

(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 €15,721 thousand and €12,796 thousand for the years ended December 31, 2017 and 2016 respectively. The Company had 188 employees as of December 31, 2017, compared to 154 as of December 31, 2016.

The Company benefited from the "competitiveness and employment tax credit" (CICE) for an amount of €233 thousand for the fiscal year 2017 (€154 thousand for 2016). 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 €4,287 thousand and €2,852 thousand for the years ended December 31, 2017 and 2016, respectively.

#### Intellectual property expenses

Intellectual property expenses amounted to €1,499 thousand and €1,235 thousand for the fiscal years ended December 31, 2017 and 2016, 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

## CHAPTER 3 - FINANCIAL INFORMATION

### 3.3 INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

#### International Financial Reporting Standards

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 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, |              |
|----------------------------------------|-------------------------|--------------|
|                                        | 2017                    | 2016         |
| BSA ("Bons de souscription d'actions") | 21                      | -            |
| Free shares                            | 4,414                   | 210          |
| Free preferred shares                  | 5,394                   | 822          |
| <b>Share-based compensation</b>        | <b>9,829</b>            | <b>1,032</b> |

**BSA « Bons de souscription d'actions »**

The Company granted BSA to its Board members. The valuation of these BSA has been measured according to a Black-Scholes methodology.. The main assumptions used in the Black-Scholes pricing model were as follows:

| BSA 2017                               |               |
|----------------------------------------|---------------|
| Beneficiaries                          | Board Members |
| Subscription date                      | December 2017 |
| Authorized number                      | 40,000        |
| Subscribed number                      | 37,000        |
| Subscription price in euros            | 1.1           |
| Expiration date                        | December 2027 |
| Acquisition period                     | None          |
| Underlying asset market price in euros | €10.41        |
| Exercise price in euros                | €11           |
| Return on dividend                     | None          |
| Volatility                             | 61.74%        |
| Free risk interest                     | 0.20%         |
| Expected maturity                      | 6 years       |
| Estimated fair value in euros          | 0.57          |

**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. The expenses related to free shares amounted to €3,166 thousand and €210 thousand for the fiscal years 2017 and 2016 respectively.

**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 years 2016 and 2017 amounted to €822 thousand and €4,612 thousand, respectively.

The valuation of free preferred shares is a 3 step process:

- The appreciation of the internal conditions\*, which implies modelling 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 conditions and the stock-market conditions, performed on the basis of a CAPM modelling of the stock price using a Monte-Carlo approach;
- 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.

\*In the case of an equity-instrument including external conditions (market conditions) and internal conditions, only the variation related to the internal conditions are considered in the update of the fair value recognized in accordance with IFRS 2.

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                          |
| Number of AGAP acquired                     | 3,931                                     | 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) | 20.00%                                    | 20.00%                         |
| Estimated fair value in euros               | €911                                      | €956                           |

As of December 31, 2017, an employer's contribution accrual related to the free shares and free preferred shares was booked for an amount of €549 thousand.

**15. Financial income / (expense)**

Financial income and (expense) can be analyzed as follows (in thousand euros):

| (in thousand euros)                   | Year ended December 31, |                |
|---------------------------------------|-------------------------|----------------|
|                                       | 2017                    | 2016           |
| Gains on financial assets             | 1,254                   | 1,882          |
| Foreign exchange gains                | 784                     | 4,582          |
| Other financial income                | 463                     | 863            |
| <b>Financial income</b>               | <b>2,501</b>            | <b>7,327</b>   |
| Unrealized losses on financial assets | (3,238)                 | (81)           |
| Interest on financial liabilities     | (113)                   | (124)          |
| Foreign exchange losses               | (6,661)                 | (1,699)        |
| Other financial expenses              | (523)                   | (53)           |
| <b>Financial expenses</b>             | <b>(10,535)</b>         | <b>(1,957)</b> |
| <b>Financial income, net</b>          | <b>(8,034)</b>          | <b>5,370</b>   |

For the fiscal years 2016 and 2017, the foreign exchange gains and losses mainly result from the strong variance of the exchange rate between the Euro and the U.S. dollar.

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, 2017, the net amount of deferred tax liability excluding tax losses carryforwards was €83 thousand (€184 thousand of deferred tax asset as of December 31, 2016).

As of December 31, 2017, the amount of accumulated tax loss carryforwards since inception was €219.5 million with no expiration date (€163 million as of December 31, 2016).

For the fiscal year ended December 31, 2016, the Company recognized a tax expense amounting to €0.3 million, corresponding to a 15% tax rate (IP box regime). During the fiscal year 2017, the Company eventually reached the conclusion that its 2016 tax result was not eligible to this regime. Consequently, a €0.4 million expense was recognized as of December 31, 2017, corresponding to the difference between the standard 33.33% tax rate and the 15% rate.

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##### Tax rate reconciliation

(in thousand euros)

Year ended December 31,

|                                                                                        | 2017            | 2016          |
|----------------------------------------------------------------------------------------|-----------------|---------------|
| <b>Income before taxes</b>                                                             | <b>(48,385)</b> | <b>12,941</b> |
| Statutory tax rate                                                                     | 33,33%          | 33,33%        |
| Tax benefit / (loss) calculated at statutory tax rate                                  | 16,127          | (4,313)       |
| Increase/decrease in tax expense arising from:                                         |                 |               |
| Research Tax Credit                                                                    | 3,674           | 3,020         |
| Provision for defined benefit obligations                                              | (96)            | (226)         |
| Share-based compensation                                                               | (3,276)         | (344)         |
| Non-recognition of deferred tax assets related to tax losses and temporary differences | (16,800)        | 1,003         |
| 15% discount tax rate from intellectual property revenues                              | –               | 368           |
| Other differences                                                                      | 371             | 191           |
| Effective tax expense                                                                  | –               | (301)         |
| Effective tax rate                                                                     | 0%              | 2.3%          |

## 17. Commitments, contingencies and litigations

### Commitments

#### Financial leasing – Real estate

Due to the increase of employees, the Company signed at June 30, 2017 a lease to rent a new building. The lease covers a period of nine years with possibility for

termination after three and nine years. As of December 31, 2017, the commitment related to the rent until June 30, 2020 amounts to €609 thousand.

#### Consumable purchases

As part of a supply of scientific equipment, the Company was committed towards a supplier to minimum annual purchases of consumables. As of December 31, 2017, the

overall commitment was amounting to €469 thousand for the period from January 2018 to June 2020.

#### Rentals of copiers and company cars

The Company signed leases for its copiers and its company cars. As of December 31, 2017, all these commitments

totaled €58 thousand.

#### Loan

As of July 17, 2017, the Company took out a loan amounting to €15.2 million in order to finance the acquisition of a land and the construction of its future

headquarters. As of December 31, 2017, the Company raised this loan to €1.3 million. The commitment as of December 31, 2017 therefore amounts to €13.9 million.

### 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 transactions

### Members 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, |              |
|-------------------------------------------------|-------------------------|--------------|
|                                                 | 2017                    | 2016         |
| Salaries and other short-term employee benefits | 1,587                   | 1,836        |
| Extra pension benefits                          | 12                      | 8            |
| Advisory fees                                   | 180                     | 460          |
| Share-based compensation                        | 4,805                   | 419          |
| <b>Executive Committee members compensation</b> | <b>6,584</b>            | <b>2,723</b> |

As of December 31, 2017, three of the members of the Executive Committee, 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.

On June 23, 2017, Nicolai Wagtmann resigned from his function of Executive Board.

Calculation of share-based compensation is detailed in Note 14.

### Members of the Supervisory board

The Company recognized a provision of €205 thousand for attendance fees (*jetons de présence*) relating to the fiscal year ended December 31, 2017 which should be paid in 2018. This amount includes the compensation for the Board Chairman

### Related parties

The Company is linked to Novo Nordisk A/S by three licensing agreements related to the drug-candidates lirilumab, monalizumab and anti-C5aR. 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, 2017 and 2016, the Company did not identify any management and/or equity relationship between the major suppliers used in 2017 and 2016 and

the members of its Supervisory board, its Executive board or its Executive Committee.

## 19. Income/(loss) per share

#### Basic income/(loss) per share

Basic income/(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, |             |
|--------------------------------------------------------------------------|-------------------------|-------------|
|                                                                          | 2017                    | 2016        |
| Net income (loss)                                                        | (48,385)                | 12,640      |
| Weighted average number of ordinary shares in circulation (in thousands) | (54,352)                | 53,869      |
| <b>Basic loss per share (€ per share)</b>                                | <b>(0.89)</b>           | <b>0.23</b> |

#### Diluted income/(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, |             |
|--------------------------------------------------------------------------|-------------------------|-------------|
|                                                                          | 2017                    | 2016        |
| Net income (loss)                                                        | (48,285)                | 12,640      |
| Weighted average number of ordinary shares in circulation (in thousands) | 54,352                  | 54,592      |
| Adjustments for warrant and share options                                | –                       | 905         |
| <b>Diluted loss per share (€ per share)</b>                              | <b>(0.89)</b>           | <b>0.23</b> |

## 20. Events after the reporting date

On January 30, 2018, Innate Pharma announced that it has entered into a clinical trial collaboration with MedImmune, the global biologics research and development arm of AstraZeneca. The Phase I/II study (STELLAR-001) will evaluate the safety and efficacy of durvalumab, an anti-PD-

L1 immune checkpoint inhibitor, in combination with Innate's investigational anti-C5aR monoclonal antibody, IPH5401, as a treatment for patients with selected solid tumors.

### 3.3.2. Statutory auditors' report on the consolidated financial statements For the year ended December 31, 2017

This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Innate Pharma Annual General Meeting,

#### Opinion

In compliance with the engagement entrusted to us by your Annual General Meetings we have audited the accompanying consolidated financial statements of Innate Pharma for the year ended December 31, 2017.

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 as of December 31, 2017 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

#### Basis for opinion

- **Audit Framework**

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

- **Independence**

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 or in the French Code of ethics (*code de déontologie*) for statutory auditors.

- **Justification of Assessments - Key Audit Matters**

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring your attention to the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period, as well as our responses to those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on specific items of the consolidated financial statements.

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Our response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Recognition of clinical subcontracting costs</b><br><i>(See Notes 2t and 14 to the consolidated financial statements for the year ended December 31, 2017)</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <p>Research and development expenses, which represent a critical component of the consolidated financial statements given the Group's activity, account for 80% of the operating expenses. These expenses include clinical study costs (coordination of trials, hospital costs, etc.), of which a significant part is subcontracted to hospital and clinical research centers.</p> <p>Due to the sometimes significant delays between the completion of services and their invoicing by subcontractors, the expenses recorded in the accounts based on invoices received must be adjusted. This adjustment is automatically calculated and carried out, based on management estimates of the percentage of completion of ongoing trials entered in the information system. This completion is measured via Management's analysis of the following components:</p> <ul style="list-style-type: none"> <li>the total forecast costs to be incurred for each study (budgets),</li> <li>The expected duration of the studies or the number of patient visits or the number of patients, based on the criterion deemed most appropriate to assess the completion.</li> </ul> <p>Management is required to make material judgments since the estimate of the amount of services already rendered must be recorded at the closing date.</p> <p>Consequently, we considered the recognition of clinical subcontracting costs to be a key audit matter.</p> | <p>We examined the appropriateness of the control procedures implemented by the Company for the clinical subcontracting costs.</p> <p>This work was completed by substantive tests which consisted in assessing, based on sampling and by exercising our professional judgment:</p> <ul style="list-style-type: none"> <li>the appropriateness of the completion criterion adopted with respect to the type of services provided;</li> <li>the consistency of the components adopted in the calculation of expenses on completion (budgets, estimated durations of studies, number of patients, number of patient visits) in relation to contracts concluded with service providers, subject to our understanding of the change in the studies and the actual data available (recruitment of patients, number of patient visits, reports communicated on scientific results, etc.).</li> <li>the correct allocation of the expenses invoiced by the service providers to the study concerned.</li> </ul> <p>Aided by our information system specialists, we also verified, by sampling, the automatic calculation of adjustment entries used to record clinical subcontracting costs on completion and their upload into the accounting system.</p> |

### 3.3 INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

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| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Our response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Agreement with AstraZeneca</b><br><i>(See Notes 2b, 2o, 2t and 13 to the consolidated financial statements for the year ended December 31, 2017)</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <p>In April 2015, Innate Pharma signed a co-development and commercialization agreement with AstraZeneca for the product monalizumab, under which the Company will completed several phase II studies and assumed the costs.</p> <p>It received an initial payment of US\$ 250 million on June 30, 2015. The purposes of this initial payment is to remunerate the services rendered by the Company over the duration of the studies. It was recorded in revenue on a percentage of completion basis, based on the costs recorded in the income statement in relation to the total costs to be incurred for the studies concerned.</p> <p>Revenue from cooperation and licensing agreements (€32.6 million) for 2017 comprises a portion of this initial payment for €32.3 million.</p> <p>As of January 1, 2018, the Company will apply IFRS 15 – <i>Revenue from Contracts with Customers</i>, which supersedes IAS 18 – <i>Revenue</i> applicable until this date.</p> <p>In this context, we considered the recognition of revenue relating to the agreement with AstraZeneca and the presentation of the estimated impacts of the entry into force of IFRS 15 to be a key audit matter, for the following reasons:</p> <ul style="list-style-type: none"> <li>the correct recording of revenue is based on an appropriate measurement of the completion of studies, which implies material management judgments on the forecast total budget of these studies and the appropriate consideration of the expenses already incurred for these studies;</li> <li>revenue represents a sensitive indicator for both the presentation of the consolidated financial statements and the Company's financial reporting.</li> </ul> | <p>We familiarized ourselves with the agreements concluded between Innate Pharma and AstraZeneca, in order to assess IAS 18 – <i>Revenue</i> compliance regarding the method used to record the initial payment on completion in revenue based on expenses incurred.</p> <p>We also assessed the appropriateness of:</p> <ul style="list-style-type: none"> <li>the control procedures implemented by the Company for the recognition of the AstraZeneca agreement,</li> <li>the incurred expenses (including their allocation to the proper study) and forecast expenses taken into account to measure the percentage of completion of the studies,</li> </ul> <p>by considering the work covering the clinical subcontracting costs described above.</p> <p>Lastly, we verified that the Notes to the consolidated financial statements provided a satisfactory disclosure regarding the impacts of the entry into force of IFRS 15 as of January 1, 2018.</p> |

#### Verification of the Information Pertaining to the Group Presented in the Management Report

As required by law, we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the Executive Board's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

#### Report on Other Legal and Regulatory Requirements

- Appointment of the Statutory Auditors**

Audit Conseil Expertise SAS, member of PKF International, were appointed as statutory auditors of Innate Pharma by the Annual General Meeting held on June 29, 2000 while Deloitte & Associés were appointed on March 27, 2014.

As of December 31, 2017, Audit Conseil Expertise SAS, member of PKF International, and Deloitte & Associés were in the 18th and 4th year of total uninterrupted engagement, which are the 12th year and 4th year since the Company was admitted to trading on a regulated market, respectively.

#### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and, where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Executive Board.

#### **Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

- **Objectives and audit approach**

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified by Article L.823-10-1 of the French Commercial Code, the scope of our statutory audit does not include assurance on the future viability of the Company or the quality with which Company's management has conducted or will conduct the affairs of your Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there

is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;

- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

- **Report to the Audit Committee**

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters. We describe these matters in this report.

We also provide the Audit Committee with the declaration referred to in Article 6 of Regulation (EU) No. 537/2014, confirming our independence in the sense of the rules applicable in France as defined in particular by Articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of ethics for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Marseille, April 23, 2013

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, 2017

#### Accounting principles in France

#### Balance Sheet (in thousand euros)

|                                  | Note | As of December 31,<br>2017 | 2016           |
|----------------------------------|------|----------------------------|----------------|
| <b>Assets</b>                    |      |                            |                |
| <b>Non-current assets</b>        |      |                            |                |
| Intangible assets                | 3    | 46,192                     | 9,075          |
| Buildings                        | 4    | 512                        | 29             |
| Property and equipment           | 4    | 3,893                      | 2,845          |
| Other tangible fixed assets      | 4    | 846                        | 186            |
| Financial assets                 | 5    | 60,329                     | 33,072         |
| <b>Total non-current assets</b>  |      | <b>111,773</b>             | <b>45,207</b>  |
| <b>Current assets</b>            |      |                            |                |
| Trade accounts receivables       | 6    | –                          | 14,230         |
| Other receivables                | 7    | 15,873                     | 12,691         |
| Short term investments           | 8    | 16,426                     | 21,652         |
| Cash and cash equivalent         | 8    | 99,362                     | 175,893        |
| <b>Total current assets</b>      |      | <b>131,662</b>             | <b>224,466</b> |
| <b>Adjustment accounts</b>       |      |                            |                |
| Prepaid expenses                 | 9    | 5,898                      | 6,323          |
| <b>Total adjustment accounts</b> |      | <b>5,898</b>               | <b>6,323</b>   |
| <b>Total assets</b>              |      | <b>249,332</b>             | <b>275,996</b> |

**Balance Sheet**  
(in thousand euros)

|                                         | Note | As of December 31 |                |
|-----------------------------------------|------|-------------------|----------------|
|                                         |      | 2017              | 2016           |
| <b>Liabilities</b>                      |      |                   |                |
| <b>Shareholders' equity</b>             |      |                   |                |
| Share capital                           | 10   | 2,880             | 2,696          |
| Share premium                           | 10   | 216,207           | 178,734        |
| Retained earnings                       |      | (97,947)          | (111,018)      |
| Net income (loss)                       |      | (38,761)          | 13,071         |
| Tax regulated provisions                | 12   | 850               | 551            |
| <b>Total shareholders' equity</b>       |      | <b>83,230</b>     | <b>84,034</b>  |
| <b>Provisions</b>                       |      |                   |                |
| Provisions for contingencies and losses | 12   | 1,012             | 136            |
| Pensions and similar obligations        | 12   | 2,621             | 2,418          |
| <b>Total provisions</b>                 |      | <b>3,632</b>      | <b>2,554</b>   |
| <b>Liabilities</b>                      |      |                   |                |
| Borrowings                              | 13   | 2,851             | 1,425          |
| Trade notes payable                     | 14   | 20,123            | 15,669         |
| Tax and social liabilities              | 15   | 4,378             | 4,391          |
| Other liabilities                       |      | 205               | 662            |
| Deferred income                         | 16   | 134,914           | 167,260        |
| <b>Total liabilities</b>                |      | <b>162,470</b>    | <b>189,408</b> |
| <b>Total liabilities</b>                |      | <b>249,332</b>    | <b>275,996</b> |

**Income Statement**  
(In thousand euros)

|                                                        |      | Year ended December 31, |                 |
|--------------------------------------------------------|------|-------------------------|-----------------|
|                                                        | Note | 2017                    | 2016            |
| Revenue                                                | 17   | 32,359                  | 56,159          |
| Operating grants                                       | 11   | 361                     | 479             |
| Reversal of provisions, transfer of charges            |      | 158                     | 80              |
| Other operating income                                 |      | 438                     | –               |
| <b>Total operating income</b>                          |      | <b>33,315</b>           | <b>56,718</b>   |
| Purchases of raw materials and other supplies          | 18   | (4,286)                 | (2,852)         |
| Other purchases and external expenses                  | 19   | (49,943)                | (37,836)        |
| Taxes                                                  |      | (338)                   | (570)           |
| Salaries                                               | 20   | (9,667)                 | (8,200)         |
| Social charges                                         | 20   | (4,889)                 | (4,041)         |
| Depreciation and amortization expense                  | 21   | (3,841)                 | (2,872)         |
| Change in provisions for contingencies and liabilities | 12   | (1,331)                 | (723)           |
| Other expenses                                         |      | (522)                   | (309)           |
| <b>Total operating expenses</b>                        |      | <b>(74,818)</b>         | <b>(57,403)</b> |
| <b>Operating income (loss)</b>                         |      | <b>(41,502)</b>         | <b>(685)</b>    |
| Financial income / (expense), net                      | 22   | (7,539)                 | 5,131           |
| <b>Result before tax and exceptional items</b>         |      | <b>(49,040)</b>         | <b>4,446</b>    |
| Exceptional income / (expense), net                    | 23   | (393)                   | (155)           |
| Research tax credit                                    | 24   | 11,041                  | 9,082           |
| Income tax                                             | 24   | (368)                   | (301)           |
| <b>Net income (loss)</b>                               |      | <b>(38,761)</b>         | <b>13,071</b>   |

**Statement of cash flows**  
(In thousand euros)

|                                                                                 | Note  | Year ended December 31 |                 |
|---------------------------------------------------------------------------------|-------|------------------------|-----------------|
|                                                                                 |       | 2017                   | 2016            |
| <b>Cash flow from operating activities</b>                                      |       |                        |                 |
| Net income (loss)                                                               |       | (38,761)               | 13,071          |
| <i>Adjustments to reconcile net loss to net cash from operating activities:</i> |       |                        |                 |
| Depreciation and amortization on fixed assets                                   | 21    | 3,841                  | 2,872           |
| Increase / (reversal) of provision and excess of tax depreciation               | 12    | 1,377                  | 969             |
| Depreciation on financial non-current assets                                    | 5, 12 | 1,087                  | (1,624)         |
| Gain / (loss) on the disposal of assets                                         |       | 50                     | (213)           |
| Interests on assets and other financial assets                                  | 22    | (981)                  | (1,655)         |
| <b>Gross cash flow</b>                                                          |       | <b>(33,387)</b>        | <b>13,420</b>   |
| Net change in working capital related to activities <sup>(1)</sup>              |       | (16,891)               | (51,205)        |
| <b>Net cash from / (used in) operating activities</b>                           |       | <b>(50,278)</b>        | <b>(37,785)</b> |
| <br><b>Cash flow from investing activities</b>                                  |       |                        |                 |
| Acquisition of tangible and intangible assets                                   | 3, 4  | (6,032)                | (9,395)         |
| Variance of financial assets                                                    | 5     | (28,346)               | 7,111           |
| Interests on assets and other financial assets                                  | 22    | 981                    | 1,655           |
| <b>Net cash from / (used in) investing activities</b>                           |       | <b>(33,396)</b>        | <b>(629)</b>    |
| <br><b>Cash flow from financing activities</b>                                  |       |                        |                 |
| Proceeds from the exercise / subscription of equity instruments                 | 10    | 491                    | 193             |
| Repayment of financial liabilities                                              | 13    | (313)                  | (75)            |
| Collection of borrowings                                                        | 13    | 1,739                  | –               |
| <b>Net cash from / (used in) financing activities</b>                           |       | <b>1,917</b>           | <b>118</b>      |
| <br><b>Variance of treasury</b>                                                 |       | <b>(81,757)</b>        | <b>(38,296)</b> |
| Opening treasury                                                                |       | 197,545                | 235,841         |
| <b>Closing treasury</b>                                                         |       | <b>115,788</b>         | <b>197,545</b>  |
| Including:                                                                      |       |                        |                 |
| Cash and cash equivalent                                                        |       | 99,362                 | 175,893         |
| Marketable securities                                                           |       | 16,426                 | 21,652          |
| <b>Total of closing treasury</b>                                                |       | <b>115,788</b>         | <b>197,545</b>  |

## CHAPTER 3 - FINANCIAL INFORMATION

### 3.3 INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

#### Accounting principles in France

| Change in working capital                                      | Note    | 2017             | 2016             | Variance        |
|----------------------------------------------------------------|---------|------------------|------------------|-----------------|
| Trade accounts receivables and prepaid expenses                | 6, 7, 9 | 21,771           | 33,244           | 11,473          |
| Deferred revenue                                               | 16      | (134,914)        | (167,260)        | (32,346)        |
| Operational liabilities (excluding payables relating to capex) | 14, 15  | (24,706)         | (20,654)         | 3,983           |
| <b>Change in working capital</b>                               |         | <b>(137,849)</b> | <b>(154,739)</b> | <b>(16,891)</b> |

| 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  | (20,723)         | (12,705)         | 8,018           |
| <b>Change in working capital</b>                               |         | <b>(154,739)</b> | <b>(205,944)</b> | <b>(51,205)</b> |

3

**Statement of changes in Shareholders' Equity**  
(In thousand euros)

|                                                    | Number of<br>shares | Share capital | Share<br>premium | Retained<br>earnings | Net loss        | Tax<br>regulated<br>provisions | Total<br>shareholders'<br>equity |
|----------------------------------------------------|---------------------|---------------|------------------|----------------------|-----------------|--------------------------------|----------------------------------|
| <b>Balance as of December 31, 2015</b>             | <b>53,834</b>       | <b>2,692</b>  | <b>178,545</b>   | <b>(104,185)</b>     | <b>(6,833)</b>  | <b>396</b>                     | <b>70,615</b>                    |
| Net loss appropriation 2015                        | -                   | -             | -                | (6,833)              | 6,833           | -                              | -                                |
| Net gain 2016                                      | -                   | -             | -                | -                    | 13,071          | -                              | 13,071                           |
| Exercise and subscription of equity<br>instruments | 87                  | 4             | 189              | -                    | -               | -                              | 193                              |
| Excess of tax depreciation, net                    | -                   | -             | -                | -                    | -               | 156                            | 156                              |
| <b>Balance as of December 31, 2016</b>             | <b>53,921</b>       | <b>2,696</b>  | <b>178,734</b>   | <b>(111,018)</b>     | <b>13,071</b>   | <b>551</b>                     | <b>84,035</b>                    |
| Net loss appropriation 2016                        | -                   | -             | -                | 13,071               | (13,071)        | -                              | -                                |
| Net loss 2017                                      | -                   | -             | -                | -                    | (38,761)        | -                              | (38,761)                         |
| Exercise and subscription of equity<br>instruments | 342                 | 17            | 474              | -                    | -               | -                              | 491                              |
| Acquisition of anti-C5aR                           | 3,344               | 167           | 36,999           | -                    | -               | -                              | 37,167                           |
| Excess of tax depreciation, net                    | -                   | -             | -                | -                    | -               | 298                            | 298                              |
| <b>Balance as of December 31, 2017</b>             | <b>57,607</b>       | <b>2,880</b>  | <b>216,207</b>   | <b>(97,947)</b>      | <b>(38,761)</b> | <b>850</b>                     | <b>83,230</b>                    |

## Notes to the Financial Statements

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#### 1. Events with a financial impact in the year

- 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.
- On June 2, 2017, the Company announced that it entered into an agreement with Novo Nordisk A/S granting Innate Pharma full worldwide exclusive rights to develop and commercialize a first-in-class clinical-stage anti-C5aR antibody (IPH5401). The terms of the transaction provide for a total upfront payment of €40.0m, of which €37.2m were paid in new Innate Pharma shares and €2.8m in cash. Novo Nordisk A/S will be eligible for €370.0m in development, regulatory and sales milestone payments. Novo Nordisk A/S will also be eligible for double digit royalties on net sales. After the issuance of the new Innate Pharma shares, the stake of Novo Nordisk A/S in Innate Pharma increased from 10.3% to 15.5%. As part of the agreement signed with Novo Nordisk as mentioned above, the Company has applied a withholding tax resulting from the absence of a tax treaty between France and Denmark.
- On July 3, 2017, the Company subscribed to a loan towards Société Générale in order to finance the building of its future headquarters. The maximum amount of this loan will be €15.2m. The Company will use it over the period of the works according to the payments that will be made to the suppliers. This period will end on September 1, 2019. The reimbursement of the capital will begin on September 1, 2019 over a 12 year period. As a counterpart of this loan, the Company subscribed to financial instruments towards Société Générale for an amount of €15.2m and granted a collateral on these instruments. The maturity date of these instruments is as follows: €4.2m as of July 2024, €5.0m as of July 2027 and €6.0m as of July 2031.

#### 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 général - "PCG") abrogating the regulation CRC n°99-03 relating to the annual financial statements.

##### b) Changes in accounting principle and policies

On July 2, 2015, the "ANC" issued the following regulation "2015-05" on financial instruments and on hedging activities that modify the current PCG. Indeed, details related to the overall foreign exchange position on receivables and trade payables denominated in foreign currencies: the foreign exchange result can be recognized in operating income or in financial income depending on the nature of the transactions. Consequently, it is supposed

to recognize in the operating result, the foreign exchange resulting from receivables or trade payables. This regulation applies to the fiscal year beginning on or after January 1, 2017. As a result, the Company recognized as operating result, an exchange gain amounting to € 272 thousand related to a milestone payment from BMS collected in 2017.

##### 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.

As part of the acquisition from Novo Nordisk rights to develop and market anti-C5aR, the financial contribution paid by Innate Pharma in 2017 was recorded as 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 2017 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).

#### m) Critical accounting estimates and assumptions

The preparation of the financial statements under French GAAP 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 prorate temporis on the basis of the estimated duration of its involvement or over the completion of the engaged costs. In the first situation, the recognition of revenue depends on the estimate of the duration of the works. The durations are updated when necessary to take into account the progress of developments and the remaining services to be rendered. In the second situation, the recognition of revenue depends on the recognition of the costs.

- the measurement of the subcontracting costs relating to the clinical trial costs: the completion of the subcontracting costs related to clinical trials is based on two allocation keys: time, for the services defined as fixed and linear and the number of visits for services resulting from the recruitment rate. If the Company is not sponsor of the trial, the criteria

"visits" is replaced by the criteria "patients". For each clinical trial, these allocation keys are applied to the study's budget. This methodology involves two types of estimation: the budget, the timeline of the clinical trial (for the allocation key "time") and the total number of visits (or "patients") for the criteria "visit" or ("patient"). Both estimated data are defined by the Clinical operations department and validated by the Management Team.

- the measurement of our employee benefits obligations: the Company has recognized a defined benefit obligation of €2,339 thousand and a seniority award accrual of €366 thousand as of December 31, 2017 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 12 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. Intangible assets

Intangible assets can be analyzed as follows (in thousand euros):

|                                     | Software   | Patents       | Goodwill | Total          |
|-------------------------------------|------------|---------------|----------|----------------|
| <b>Year ended December 31, 2017</b> |            |               |          |                |
| <b>Net opening balance</b>          | <b>44</b>  | <b>9,022</b>  | <b>9</b> | <b>9,075</b>   |
| Acquisitions                        | 228        | 40,000        | –        | <b>40,228</b>  |
| Disposals                           | –          | –             | –        | –              |
| Transfers                           | 9          | –             | (9)      | –              |
| Amortization and impairment         | (101)      | (3,010)       | –        | <b>(3,111)</b> |
| <b>Net closing balance</b>          | <b>180</b> | <b>46,012</b> | <b>–</b> | <b>46,192</b>  |

#### 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 (paid on April 2016) As of December 31, 2017, the net book value of the asset amounts to €4.5 million (€7.5 million as of December 31, 2016).

#### 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, 2017.

**Anti-CD39 rights acquired from Novo Nordisk A/S**

On June 2, 2017, Innate Pharma announces that it enters into an agreement with Novo Nordisk A/S granting Innate Pharma full worldwide exclusive rights to develop and commercialize a first-in-class clinical-stage anti-C5aR antibody (IPH5401). The terms of the transaction provide

for a total upfront payment of €40m, of which €37.2m will be paid in new Innate Pharma shares and €2.8m in cash. This amount was recognized as intangible asset. This asset is not amortized and is part of an annual impairment test.

**4. Tangible assets**

Tangible assets can be broken down as follows (in thousand euros):

|                                     | Buildings <sup>(1)</sup> | Laboratory equipments | Other tangible assets | In progress | Total        |
|-------------------------------------|--------------------------|-----------------------|-----------------------|-------------|--------------|
| <b>Year ended December 31, 2017</b> |                          |                       |                       |             |              |
| Net opening balance                 | 29                       | 2,815                 | 186                   | 30          | 3,060        |
| Acquisitions                        | 491                      | 1,718                 | 729                   | 34          | 2,972        |
| Disposals                           | –                        | (40)                  | (9)                   | –           | (49)         |
| Transfers                           | –                        | –                     | 30                    | (30)        | –            |
| Depreciation                        | (7)                      | (600)                 | (124)                 | –           | (731)        |
| <b>Net closing balance</b>          | <b>512</b>               | <b>3,893</b>          | <b>812</b>            | <b>34</b>   | <b>5,251</b> |

The acquisitions of the year mainly relate to laboratory equipments and acquisition of a loan adjacent to the first one (€491 thousand).

**5. Financial assets**

|                                     | Capitalization contract | Deposits   | Own shares | Other financial assets | Receivables / participations | Total         |
|-------------------------------------|-------------------------|------------|------------|------------------------|------------------------------|---------------|
| <b>Year ended December 31, 2017</b> |                         |            |            |                        |                              |               |
| Net opening balance                 | 1,535                   | 33         | 225        | 31,279                 | –                            | 33,072        |
| Acquisitions                        | 525                     | 72         | –          | 39,213                 | 17                           | 39,827        |
| Disposals                           | (13)                    | (2)        | (137)      | (12,450)               | –                            | (12,465)      |
| Net depreciations                   | –                       | –          | –          | 41                     | (8)                          | (104)         |
| <b>Net closing balance</b>          | <b>2,047</b>            | <b>103</b> | <b>88</b>  | <b>58,083</b>          | <b>17</b>                    | <b>60,329</b> |

As of December 31, 2017, financial assets are mainly composed of the following elements: other financial assets acquired in the context of our cash strategy (€58,083 thousand), contract of capitalization in the context of management of retirement benefits (€2,047 thousand).

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**

There are no trade receivables as of December 31, 2017. As of December 31, 2016, the item line was only composed

of receivables due from Bristol-Myers Squibb corresponding to the billing of the payment step

## CHAPTER 3 - FINANCIAL INFORMATION

### 3.3 INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

#### Accounting principles in France

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              | 2017          | 2016          |
| Other receivables – short term | 15,639        | 11,981        |
| Other receivables – long term  | 234           | 710           |
| <b>Total</b>                   | <b>15,873</b> | <b>12,691</b> |

The components of the short-term receivables are analyzed as follows

| As of December 31,                      |               |               |
|-----------------------------------------|---------------|---------------|
| In thousand euros                       | 2017          | 2016          |
| 2016 Research tax credit                | 11,273        | 8,925         |
| VAT refund                              | 1,536         | 1,080         |
| Deductible VAT                          | 1,124         | 1,007         |
| Grants                                  | 100           | 73            |
| Down-payment to Sogébail                | 152           | 144           |
| Advances and down-payments to suppliers | 430           | 709           |
| Brokering/liquidity agreement – cash    | 730           | –             |
| Other receivables                       | 294           | 43            |
| <b>Other receivables – short term</b>   | <b>15,639</b> | <b>11,981</b> |

It has requested the reimbursement of the 2017 Research Tax Credit in 2018 under the European Community tax rules for small and medium firms in compliance with the applicable regulation.

As of December 31, 2017, 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                     | 2017       | 2016       |
| Down-payment to Sogébail              | 234        | 386        |
| VAT receivables                       | –          | 325        |
| <b>Other receivables – long terms</b> | <b>234</b> | <b>710</b> |

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, 2017, 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, |                |
|---------------------------------------------------------------|--------------------|----------------|
|                                                               | 2017               | 2016           |
| Current bank accounts                                         | 35,806             | 120,158        |
| Fixed term accounts                                           | 63,556             | 55,735         |
| <i>Cash and cash equivalents</i>                              | <i>99,362</i>      | <i>175,893</i> |
| Commercial papers                                             | –                  | 5,810          |
| Money market funds                                            | 16,426             | 15,842         |
| <i>Short term investments</i>                                 | <i>16,426</i>      | <i>21,652</i>  |
| <b>Total cash, cash equivalents and marketable securities</b> | <b>115,788</b>     | <b>197,545</b> |

Following the receipt of the initial payment related to the license agreement signed with AstraZeneca in 2015 (\$250 million), the Company has retained a portion of the payment in USD in order to meet its USD maturities in the medium term (approximately three years) which provides protection against exchange rate fluctuations. As of December 31, 2017 the portion of cash and cash equivalents held in USD amounted to €52.7 million (or \$63.3 million as of December 31, 2017)

Due to the strengthening of the euros against dollars during the year 2017, holding a significant amount of cash in USD generated a foreign exchange loss amounting to €10,0 million. This loss is only an accounting loss and has no impact on the ability of the Company to settle its maturities in USD.

## 9. Prepaid expenses

Prepaid expenses can be analyzed as follows:

| In thousand euros                                                   | As of December 31, |              |
|---------------------------------------------------------------------|--------------------|--------------|
|                                                                     | 2017               | 2016         |
| Prepaid research materials and consumables not yet used in research | 5,377              | 5,828        |
| Other prepaid expenses                                              | 521                | 495          |
| <b>Total prepaid expenses</b>                                       | <b>5,898</b>       | <b>6,323</b> |

## 10. Share capital

As of December 31, 2017 and 2016 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, |               |
|-----------------------------------------------------------------------------------------------------|--------------------|---------------|
|                                                                                                     | 2017               | 2016          |
| Common shares, opening                                                                              | 53,921             | 53,834        |
| Share capital increase resulting from the exercise of securities giving access to the share capital | 91                 | 87            |
| Share capital increase resulting from anti C5aR acquisition                                         | 3,344              | –             |
| Share capital increase resulting from the definitive acquisition of free shares                     | 244                | –             |
| Share capital increase resulting from the definitive acquisition of preferred shares (B Shares)     | 7                  | –             |
| <b>Common shares (A Shares), closing</b>                                                            | <b>57,600</b>      | <b>53,921</b> |
| <b>Preferred shares (B Shares), closing</b>                                                         | <b>7</b>           | <b>–</b>      |

### Details of changes in share capital over the two last fiscal years:

On January 6, 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 30, 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 3, 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.

On January 24, 2017, subsequent to the exercise of BSAAR 2012, BSA 2011–2 and BSA 2014, the Executive board minuted an increase in capital amount nominal of €1,947.5 (3,950 shares), bringing the capital to €2,698,012.70.

On February 10, 2017, subsequent to the exercise of BSAAR 2012 and BSA 2013, the Executive board minuted an increase in capital amount nominal of €2,525 (50,500 shares), bringing the capital to €2,700,537.70.

On June 14, 2017, subsequent to the exercise of BSAAR 2012, the Executive board minuted an increase in capital amount nominal of €92.5 (1,850 shares), bringing the capital to €2,700,630.20.

On July 13, 2017, subsequent to a capital increase remunerating a contribution in kind, the Executive board minuted an increase in capital amount nominal of €167,187.4 (3,343,748 shares), bringing the capital to €2,867,817.60.

On October 23, 2017, subsequent to the definitive acquisition of AGA and AGAP, the Executive board minuted an increase in capital amount nominal of €5,135.05 (98,770 ordinary shares (A Shares) and 3,931 preferred shares (B Shares)), bringing the capital to €2,872,952.65.

On March 6, 2018, subsequent to the definitive acquisition of AGA and AGAP, the Executive Board minuted an increase in capital amount nominal of €7,398.9 (144,978 new ordinary shares (A Shares) and 3,000 new preferred shares (B Shares), bringing the capital to €2,880,351.55.

Securities giving access to the capital

Operations securities giving access to the capital during the last three fiscal years were as follows:

|                                                 | BSA                    | Options      | BSAAR            | AGAP<br>Management           | AGAP<br>Employees            | AGA<br>Management      | AGA<br>Employees         | AGA<br>Bonus                  |
|-------------------------------------------------|------------------------|--------------|------------------|------------------------------|------------------------------|------------------------|--------------------------|-------------------------------|
| <b>Balance as of December 31, 2014</b>          | <b>685,800</b>         | <b>6,075</b> | <b>761,750</b>   |                              |                              |                        |                          |                               |
| Cancelled warrants and options in 2015          |                        |              |                  |                              |                              |                        |                          |                               |
| Exercised warrants and options in 2015          | (309,300)              | (121,500)    | (380,950)        |                              |                              |                        |                          |                               |
| BSA attributed on 04/27/15                      | 70,000                 |              |                  |                              |                              |                        |                          |                               |
| BSA attributed on le 07/01/15                   | 14,200                 |              |                  |                              |                              |                        |                          |                               |
| BSAAR attributed on le 07/01/15                 |                        |              | 1,050,382        |                              |                              |                        |                          |                               |
| <b>Balance as of December 31, 2015</b>          | <b>460,700</b>         |              | <b>1,431,182</b> |                              |                              |                        |                          |                               |
| Cancelled warrants and options in 2016          |                        |              | 2,720            |                              |                              |                        |                          |                               |
| Exercised warrants and options in 2016          | (25,000)               |              | (62,290)         |                              |                              |                        |                          |                               |
| AGAP Management attributed on 10/21/16          |                        |              |                  | 2,000 <sup>(3)</sup>         |                              |                        |                          |                               |
| AGAP Employees attributed on 10/21/16           |                        |              |                  |                              | 2,486 <sup>(4)</sup>         |                        |                          |                               |
| AGA Management attributed on 10/21/16           |                        |              |                  |                              |                              | 50,000 <sup>(1)</sup>  |                          |                               |
| AGA Employees attributed on 10/21/16            |                        |              |                  |                              |                              |                        | 99,932 <sup>(2)</sup>    |                               |
| AGAP Management attributed on 12/30/16          |                        |              |                  | 3,000 <sup>(6)</sup>         |                              |                        |                          |                               |
| AGA Management attributed on 12/30/16           |                        |              |                  |                              |                              | 250,000 <sup>(5)</sup> |                          |                               |
| AGA Employees attributed on 12/30/16            |                        |              |                  |                              |                              |                        | 149,943 <sup>(7)</sup>   |                               |
| <b>Balance as of December 31, 2016</b>          | <b>435,700</b>         |              | <b>1,366,172</b> | <b>5,000</b>                 | <b>2,486</b>                 | <b>300,000</b>         | <b>249,875</b>           |                               |
| AGA and AGAP not definitely acquired in 2017    |                        |              |                  | (450) <sup>(8)</sup>         | (105) <sup>(8)</sup>         |                        | (6,127) <sup>(8)</sup>   |                               |
| Exercised warrants and options in 2017          | (88,200)               |              | (3,100)          |                              |                              |                        |                          |                               |
| AGA definitely acquired in 2017                 |                        |              |                  |                              |                              |                        | (243,748) <sup>(9)</sup> |                               |
| BSA attributed on 09/20/17                      | 37,000 <sup>(10)</sup> |              |                  |                              |                              |                        |                          |                               |
| AGA Bonus attributed on 09/20/17                |                        |              |                  |                              |                              |                        |                          | 28,556                        |
| AGA Bonus cancelled following their attribution |                        |              |                  |                              |                              |                        |                          | (3,577)                       |
| <b>Balance as of December 31 2017</b>           | <b>384,500</b>         | <b>0</b>     | <b>1,363,072</b> | <b>4,550 <sup>(11)</sup></b> | <b>2,381 <sup>(11)</sup></b> | <b>300,000</b>         | <b>0</b>                 | <b>24,979 <sup>(12)</sup></b> |

(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.
- (8) At the time of definitive acquisition of (a) AGA Employees 2016-1, AGAP Employees 2016-1 and AGAP Management 2016-1, the Executive board of October 23, 2017 recorded that (i) 450 AGAP Management 2016-1 (giving right, in case of conversion, to a maximum of 90,000 ordinary shares) (ii) 105 AGAP Employees 2016-1 (giving right, in case of conversion, to a maximum of 21,000 ordinary shares) and (iii) 1,162 AGA Employees 2016-1, could not be definitely acquired because the presence condition was not met at the definitive acquisition date and (b) AGA Employees 2016-2, the Executive Board of March 6, 2018, with effect on December 30, 2017, recorded that 4,965 AGA Employees 2016-2 could not be definitely acquired because the presence condition was not met at the definitive acquisition date.
- (9) The Executive Board of October 23, 2017 recorded the definitive acquisition of 98,779 AGA Employees 2016-1 and the Executive Board of March 6, 2018, recorded, with effect on December 30, 2017, the definitive acquisition of 144,978 AGA Employees 2016-2
- (10) Distribution of 40,000 BSA 2017-1 to the independent members newly appointed or renewed by the Annual General Meeting of June 23, 2017 and subscription of 37,000 BSA 2017-1 at the end of the subscription period.
- (11) The Executive Board of October 23, 2017 recorded the definitive acquisition of 1,550 AGAP Management 2016-1 and 2,381 AGAP Employees 2016-1 and the Executive Board of March 6, 2018 recorded, with effect on December 30, 2018, the definitive acquisition of 3,000 AGAP Management 2016-2. The AGAP Management 2016-1 and 2016-2, together, give right, in case of maximum conversion to 910,000 ordinary shares and the AGAP Employees 2016-1 give right, in case of maximum conversion, to a maximum of 476,200 ordinary shares.
- (12) Distribution of 28,556 AGA Bonus 2017-1 definitely attributed at the end of a one-year acquisition period as from September 20, 2017 followed by a one-year retention period starting on September 20, 2018 (number of AGA Bonus 2017-1 definitely attributed to each beneficiary depending on the achievement of their annual individual objectives). Following the waiver of such method of payment by a beneficiary, 3,577 AGA Bonus Management 2017-1 were not attributed. In accordance with the recommendations of the Compensation and nomination committees held on December 8, 2017 and January 30, 2018, adopted on the basis of the 2017 objectives achievement assessment of the Executive Board and Committee members, an Executive Board will record, as soon as possible as from September 20, 2018, the definitive acquisition of 22,055 AGA Bonus Management 2017-1 (see 2.3.2.1.2).

- Circulating securities as of December 31, 2017

The circulating BSA as of December 31, 2017, give right to subscribe 348,500 new ordinary shares with a nominal value of €0.05 per share.

The circulating BSAAR as of December 31, 2017, give right to subscribe 1,363,072 new ordinary shares with a nominal value of €0.05 per share.

The circulating AGA as of December 31, 2017, will give right to the attribution, at the end of the attribution period,

to 324,979 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, to the subscription, in case of achievement of the performance criteria, to the conversion into a maximum of 1,386,200 new ordinary shares with a nominal value of €0.05 per share.

As of December 31, 2017, the BSA, BSAAR, AGA and AGAP, gave right, in case of maximum conversion of the AGAP, to the subscription of a maximum of 3,458,751 new ordinary

shares, with a nominal value of €0.05 per share, representing 6,00% 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 7<sup>th</sup>, 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.

The General Meeting of June 2, 2016 authorized the creation of 150,000 BSA giving right to the subscription of 150,000 new shares. The Executive board, meeting on 19 September 2017, upon authorization of the Supervisory Board, attributed 40,000 BSA 2017-1 to newly appointed or renewed members of the Supervisory Board, 37,000 of which were subscribed at the end of the subscription period on November 30, 2017.

The General Meeting of June 23, 2017 authorized the creation of 50,000 free shares to be issued to the benefit of Executive Committee members employed and/or corporate officers of the Company and its consolidated subsidiaries (eligible under articles L. 225-197-1 et. Seq. of the Code of commerce) under their annual variable compensation (the "AGA Bonus"). The Executive board, meeting on September 19, 2017, attributed 28,556 AGA Bonus 2017-1 to the Executive Committee and Executive board members. One Executive committee member has waived the possibility to receive a part of his annual variable compensation in free shares. Thus, the number of AGA Bonus 2017-1 attributed is 24,979.

#### 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, 2017, 18,575 shares.



## 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.

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## 12. Provisions

Provisions and the variation in provisions can be analyzed as follows (in thousand euros):

| <b>Tax regulated provisions</b> | <b>Balance as of<br/>January 1, 2017</b> | <b>Increase</b> | <b>Reversal used</b> | <b>Reversal<br/>unused</b> | <b>Balance as of<br/>December 31, 2017</b> |
|---------------------------------|------------------------------------------|-----------------|----------------------|----------------------------|--------------------------------------------|
| Excess of tax depreciation      | 551                                      | 354             | (55)                 | –                          | 850                                        |
| <b>Total</b>                    | <b>551</b>                               | <b>354</b>      | <b>(55)</b>          | <b>–</b>                   | <b>850</b>                                 |

| <b>Provisions for contingencies and losses</b>       | <b>Balance as of<br/>January 1, 2017</b> | <b>Increase</b> | <b>Reversal used</b> | <b>Reversal<br/>unused</b> | <b>Balance as of<br/>December 31, 2017</b> |
|------------------------------------------------------|------------------------------------------|-----------------|----------------------|----------------------------|--------------------------------------------|
| Pensions and similar obligations                     | 2,418                                    | 203             | –                    | –                          | 2,621                                      |
| Penalties of late-payment withholding tax anti-NKG2A | –                                        | 504             | –                    | –                          | 504                                        |
| Employer contribution (instrument of participation)  | 123                                      | 476             | (104)                | –                          | 495                                        |
| Other provisions                                     | 13                                       | –               | –                    | –                          | 13                                         |
| <b>Total</b>                                         | <b>2,554</b>                             | <b>1,183</b>    | <b>(104)</b>         | <b>–</b>                   | <b>3,633</b>                               |

| <b>Provisions for contingencies and losses</b> | <b>Balance as of<br/>January 1, 2017</b> | <b>Increase</b> | <b>Reversal used</b> | <b>Reversal<br/>unused</b> | <b>Balance as of<br/>December 31, 2017</b> |
|------------------------------------------------|------------------------------------------|-----------------|----------------------|----------------------------|--------------------------------------------|
| Depreciation of financial assets               | 1,103                                    | 563             | (464)                | –                          | 1,202                                      |
| <b>Total</b>                                   | <b>1,103</b>                             | <b>563</b>      | <b>(464)</b>         | <b>–</b>                   | <b>1,202</b>                               |
| <b>Grand total</b>                             | <b>4,208</b>                             | <b>2,100</b>    | <b>(623)</b>         | <b>–</b>                   | <b>5,685</b>                               |

Presented within:

|                    |       |       |
|--------------------|-------|-------|
| Operating result   | 1,183 | (104) |
| Financial result   | 563   | (464) |
| Exceptional result | 354   | (55)  |

### 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 €1,012 thousand as of December 31, 2017 (€136 thousand as of December 31, 2016). They consist essentially of a provision for late-payment interest on the

regularization of a withholding tax (€504 thousand) and a 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 (€426 thousand).

##### 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" other than payments in action to which are eligible employees with 10, 15, 20 years of seniority. These bonuses can be indeed, included as "other long term benefits" according to IAS 19. The amount of this provision,

also calculated by an external actuary firm, rises to €366 thousand as of December 31, 2017 (€366 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: 45.2%
- Rate of wage costs: 23.29%
- 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,                |                                   |
|------------------------------------|-----------------------------------|-----------------------------------|
|                                    | 2017                              | 2016                              |
| <i>Economic assumptions</i>        |                                   |                                   |
| Discount rate (iBoxx Corporate AA) | 1.70%                             | 1.50%                             |
| 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     | 45.20%                            | 49%                               |
| Age at retirement                  |                                   |                                   |
| – Executives                       | 64 years                          | 64 years                          |
| – Non-executives                   | 62 years                          | 62 years                          |
| Mortality table                    | TH-TF 00-02                       | TH-TF 00-02                       |
| Annual mobility                    | All personnel                     | All personnel                     |
| 16–24 years                        | 4%                                | 4%                                |
| 25–29 years                        | 2.5%                              | 2.5%                              |
| 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                            | 2017               | 2016         |
| Discounted value of the funded obligation    | –                  | –            |
| Fair value of assets in the plan             | –                  | –            |
| Discounted value of the unfunded obligations | 2,621              | 2,418        |
| Unrecognized actuarial losses                | –                  | –            |
| Cost of unrecognized past services           | –                  | –            |
| <b>Provision in the balance sheet</b>        | <b>(2,621)</b>     | <b>2,418</b> |

The table below shows the amounts recognized in the income statement:

|                                                     | As of December 31, |            |
|-----------------------------------------------------|--------------------|------------|
| In thousand euros                                   | 2017               | 2016       |
| First booking of the provision for seniority awards | –                  | 336        |
| Cost of services rendered                           | 390                | 240        |
| Net actuarial loss recognized during the period     | (214)              | 32         |
| Finance cost                                        | 27                 | 70         |
| <b>Total</b>                                        | <b>203</b>         | <b>678</b> |

### 13. Borrowings

This line item was broken down per maturity and is analyzed as follows:

| In thousand euros          | As of December 31, |              |
|----------------------------|--------------------|--------------|
|                            | 2017               | 2016         |
| BPI PTZI IPH41             | 375                | 375          |
| Loan R&D equipment         | 54                 | –            |
| <b>Total – current</b>     | <b>429</b>         | <b>375</b>   |
| BPI PTZI IPH41             | 750                | 1,050        |
| Loan R&D equipment         | 372                | –            |
| Loan new building          | 1,300              | –            |
| <b>Total – non current</b> | <b>2,422</b>       | <b>1,050</b> |
| <b>Total borrowings</b>    | <b>2,851</b>       | <b>1,425</b> |

### 14. Trade notes payable

This line item was broken down as follows:

| In thousand euros          | As of December 31, |               |
|----------------------------|--------------------|---------------|
|                            | 2017               | 2016          |
| Trade payables             | 8,610              | 2,863         |
| Accruals                   | 11,513             | 12,806        |
| <b>Trade notes payable</b> | <b>20,123</b>      | <b>15,669</b> |

### 15. Tax and social liabilities

Tax and social liabilities were broken down as follows:

| In thousand euros                 | As of December 31, |              |
|-----------------------------------|--------------------|--------------|
|                                   | 2017               | 2016         |
| Social liabilities                | 3,633              | 3,937        |
| Tax liabilities                   | 745                | 454          |
| <b>Tax and social liabilities</b> | <b>4,378</b>       | <b>4,391</b> |

The accrued social and tax expenses as of December 31, 2017 amounts to €3,265 thousand (€3,848 thousand as of December 31, 2016).

### 16. Deferred income

| As of December 31 (in thousand euros)                                | 2017           | 2016           |
|----------------------------------------------------------------------|----------------|----------------|
| Revenue relating to the AZ agreement to be recognized under one year | 47,909         | 54,912         |
| <i>Deferred revenue under one year</i>                               | <i>47,909</i>  | <i>54,912</i>  |
| Revenue relating to the AZ agreement to be recognized over one year  | 87,005         | 112,348        |
| <i>Deferred revenue over one year</i>                                | <i>87,005</i>  | <i>112,348</i> |
| <b>Deferred revenue</b>                                              | <b>134,914</b> | <b>167,260</b> |

## 17. Revenue

Revenue mainly results from the agreements signed with AstraZeneca and is composed of the following items:

This is the staggering of the initial payment received in June 2015: €32.3 million for the fiscal year 2017 in comparison with €41.6 million for the fiscal year 2016. The Company collected a lump sum payment at the

signature agreement for a non-refundable amount of \$250 million (€223.5 million) received in July 2015 but whose recognition is spread on the basis of the costs that Innate Pharma has committed to support in the context of the agreement to the rhythm of the expenses incurred.

## 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, |                 |
|--------------------------------------------------------------|-------------------------|-----------------|
|                                                              | 2017                    | 2016            |
| Subcontracting <sup>(1)</sup>                                | (37,996)                | (28,330)        |
| Leasing, maintenance and utility <sup>(2)</sup>              | (2,924)                 | (2,288)         |
| Non-scientific advisory and consulting <sup>(3)</sup>        | (4,220)                 | (3,362)         |
| Travel expenses and congress attendance                      | (1,294)                 | (1,224)         |
| Intellectual property expenses <sup>(4)</sup>                | (1,392)                 | (1,146)         |
| Scientific advisory and consulting <sup>(5)</sup>            | (975)                   | (585)           |
| Marketing, communication and public relations <sup>(6)</sup> | (702)                   | (541)           |
| Insurance                                                    | (169)                   | (140)           |
| Others <sup>(7)</sup>                                        | (271)                   | (220)           |
| <b>Other purchases and external expenses</b>                 | <b>(49,943)</b>         | <b>(37,836)</b> |

(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 2017 compared to 2016 is mainly explained by the rise in 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. Since July 2017, the Company rents its administrative premises. Furthermore, 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 mainly results from consulting 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, 2017 and 2016 under the line item "Others, net" were mostly mainly consisted of expenses relating to telecommunication costs, bank fees and staff training and temporary staff.

## 20. Personnel costs

The item line respectively amounts to €12,241 and €14,585 thousand for the fiscal years ended December 31, 2016 and 2017. The Company had 154 employees as of December 31, 2016 versus 188 as of December, 31, 2017.

The Company benefited from the "competitiveness and employment tax credit" (CICE) for an amount of €233 thousand for the year 2017 (€154 thousand for 2016). 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, |                |
|------------------------------------------------------------|-------------------------|----------------|
|                                                            | 2017                    | 2016           |
| Depreciation and amortization                              | (3,841)                 | (2,872)        |
| <b>Depreciation expense and impairment of fixed assets</b> | <b>(3,841)</b>          | <b>(2,872)</b> |

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, |              |
|---------------------------------------------------|-------------------------|--------------|
|                                                   | 2017                    | 2016         |
| Gain on financial assets                          | 1,277                   | 1,898        |
| Foreign exchange gains / (losses)                 | (8,713)                 | 2,421        |
| Depreciation of financial assets                  | (99)                    | 889          |
| Financial expense on brokering/liquidity contract | –                       | (53)         |
| Other financial income / (expenses)               | (3)                     | (24)         |
| <b>Financial income / (expense), net</b>          | <b>(7,539)</b>          | <b>5,131</b> |

The foreign exchange (loss) / gain represent the exchange difference on the US dollar bank account (See Note 8). The Company uses this bank account to pay its US dollar

denominated invoices. . 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, |              |
|--------------------------------------------|-------------------------|--------------|
|                                            | 2017                    | 2016         |
| <b>Exceptional income</b>                  |                         |              |
| Selling price of assets sold               | 1                       | 2            |
| Reversal of excess of tax depreciation     | 55                      | 49           |
| <b>Exceptional expenses</b>                |                         |              |
| Net book value of fixed assets disposed of | (50)                    | (2)          |
| Excess of tax depreciation                 | (354)                   | (205)        |
| <b>Other exceptional expenses</b>          | (45)                    | -            |
| <b>Exceptional income / (expense), net</b> | <b>(393)</b>            | <b>(155)</b> |

### 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). As stated in the Note 2, the Company applied for the fiscal year 2016, the tax rate of 15% applicable for the operating income related to monalizumab. Following the adjustment of the withholding tax, the Company recognized an additional income tax amounting to €368 thousand.

Expenses considered in 2017 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.

Breakdown of the income tax for the year ended December 31, 2017:

| Year ended December 31, 2017 (in thousand euros) | Prior<br>income tax | Income tax<br>(15%) | After<br>income tax |
|--------------------------------------------------|---------------------|---------------------|---------------------|
| Operating income/(loss)                          | (38,000)            | (368)               | (38,368)            |
| Exceptional income/(loss)                        | (393)               | -                   | (393)               |
| <b>Net income/(loss)</b>                         | <b>(38,393)</b>     | <b>(368)</b>        | <b>(38,761)</b>     |

\*The "competitiveness and employment tax credit" (CICE) amounting to €0.2 million is deducted from staff costs and not booked as tax.

Breakdown of the income tax for the year ended December 31, 2016:

| Year ended December 31, 2016 (in thousand euros) | Prior<br>income tax | Income tax<br>(15%) | After<br>income tax |
|--------------------------------------------------|---------------------|---------------------|---------------------|
| Operating income/(loss)                          | 13,528              | (301)               | 13,227              |
| Exceptional income/(loss)                        | (155)               | -                   | (155)               |
| <b>Net income/(loss)</b>                         | <b>13,373</b>       | <b>(301)</b>        | <b>13,071</b>       |

\*The "competitiveness and employment tax credit" (CICE) amounting to €0.2 million is deducted from staff costs and not booked as tax. For the fiscal year ended December 31, 2017, the rate amounts to 18.33% applied to the 2016 tax result, which corresponds to the difference between 33.33% and the 15% rate applied in 2016.

## CHAPTER 3 - FINANCIAL INFORMATION

### 3.3 INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

#### Accounting principles in France

##### Net income without non-derogatory tax

The net charge of derogatory amortization amounts to €0.3 million for the year ended 31, 2017 (€0.2 million for the year end 31, 2016).

##### Net income without non-derogatory tax

The taxable income for the year ended December 31, 2017 includes elements that will generate future tax savings. It is mainly the allowance for retirement and seniority bonuses

(base of €2.7 million that will bring the Company to generate a tax saving of €0.9 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 €219.5 million as of

December 31, 2017 (€163.9 million as of December 31, 2016).

##### 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 Note2e1, 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, |              |
|----------------------------|-------------------------|--------------|
|                            | 2017                    | 2016         |
| 2016 Research tax credit   | -                       | 9,082        |
| 2017 Research tax credit   | 11,022                  | -            |
| <b>Research tax credit</b> | <b>11,022</b>           | <b>9,082</b> |

## 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, 2017, all these commitments totaled €58 thousand.

##### Financial leasing – Real Estate

In 2008, the Company contracted with Sogébail, 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 €1,290 thousand as at December 31, 2017. 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 €563 thousand as of December 31, 2017.

Due to the increase of employees, the Company signed at June 30, 2017 a lease to rent a new building. The lease covers a period of nine years with possibility for

termination after three and nine years. As of December 31, 2017, the commitment related to the rent until June 30,

2020 amounts to €608 thousand.

| Categories (in thousand euros) | Land         | Buildings    | Total        |
|--------------------------------|--------------|--------------|--------------|
| <b>Original Value</b>          | <b>1,560</b> | <b>4,991</b> | <b>6,551</b> |
| Amortizations:                 |              |              |              |
| – Previous years               | 357          | 2,660        | 2,747        |
| – Amortization of the year     | 42           | 247          | 289          |
| <b>Total</b>                   |              |              |              |
| Payments:                      |              |              |              |
| – Previous years               | 1,484        | 4,375        | 5,857        |
| – 2016                         | 173          | 548          | 721          |
| <b>Total</b>                   | <b>1,657</b> | <b>4,923</b> | <b>6,580</b> |
| Residual value:                |              |              |              |
| – less than one year           | 173          | 548          | 721          |
| – between one and five years   | 250          | 788          | 1,759        |
| – more than five years         | –            | –            | –            |
| <b>Total</b>                   | <b>423</b>   | <b>1,336</b> | <b>1,759</b> |

#### Consumable purchases

As part of a supply of scientific equipment, the Company was committed towards a supplier to minimum annual purchases of consumables. As of December 31, 2017, the

overall commitment was amounting to €469 thousand for the period from January 2018 to June 2020.

#### Borrowings related to the future headquarters

As of July 17, 2017, the Company took out a loan amounting to €15.2 million in order to finance the acquisition of a land and the construction of its future

headquarters. As of December 31, 2017, the Company raised this loan to €1.3 million. The commitment as of December 31, 2017 therefore amounts to €13.9 million.

#### 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 January 30, 2018, Innate Pharma announced that it has entered into a clinical trial collaboration with MedImmune, the global biologics research and development arm of AstraZeneca. The Phase I/II study (STELLAR-001) will evaluate the safety and efficacy of durvalumab, an anti-

PD-L1 immune checkpoint inhibitor, in combination with Innate's investigational anti-C5aR monoclonal antibody, IPH5401, as a treatment for patients with selected solid tumors.

#### 27. Table of subsidiaries an participations

| Subsidiaries / participations | Company            | Equity (in thousand euros) | Capital ownership | Net result of the last fiscal year (in thousand euros) |
|-------------------------------|--------------------|----------------------------|-------------------|--------------------------------------------------------|
| Subsidiary                    | Innate Pharma Inc. | (566)                      | 100%              | (80)                                                   |

#### 28. Related parties

##### Member of the Executive board and Executive:

|                                                 | 2017         | 2016         |
|-------------------------------------------------|--------------|--------------|
| Salaries and other short-term employee benefits | 1,591        | 1,836        |
| Extra pension benefits                          | 12           | 8            |
| Advisory fees                                   | 180          | 460          |
| <b>Executive Committee members compensation</b> | <b>1,783</b> | <b>2,304</b> |

Nicolai Wagtmann and Marcel Rozenzweig, members of the Executive Committee, resigned from their roles on June 23 and September 15, 2017, respectively.

##### Members of the Supervisory board

The Company recognized a provision of €205 thousand for attendance fees (jetons de présence) relating to the fiscal year ended December 31, 2017 which should be paid in 2018.

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, 2017 and 2016, the Company did not identify any management and/or equity relationship between its major suppliers used in 2017 and 2016 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 €1,165 thousand and €897 thousand for the

fiscal years ended December 31, 2016 and 2017, respectively .

### 3.3.4. Statutory Auditors' Reports on the financial statements for the Year Ended December 31, 2017

This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Innate Pharma Annual General Meeting,

#### Opinion

In compliance with the engagement entrusted to us by your Annual General Meetings, we have audited the accompanying financial statements of Innate Pharma for the year ended December 31, 2017.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as of December 31, 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

#### Basis for opinion

- **Audit Framework**

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Financial Statements" section of our report.

- **Independence**

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 or in the French Code of ethics (*code de déontologie*) for statutory auditors.

- **Emphasis of matter**

Without qualifying the above opinion, we draw your attention to Note 2.b to the financial statements "Change in regulations and accounting methods," which describes the consequences of the mandatory adoption of ANC regulation 2015-05 relating to forward contracts and hedging transactions as of January 1, 2017.

- **Justification of Assessments - Key Audit Matters**

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring your attention to the key audit matters relating to risks of material

misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period, as well as our responses to those risks.

These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on specific items of the financial statements.

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Our response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Recognition of clinical subcontracting costs</b><br><i>(See Notes 2e1, 2m and 19 to the financial statements for the year ended December 31, 2017)</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <p>Subcontracting costs, which represent a critical component of the financial statements given the Group's activity, account for 50% of the operating expenses. These expenses include clinical study costs (coordination of trials, hospital costs, etc.) that are subcontracted to hospital and clinical research centers.</p> <p>Due to the sometimes significant delays between the completion of services and their invoicing by subcontractors, the expenses recorded in the accounts based on invoices received must be adjusted. This adjustment is automatically calculated and carried out, based on management estimates of the percentage of completion of ongoing trials entered in the information system. This completion is measured via Management's analysis of the following components:</p> <ul style="list-style-type: none"> <li>the total forecast costs to be incurred for each study (budgets),</li> <li>the expected duration of the studies or the number of patient visits or the number of patients, based on the criterion deemed most appropriate to assess the completion.</li> </ul> <p>Management is required to make material judgments since the estimate of the amount of services already rendered must be recorded at the closing date.</p> <p>Consequently, we considered the recognition of clinical subcontracting costs to be a key audit matter.</p> | <p>We examined the appropriateness of the control procedures implemented by the Company for the clinical subcontracting costs.</p> <p>This work was completed by substantive tests which consisted in assessing, based on sampling and by exercising our professional judgment:</p> <ul style="list-style-type: none"> <li>the appropriateness of the completion criterion adopted with respect to the type of services provided;</li> <li>the consistency of the components adopted in the calculation of expenses on completion (budgets, estimated durations of studies, number of patients, number of patient visits) in relation to contracts concluded with service providers, subject to our understanding of the change in the studies and the actual data available (recruitment of patients, number of patient visits, reports communicated on scientific results, etc.).</li> <li>the correct allocation of the expenses invoiced by the service providers to the study concerned.</li> </ul> <p>Aided by our information system specialists, we also verified, by sampling, the automatic calculation of adjustment entries used to record clinical subcontracting costs on completion and their upload into the accounting system.</p> |

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Our response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Agreement with AstraZeneca</b><br><i>(See Notes 2k, 2m and 17 to the financial statements for the year ended December 31, 2017)</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <p>In April 2015, Innate Pharma signed a co-development and commercialization agreement with AstraZeneca for the product monalizumab, under which the Company completed several phase II studies and assumed the costs.</p> <p>It received an initial payment of US\$ 250 million on June 30, 2015. The purpose of this initial payment was to remunerate the services rendered by the Company over the duration of the studies. It was recorded in revenue on a percentage of completion basis, based on the costs recorded in the income statement in relation to the total costs to be incurred for the studies concerned.</p> <p>Revenue from cooperation and licensing agreements (€32.3 million) comprises in full the recognition of a portion of this initial payment for 2017.</p> <p>In this context, we considered the recognition of revenue relating to the agreement with AstraZeneca to be a key audit matter, for the following reasons:</p> <ul style="list-style-type: none"> <li>the correct recording of revenue is based on an appropriate measurement of the completion of studies, which implies material management judgments on the forecast total budget of these studies and the appropriate consideration of the expenses already incurred for these studies;</li> <li>revenue represents a sensitive indicator for both the presentation of the financial statements and the Company's financial reporting.</li> </ul> | <p>We familiarized ourselves with the agreements concluded between Innate Pharma and AstraZeneca, in order to assess French GAAP compliance regarding the method used to record the initial payment on completion in revenue based on expenses incurred.</p> <p>We also assessed the appropriateness of:</p> <ul style="list-style-type: none"> <li>the control procedures implemented by the Company for the recognition of the AstraZeneca agreement,</li> <li>the incurred expenses (including their allocation to the proper study) and forecast expenses taken into account to measure the percentage of completion of the studies,</li> </ul> <p>by considering the work covering the clinical subcontracting costs described above.</p> |

### Verification of the Management Report and of the Other Documents Provided to Shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

- Information given in the management report and other documents provided to shareholders with respect to the financial position and the financial statements**

Audit Conseil Expertise SAS, member of PKF International, were appointed as statutory auditors of Innate Pharma by the Annual General Meeting held on June 29, 2000 while Deloitte & Associés were appointed on March 27, 2014.

As of December 31, 2017, Audit Conseil Expertise SAS, member of PKF International, and Deloitte & Associés were in the 18th and 4th year of total uninterrupted engagement, which are the 12th year and 4th year since the Company was admitted to trading on a regulated market, respectively.

- Corporate governance information**

We attest that the Supervisory Board's report on corporate governance contains the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code.

#### Accounting principles in France

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code relating to remunerations and benefits received by the directors and any other commitments made in their favor, 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 controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

Concerning the information relating to items your Company considers likely to have an impact in the event of a public tender offer or public exchange offer, provided pursuant to Article L. 225-37-5 of the French Commercial Code, we have verified its compliance with the source documents communicated to us. Based on this work, we attest the accuracy and fair presentation of this information.

- **Other information**

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

#### Report on Other Legal and Regulatory Requirements

- **Appointment of the Statutory Auditors**

Audit Conseil Expertise SAS, member of PKF International, were appointed as statutory auditors of Innate Pharma by the Annual General Meeting held on June 29, 2000 while Deloitte & Associés were appointed on March 27, 2014.

As of December 31, 2017, Audit Conseil Expertise SAS, member of PKF International, and Deloitte & Associés were in the 18th and 4th year of total uninterrupted engagement, which are the 12th year and 4th year since the Company was admitted to trading on a regulated market, respectively.

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and, where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Executive Board.

#### Statutory Auditors' Responsibilities for the Audit of the Financial Statements

- **Objectives and audit approach**

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified by Article L.823-10-1 of the French Commercial Code, the scope of our statutory audit does not include assurance on the future viability of the Company or the quality with which Company's management has conducted or will conduct the affairs of your Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

- **Report to the Audit Committee**

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters. We describe these matters in this report.

We also provide the Audit Committee with the declaration referred to in Article 6 of Regulation (EU) No. 537/2014, confirming our independence in the sense of the rules applicable in France as defined in particular by Articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of ethics for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Marseille, April 23, 2013

The Statutory Auditors

**Audit Conseil Expertise SAS**

Member of PKF International

**Deloitte & Associés**

Nicolas Lehnertz

Hugues Desgranges

### 3.3.5. Date of the latest financial information

December 31, 2017.

### 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, 2017 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.

## CHAPTER 4 - INFORMATION ABOUT CAPITAL AND SHAREHOLDING

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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 April 3, 2018, the share capital amounted to 2,880, 351.55 euros. It is divided into 57,600,100 ordinary shares (A Shares) and 6,931 preferred shares (B Shares). 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. 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 23, 2017 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 23, 2017.

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.

This authorization was not used during the 2017 fiscal year. The number of treasury shares held by the Company has not changed since December 31, 2016.

### 4.1.4. Other securities giving access to the Company's capital

#### 4.1.4.1. Share warrants (BSA)

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.

As of April 3, 2018, it remains 83,860 BSA 2013 outstanding, which represent a total of 83,860 common shares.

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 April 3, 2017, all BSA 2013-1 have been exercised.

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.

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.

As of April 3, 2018, it remains 70,000 BSA 2015-1 outstanding, which represent a total of 70,000 common shares.

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 April 3, 2018, it remains 14,200 BSA 2015-2 and 14,200 BSA 2015-2 outstanding, which represent a total of 14,200,200 common shares.

The Annual General meeting held on June 2, 2016 authorized the issuing of 150,000 BSA giving right to the subscription of 150,000 new shares. The Executive board meeting of September 20, 2017, upon authorization of the Supervisory board, attributed 40,000 BSA 2017-1, among which 37,000 were subscribed by independent members of the Supervisory board, which was recorded by the Executive board meeting of December 7, 2017.

As of April 3, 2018, it remains 37,000 BSA 2017-1 outstanding, which represent a total of 37,000 ordinary shares.

As of April 3, 2018 there were 384,500 BSA outstanding, which made it possible to subscribe to a total of 384,500 new shares of a par value of 0.05 euros, representing about 0.67% of the Company's capital on the basis of the number of existing shares as of April 3, 2018.

The table below shows the warrants outstanding as of April 3, 2018:

| 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.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 |

## CHAPTER 4 - INFORMATION ABOUT CAPITAL AND SHAREHOLDING

### 4.1 SHARE CAPITAL

| 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   |
| 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  |
| Sept. 20, 2017 (BSA 2017-1) | 150,000             | 37,000          | Supervisory board members                                                                              | 0                  | 37,000               | 37,000                                              | €1.10                             | Sept. 20, 2027 |
| <b>Total :</b>              | <b>1,100,000</b>    | <b>733,700</b>  | <b>N/A</b>                                                                                             | <b>349,200</b>     | <b>384,500</b>       | <b>384,500</b>                                      | <b>N/A</b>                        | <b>N/A</b>     |

#### 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 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 April 3, 2018, 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 April 3, 2018, it remains 62,350 BSAAR 2012, which may give rise to the issue of 62,350 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 April 3, 2018, 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 April 3, 2018, it remains a total of 1,363,072 BSAAR, which may give rise to the subscription of 1,363,072 new shares of a nominal value of 0.05 euro, representing around 2.37% of the share capital of the Company on the basis of the number of shares issued as of April 3, 2018.

The table below shows the outstanding BSAAR at April 3, 2018:

| 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 |
|------------------------------|-----------------|--------------------------------|------------------|--------------------|----------------------|-------------------------------|-----------------------------------|-----------------|
| Sep.9, 2011<br>(BSAAR 2011)  | 650,000         | Employees and company officers | €0.05            | 395,000            | 255,000              | 255,000                       | €2.04                             | Sep.9, 2021     |
| May.27, 2013<br>(BSAAR 2012) | 146,050         | Employees                      | €0.11            | 83,700             | 62,350               | 62,350                        | €2.04                             | May.27, 2023    |
| July 1, 2015<br>(BSAAR 2015) | 1,050,382       | Employees and company officers | €1.15            | 1,940              | 1,045,722            | 1,045,722                     | €7.20                             | Jun. 30, 2025   |
| Total                        | 1,846,432       | –                              | –                | 489,640            | 1,353,072            | 1,353,072                     | –                                 | –               |

(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” or “AGAP”). To this purpose, the Extraordinary General Meeting of shareholders held on June 2, 2016, authorized the issuance of 5,000 Preferred Shares (AGAP Management 2016) 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 2016).

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 Executive board of October 23, 2017 recorded the definitive acquisition of 1,550 AGAP Management 2016-1 and 2,381 AGAP Employees 2016-1 and the capital increase amounting to €196.55 arising from it and leading to the issuance and creation of 3,931 AGAP 2016 (B Shares), paid up by including reserves to the share capital. The Executive board of October 23, 2017 changed the Company's by-laws (in accordance with resolutions 23, 24 and 25 of the 2016 Annual General Meeting) to create B Shares.

The Executive board of March 6, 2018 recorded the definitive acquisition of 3,000 AGAP Management 2016-2 and the capital increase amounting to €150 arising from it and leading to the issuance of 3,000 AGAP 2017 (B shares), paid up by including reserves to the share capital.

The AGAP 2016 must be kept by the beneficiaries until October 21, 2019 for the AGAP 2016-1 and until December 30, 2019 for the AGAP 2016-2. At the end of this two-year period, the conversion ration shall be determined and the AGAP 2016 may be converted into a maximum of 200 ordinary shares. The rights and obligations of the AGAP 2016 as well as their conversion terms are detailed under Section 4.3.3.

The General Meeting of shareholders held on June 23, 2017 authorized the issuance of 4,000 Preferred Shares ("AGAP Dirigeants 2017") to the benefit of Executive Committee salaried members and/or corporate officers of the Company as well as 8,500 Preferred Shares to the benefit of the Employees of the Company (AGAP Employees 2017).

The Executive board of April 3, 2018 attributed 2,400 AGAP Management 2017-1 to the Executive Committee salaried members and/or corporate officers and 5,725 AGAP Employees 2017-1 to Company's employees.

The AGAP attributed in 2017 will be definitely acquired at the end of a one-year acquisition period, on April 3, 2019.

At the registry date of this Reference document, there is no outstanding Preferred Shares, since the 2016-1 and 2016-2 Preferred Shares, though they have been definitively acquired by their beneficiaries, are not transferable; only the ordinary shares that will result from the conversion will be transferable.

The table below shows the AGAP attributed as of April 3, 2018

| Issuance date | AGAP attributed | Definitive acquisition date | Beneficiaries                                      | Number of AGAP definitely acquired | Number of shares that could be issued <sup>(1)</sup> (in case of maximum conversion of the AGAP) |
|---------------|-----------------|-----------------------------|----------------------------------------------------|------------------------------------|--------------------------------------------------------------------------------------------------|
| 10/21/2016    | 2,486           | 10/23/2017                  | Employees                                          | 2,381                              | 476,200                                                                                          |
| 10/21/2016    | 2,000           | 10/23/2017                  | Executive committee members and corporate officers | 1,550                              | 310,000                                                                                          |
| 12/30/2016    | 3,000           | 12/30/2017                  | Executive committee members and corporate officers | 3,000                              | 600,000                                                                                          |
| 04/03/2018    | 5,725           | –                           | Employees                                          | –                                  | 572,500                                                                                          |
| 04/03/2018    | 2,400           | –                           | Executive committee members and corporate officers | –                                  | 240,000                                                                                          |
| <b>Total</b>  | <b>–</b>        | <b>–</b>                    | <b>–</b>                                           | <b>6,931</b>                       | <b>2,198,700</b>                                                                                 |

(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 Executive board of October 23, 2017, recorded the definitive acquisition of 98,770 AGA Employees and the capital increase amounting to €4,938.50 arising from it and leading to the issuance of 98,770 new ordinary shares paid up by including reserves to the share capital.

The Executive board of March 6, 2018 recorded, with effect on December 30, 2017, the definitive acquisition of 144,978 AGA Employees and the capital increase amounting to €7,248.90 arising from it and leading to the issuance of 144,979 new ordinary shares paid up by including reserves to the share capital.

The General Meeting of shareholders held on June 23, 2017 authorized the Executive board to attribute free shares to employees. To this purpose, the General Meeting of shareholders of June 23, 2017 authorized the issuance of 200,000 AGA Employees to the benefit of Company's employees. The Executive board of April 3, 2018 attributed 114,500 AGA Employees 2017-1 to Company's employees.

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 Bonus 2017-1 attributed in 2017 to the Executive committee and Executive board members and the AGA Employees 2017-1 attributed in 2018 will be definitely acquired at the end of a one-year acquisition period.

The table below shows the Free Shares attributed as of April 3, 2018:

| Issuance date | Shares attributed | Beneficiaries                                      | Shares that can be issued <sup>(1)</sup> | Shares definitely acquired and issued |
|---------------|-------------------|----------------------------------------------------|------------------------------------------|---------------------------------------|
| 10/21/2016    | 50,000            | Executive committee members and corporate officers | 5,000                                    | -                                     |
| 10/21/2016    | 99,932            | Employees                                          | 99,932                                   | 98,770                                |
| 12/30/2016    | 149,943           | Employees                                          | 149,943                                  | 144,978                               |
| 12/30/2016    | 25,000            | Chairman of the Executive board                    | 250,000                                  | -                                     |
| 09/20/2017    | 28,556            | Executive committee members and corporate officers | 24,979                                   | -                                     |
| 04/03/2018    | 114,500           | Employees                                          | 114,500                                  |                                       |
| <b>Total</b>  | <b>692,931</b>    | <b>-N/A</b>                                        | <b>689,354</b>                           | <b>243,678</b>                        |

(1) With a nominal Value of €0.05.

#### 4.1.5. Fully diluted capital

At April 3, 2018, the number of shares that could be issued from outstanding warrants (384,500 warrants giving the right to subscribe to 384,500 shares), outstanding

repayable warrants (1,363,072 repayable warrants giving the right to subscribe to 1,363,072 shares), from the AGAP Management and Employees (15,056 AGAP Management

## CHAPTER 4 - INFORMATION ABOUT CAPITAL AND SHAREHOLDING

### 4.1 SHARE CAPITAL

and Employees giving the right, in case of maximum conversion, to a maximum of 2,198,700 shares) and from the AGA Management and Employees (439,479 AGA Management and employees giving right to 439,479

shares), totaled 4,385,751 representing approximately 6.61% of the Company's share capital based on the existing number of shares on a fully diluted basis (i.e. 61,985,851).



The following table shows all company warrants issued, repayable warrants, AGA and AGAP outstanding as at April 3, 2018:

|                                                                                                                        | BSA      |          |          |          |          |          | BSAAR     |          |           | ACAP     |          |          |          | AGA      |          |          |          |
|------------------------------------------------------------------------------------------------------------------------|----------|----------|----------|----------|----------|----------|-----------|----------|-----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Date of the General Meeting                                                                                            | 06/29/11 | 06/28/13 | 03/27/14 | 04/27/15 | 04/27/15 | 06/23/17 | 06/29/11  | 06/28/12 | 04/27/15  | 06/02/16 | 06/02/16 | 06/23/17 | 06/23/17 | 06/02/16 | 06/02/16 | 06/23/17 | 06/23/17 |
| Date of the Executive board                                                                                            | 07/21/11 | 07/17/13 | 07/16/14 | 04/27/15 | 07/01/15 | 09/20/17 | 09/09/11  | 05/27/13 | 07/01/15  | 10/21/16 | 12/30/16 | 04/03/18 | 04/03/18 | 10/21/16 | 12/30/16 | 09/20/17 | 04/03/18 |
| Number of options/warrants/shares authorized                                                                           | 350,000  | 300,000  | 150,000  | 150,000  | 150,000  | 150,000  | 1,000,000 | 200,000  | 1,500,000 | 7,500    | 7,500    | 4,000    | 8,500    | 350,000  | 350,000  | 50,000   | 200,000  |
| Number of options assigned/warrants issued/shares distributed                                                          | 225,000  | 237,500  | 150,000  | 70,000   | 14,200   | 40,000   | 650,000   | 146,050  | 1,050,382 | 4,486    | 3,000    | 2,400    | 5,725    | 50,000   | 250,000  | 28,556   | 114,500  |
| 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 | 09/20/19 | 09/09/11  | 05/27/13 | 07/01/15  | 10/21/17 | 12/30/17 | 04/03/19 | 04/03/19 | 10/21/19 | 12/30/19 | 09/20/18 | 04/03/18 |
| Ending date for exercising options                                                                                     | 07/29/21 | 07/17/23 | 07/16/24 | 04/26/25 | 06/30/25 | 09/20/27 | 09/09/21  | 05/27/23 | 06/30/25  | 04/21/26 | 06/30/26 | 10/02/27 | 10/02/27 | -        | -        |          | -        |
| Subscription price per share                                                                                           | 1.77     | 2.36     | 8.65     | 9.59     | 14.05    | 1.1      | 2.04      | 2.04     | 7.2       |          |          |          |          |          |          |          | -        |
| Number of executive directors concerned                                                                                | 4        | 2        | 2        | 4        | 1        | 4        | 2         | 0        | 2         | 3        | 1        | 5        |          | -        | 1        | 5        |          |
| 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   | 37,000   | 650,000   | 146,050  | 1,050,382 | 897,200  | 600,000  | 240,000  | 572,500  | 50,000   | 250,000  | 28,556   | 114,500  |
| Number of shares subscribed at April 3, 2018                                                                           | 120,560  | 153,640  | 75,000   |          |          |          | 395,000   | 83,700   | 1,940     |          |          |          |          |          |          |          |          |
| Number of lapsed or cancelled options or warrants                                                                      |          |          |          |          |          |          |           |          | 2,720     | 111,000  |          |          |          |          |          | 3,577    |          |
| Remaining shares that could be subscribed (A-B-C)                                                                      | 104,440  | 83,860   | 75,000   | 70,000   | 14,200   | 37,000   | 255,000   | 62,350   | 1,045,722 | 786,200  | 600,000  | 240,000  | 572,500  | 50,000   | 250,000  | 24,979   | 114,500  |

(1) Members of the Executive board or Supervisory board

#### 4.1.6. Financial authorization applicable or used during the financial year, that may give rise to a capital increase

The following table summarizes the authority delegated to the Executive board by the Extraordinary General Meeting of the shareholders by the General Meeting of shareholders held on June 2, 2016 and June 23, 2017 at the date of this Reference Document:

| Delegations of authority granted to the Executive board by the General Meeting                                                                                                                                                                                                                                                      | Duration of delegation      | Terms of the delegation                                                                                                                                                                                                                                                                           | Use during the 2017 fiscal year                                                                                                                                                                                         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>General Meeting of June 2, 2016</b>                                                                                                                                                                                                                                                                                              |                             |                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                         |
| Issuance of ordinary Company shares and/or securities giving access to the Company's share capital, <b>with shareholders' preferential subscription rights</b> <sup>(1)</sup> (Resolution 12)                                                                                                                                       | 26 months<br>August 2, 2018 | Maximum amount: €672,958 <sup>(2)</sup>                                                                                                                                                                                                                                                           | N/A                                                                                                                                                                                                                     |
| Issuance of ordinary Company shares and/or securities giving access to the Company's share capital, <b>without shareholders' preferential subscription rights</b> <sup>(1)</sup> (Resolution 13)                                                                                                                                    | 26 months<br>August 2, 2018 | Maximum amount: €672,958 <sup>(2)</sup><br>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% | N/A                                                                                                                                                                                                                     |
| Issuance of ordinary Company shares and/or securities giving access to the Company's share capital, <b>without shareholders' preferential subscription rights to the benefit of qualified investors or a restricted circle of investors</b> ( item II of Article L.411-2 of the French Monetary and Financial Code) (Resolution 14) | 26 months<br>August 2, 2018 | Maximum amount: €538,367 <sup>(2)</sup><br>Issuance price: 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%    | N/A                                                                                                                                                                                                                     |
| Issuance of ordinary Company shares and securities giving access to the Company's share capital, <b>as remuneration for contributions in kind</b> comprising equity securities or securities giving access to the share capital <sup>(1)</sup> (Resolution 17)                                                                      | 26 months<br>August 2, 2018 | Maximum amount: 10% of the Company's share capital on the issuance date <sup>(2)</sup>                                                                                                                                                                                                            | On July 13, 2017, contribution by Novo Nordisk A/S of 100% of the share capital and voting rights of NN C5aR as contribution for the issuance of 3,343,748 new shares, <i>i.e.</i> a capital increase of €167,187.40(3) |
| Issuance of ordinary shares and securities giving access to the Company's share capital, <b>in the event of a public exchange</b>                                                                                                                                                                                                   | 26 months<br>August 2,      | Maximum amount: €672,958 <sup>(2)</sup>                                                                                                                                                                                                                                                           | N/A                                                                                                                                                                                                                     |

**offer initiated by the Company** <sup>(1)</sup> 2018  
(Resolution 18)

|                                                                                                                                                                                                                                                          |                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Issuance of <b>autonomous equity warrants</b> 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 <sup>(1)</sup> (Resolution 20) | 18 months<br>December<br>2, 2017 | Maximum amount: €7,500<br><br>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.    | Subscription of 37,000 BSA recorded by the Executive board of December 7, 2017, following the Executive board decision dated September 20, 2017 to attribute 40,000 BSA to the independent members of the Supervisory board, who were newly renewed or appointed, upon recommendation of the Compensation and nomination committee of June 23, 2017.<br><br>(4) |
| 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. ((5) AGM ruling in 2019 on 2018 accounts<br><br>26)                                                 | 26 months<br>August 2,<br>2018   | Maximum amount: 10 000 €<br><br>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 provided under the plan is less than ten years, and 70% of this average when said period of unavailability is greater or equal to ten years. | N/A                                                                                                                                                                                                                                                                                                                                                             |

**General Meeting of Jun 23, 2017**

|                                                                                                                                                                                                                                                   |                                 |                                                                                  |                         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------------------------------------------------------------------|-------------------------|
| Issuance of <b>free shares to the benefit of new Executive committee members (employees and/or corporate officers)</b> of the Company or its subsidiaries as provided under articles L 225-197-1 et. Seq. of the Code of Commerce (Resolution 26) | 38 months<br>August<br>23, 2020 | Maximum amount: €2,500 ( <i>i.e.</i> 50,000 free shares of €0.05 nominal value). | N/A                     |
| Issuance of <b>free shares to the benefit of Executive committee members (employees and/or corporate officers)</b> of the Company or its subsidiaries under their annual variable compensation as                                                 | 38 months<br>August<br>23, 2020 | Maximum amount: €2,500 ( <i>i.e.</i> 50,000 free shares of €0.05 nominal value). | 1,248.95 <sup>(6)</sup> |

provided under articles L 225-197-1 et. Seq. of the Code of Commerce (Resolution 27)

|                                                                                                                                                                                                                                                                                                                        |                                 |                                                                                                                                                                                                                                                                                                                                                                                      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Issuance of free shares to the benefit of employees</b> of the Company or its subsidiaries as provided under articles L 225-197-1 et. Seq. of the Code of Commerce (Resolution 28)                                                                                                                                  | 38 months<br>August<br>23, 2020 | Maximum amount: €10,000 ( <i>i.e.</i> 200,000 free shares of €0,05 nominal value) 5,725 € <sup>(7)</sup>                                                                                                                                                                                                                                                                             |
| <b>Issuance of preferred shares convertible into ordinary shares of the Company to the benefit of corporate officers, Executive committee members (employees and/or corporate officers)</b> of the Company or its subsidiaries as provided under articles L 225-197-1 et. Seq. of the Code of Commerce (Resolution 30) | 38 months<br>August<br>23, 2020 | Maximum amount of the capital increase resulting from the definitive acquisition of preferred shares: €200 (4,000 free preferred shares with a nominal value of €0,05) 120€ <sup>(8)</sup><br><br>Number of ordinary shares that may result from the conversion of preferred shares issued under this authorization: 400,000 ordinary shares, maximum capital increase of €20,000    |
| <b>Issuance of preferred shares convertible into ordinary shares of the Company to the benefit of Company's employees</b> as provided under articles L 225-197-1 et. Seq. of the Code of Commerce (Resolution 31)                                                                                                      | 38 months<br>August<br>23, 2020 | Maximum amount of the capital increase resulting from the definitive acquisition of preferred shares: €425 (8,500 free preferred shares with a nominal value of €0,05) 286,25€ <sup>(9)</sup><br><br>Number of ordinary shares that may result from the conversion of preferred shares issued under this authorization: 850,000 ordinary shares, maximum capital increase of €42,500 |

(1) Except preferred shares and securities giving right to preferred shares

(2) This amount is to be counted within the overall cap of €672,958 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) See 0of describing the contribution in kind

(4) See 2.3.2.2.2 of this Report

(5) Use by the Executive board of September 20, 2017

(6) Use by the Executive board of April 3, 2018

(7) Use by the Executive board of April 3, 2018

(8) Use by the Executive board of April 3, 2018

#### 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 |
|-------------------------------|--------------------------------------------------------------------------------------------------------|----------------------------------|-------------------------------------|----------------------------|------------------------------------|----------------------------------------|---------------------|-------------------------------|--------------------------------------------------------------------|
| 02/04/15                      | 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                                                         |
| 06/14/17                      | Capital increase – exercise of warrants                                                                | Employees                        | 1,850                               | €0.05                      | Various                            | 92.5                                   | 3,681.5             | 2,700,630.2                   | 54,012,604                                                         |
| 07/13/17                      | Capital increase – Contribution in kind                                                                | Novo Nordisk A/S                 | 3,343,748                           | €0.05                      | 11.12                              | 167,187.4                              | 37,015,290.4        | 2,867,817.6                   | 57,356,352                                                         |
| 10/21/17                      | Recording the definitive acquisition of AGA and AGAP                                                   | Employees and executive managers | 98,770 A Shares and 3,931 B Shares  | €0.05                      | Various                            | 5,135.05                               | –                   | 2,872,952.65                  | 57,455,122 A Shares and 3,931 B Shares                             |
| 12/30/17                      | Recording the definitive acquisition of AGA and AGAP                                                   | Employees and executive managers | 144,978 A Shares and 3,000 B Shares | €0.05                      | Various                            | 7,398.9                                | –                   | 2,880,351.55                  | 57,600,100 A Shares and 6,931 B Shares                             |

#### 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 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 6, 2018, to the knowledge of the Company:

| Shareholders                                 | Number of shares | Percentage | Number of shares | Percentage |
|----------------------------------------------|------------------|------------|------------------|------------|
| <b>Company Officers including :</b>          |                  |            |                  |            |
| Members of the Executive Board               | 54,937.00        | 0%         | 54,937.00        | 0.10%      |
| Members of the Supervisory Board including : | 14,386,232.00    | 25%        | 14,386,232.00    | 24.98%     |
| <i>Novo Nordisk A/S</i>                      | 8,908,456.00     | 15%        | 8,908,456.00     | 15.47%     |
| <i>Bpifrance Participations</i>              | 4,396,682.00     | 8%         | 4,396,682.00     | 7.64%      |
| Employees without Company Officers (1)       | 472,626.00       | 1%         | 472,626.00       | 0.82%      |
| Wellington Management Group LLP              | 3,471,789.00     | 6%         | 3,471,789.00     | 6.03%      |
| Treasury shares                              | 18,575.00        | 0%         | 0.00             | 0.00%      |
| Other shareholders                           | 39,195,941.00    | 68%        | 39,195,941.00    | 68.07%     |
| Total                                        | 57,600,100.00    | 100%       | 57,581,525.00    | 100.00%    |

(1) Employee recorded in nominative accounts

The number of shares used to calculate the share capital and votes allocation are only the ordinary shares belonging to the category A of shares. The 6,931 B shares (AGAP attributed in 2016 and acquired in 2017), have no right to vote and to dividends and are not transferable, that's why they are not included into such calculation.

On the date of this report, to the Company's knowledge, there were no other shareholders holding more than 5% of the share capital.

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 2017 and until the date of deposit of this Reference document:

#### Threshold changed of Novo Nordisk A/S

On July 19, and July 20, 2017, Novo Nordisk A.S sent two letters declaring that on July 13, 2017, it passed above the threshold of 15% of Innate Pharma's share capital and voting rights, holding 8,908,456 shares of Innate Pharma.

Such passing of threshold results from the subscription to Innate Pharma's capital increase.

#### Threshold changed of Wellington Management Group LLP

On April 11, 2017 Wellington Management Group LLP, acting for the account of clients and funds that it manages, The table below shows the distribution of the Company's shares and voting rights as of February 10, 2017 to the knowledge of the Company:

sent a letter declaring that on April 7, 2017, it passed above the threshold of 5% of Innate Pharma's share capital and voting rights and holding, for the account of said clients funds, 2,706,918 shares of Innate Pharma.

Such passing of thresholds resulted from an acquisition of Innate Pharma shares on the market.

#### Threshold changed of Perceptive Advisors LLC

On February 28, 2017, Perceptive Advisors LLC, acting for the account of funds that it manages sent a letter to the Company, declaring that on February 27, 2017, it fell below the threshold of holding 5% of Innate Pharma's share capital and voting rights (holding, for the account of said funds, 2,615,134 shares of Innate Pharma).

The fall below the 5% threshold resulted from a sale of Innate Pharma shares on the market.

| Shareholders                                        | Number            | %              | Number            | %             |
|-----------------------------------------------------|-------------------|----------------|-------------------|---------------|
| Company Officers 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         | 10.3%          | 5,564,708         | 10.3%         |
| Employees (excluding Company officers) <sup>1</sup> | 498,276           | 0.92%          | 498,276           | 0.92%         |
| Bpifrance Participations                            | 4,396,682         | 8.14%          | 4,396,682         | 8.14%         |
| Perceptive Advisors LLC                             | 2,735,842         | 5.06%          | 2,735,842         | 5.06%         |
| Treasury shares                                     | 18,575            | 0.34%          | 0                 | 0.00%         |
| Other shareholders                                  | 39,542,039        | 73.22%         | 39,542,039        | 73.22%        |
| <b>Total</b>                                        | <b>54,010,754</b> | <b>100.00%</b> | <b>53,992,179</b> | <b>99.96%</b> |

<sup>1</sup> Employees recorded in nominative accounts

The table below shows the distribution of the Company's shares and voting rights as of January 31, 2016, to the Company's knowledge:

| Shareholders                                      | Number            | %              | Number            | %              |
|---------------------------------------------------|-------------------|----------------|-------------------|----------------|
| Company Officers 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 <sup>1</sup> | 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 <sup>2</sup>                      | 18,639            | 0.03%          | 0                 | 0.00%          |
| Other Shareholders                                | 39,568,834        | 73.50%         | 39,568,834        | 73.50%         |
| <b>Total</b>                                      | <b>53,836,714</b> | <b>100.00%</b> | <b>53,818,075</b> | <b>100.00%</b> |

<sup>1</sup> Employees holding their shares in registered form

<sup>2</sup>Through the 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. Shareholders' agreements and control of the Company by the main shareholders

See Section 2.2.8 "Elements likely to have an impact in the event of a public offering".

### 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.

##### 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.

#### 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

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.

##### 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.

##### 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.

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.

##### Committees

The Supervisory board may decide to establish committees responsible for reviewing matters which the Supervisory

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)

The share capital of the Company is divided between A Shares (ordinary shares) and B Shares (preferred shares).

##### Rights and obligations attached to A Shares

Without prejudice to the rights attached to B Shares, each A share entitles to a portion of the corporate profits and assets in proportion to the portion of share capital that it represents.

In addition, such share gives the right to vote and be represented at General Meetings of Shareholders pursuant

to the conditions provided by law and in these articles of association. Shares of the Company (including shares of the Company that might be allocated for free in the framework of a capital increase through the incorporation of reserves, issue premiums or profits) do not grant a double voting right pursuant to the last paragraph of Article L. 225-123 of the French Commercial Code.

Shareholders are only liable up to the nominal amount of the shares which they hold and any request for funds beyond that amount is prohibited.

Ownership of a share automatically implies agreement to be bound by the Company's by-laws and the decisions of the General Meeting of Shareholders.

The heirs, creditors, successors or other representatives of the shareholder cannot request seals to be placed on the Company's assets and securities or request their distribution or sale by public auction, or to interfere with its management. In order to exercise their rights, they should rely on company records and the decisions of the General Meeting of Shareholders.

Whenever it is necessary to hold several shares in order to exercise a right of any kind, in the case of an exchange, regrouping or allocation of securities, or further to a share capital increase or decrease, merger or other corporate transaction, holders of single shares or of less than the number of shares so required will only be able to exercise such right if they themselves collect and, as the case may be, purchase or sell, the required number of securities.

However, the Company may, in the case of an exchange of securities further to a merger or demerger, a share capital reduction, the regrouping or division and mandatory conversion of bearer into registered shares, or the distribution of securities deducted from reserves or in connection with a share capital reduction, or the distribution or allocation of free shares, pursuant to a decision of the Executive Board, sell any securities in respect of which the persons entitled thereto have not requested delivery subject to having carried out the publicity formalities provided by regulations at least two years beforehand.

As from the date of such sale, the prior securities or rights to distribution or allocation shall be cancelled as and when required, and their holders shall only be entitled to the allocation of the net proceeds of sale of unclaimed securities.

#### Rights and obligations attached to B Shares

B Shares and the rights of holders thereof are governed by the applicable provisions of the French Commercial Code, in particular Articles 228–11 et seq. thereof.

The maximum number of B Shares that may be allocated is 7,500 shares.

Only the B Shares convertible into A Shares pursuant to the terms and conditions specified below grant the right to vote in the general meetings of holders of Ordinary Shares, applicable only from the date at which they become convertible. The B Shares that have become convertible will bear rights as from the first day of the financial year preceding the financial year during which they become convertible. The amount of the dividend (and, if applicable, of the portion of the reserves) to which each B Share entitles is equal to the amount due in respect of an A

Share, multiplied by the number of A Shares that can be received from the conversion of each B Share.

B Shares give no preferential subscription right to any capital increase or any operation granting a right on A Shares.

In the event of an operation taking place before the B Shares are converted pursuant to the conditions provided below, the conversion ratio will be adjusted pursuant to the provisions of Article L. 228–99, Paragraph 2, 3° and Paragraph 5 of the French Commercial Code.

With regards to the ownership of corporate assets, a B Share gives right to a portion of the liquidation surplus in proportion to the portion of share capital that it represents.

Only the B Shares convertible into A Shares pursuant to the terms and conditions specified below grant the right to vote in the ordinary and extraordinary general meetings of holders of A Shares, applicable only from the date at which they become convertible. The number of voting rights granted by each B Share is equal to the number of A Shares that can be received from the conversion of each B Share.

B Shares grant the right to vote in the special meetings of holders of B Shares. Holders of B Shares are grouped into a special meeting for any proposed modification of the rights attached to B Shares. In addition, pursuant to the provisions of Article L. 228–17 of the French Commercial Code, any proposed merger or demerger of the Company in which B Shares cannot be exchanged for shares with equivalent particular rights will be subject to the approval of any relevant special meeting.

Special meetings can only make valid decisions if the holders of B Shares that are present or represented hold at least, when convened for the first time, one third, and when convened for the second time, one fifth of the B Shares carrying the right to vote. If the capital is modified or adjusted, the rights of holders of B Shares are adjusted so that their rights may be maintained pursuant to Article L. 228–99 of the French Commercial Code. The other rights attached to B Shares are specified in the next paragraph.

#### Conversion of B Shares into A Shares

The issuance of B Shares may only be decided in the framework of an allocation of free shares in favour of the employees and/or executive officers of the Company, pursuant to the provisions of Articles L. 225–97–1 of the French Commercial Code.

B Shares will be definitively acquired by the beneficiaries after an acquisition period of one year from their allocation by the Executive Board and subject to the beneficiary's presence in the Company or its consolidated subsidiaries as an employee, executive officer or member of an executive or supervisory body or, if applicable, of the equivalent thereof in foreign law. The "Acquisition Date" is

defined as the end of the acquisition period of the Preference Shares.

However, in the event of invalidity of the beneficiary corresponding to classification in the second or third categories set forth by Article L. 341-4 of the French Social Security Code (or the equivalent thereof in an applicable foreign law), the B Shares will be allocated definitively prior to the Acquisition Date.

The B Shares become convertible in A Shares, either new or existing at the Company's option, after the above-mentioned one-year vesting period from their allocation by the Executive Board, followed by a two-year retention period from the definitive allocation (the "B"), under the conditions set forth below. The **"Expiry Date of the Retention Period"** is defined as the end of the Retention Period.

As from the first anniversary date of the Acquisition Date, B Shares will be freely transferable to a credit institution in the framework of a pledge agreement.

Pursuant to the provisions set forth in the Article L. 225-197-1 I., Paragraph 6 of the French Commercial Code, the B will be freely transferable in the event of invalidity of the beneficiary corresponding to classification in the second or third categories set forth by Article L. 341-4 of the French Social Security Code, regardless of whether such invalidity occurs before or after the Acquisition Date.

B Shares may only be converted for a conversion period of six years and six months from the Expiry Date of the Retention Period (the **"Conversion Period"**).

During the Conversion Period, each holder of B Shares will have the right to convert each of his B Shares in A Shares, either new or existing (at the Company's option). The number of A Shares to which the conversion of one B Share will entitle will be equal to the sum of (i) a number of Ordinary Shares determined according to the fulfilment of an internal condition (the **"Internal Condition"**) and a market condition as defined below ((the **"Market Condition"**) (together the **"Performance Criteria"**).

The fulfilment of the Performance Criteria will give the right to convert each B share in a maximum of 200 A Shares, i.e. a maximum of 100 Ordinary Shares under the Internal Condition and a maximum of 100 Ordinary Shares under the Market Condition.

It is specified that this conversion ratio thus determined will be adjusted in order to take into account the shares to be issued to preserve the rights of holders of securities or other rights giving access to the share capital and holders of B Shares under legal and statutory requirements and provisions set forth above.

The Internal Condition in order to calculate the number of B Shares that can be converted will be determined as a

function of the highest of the following two alternative criteria:

(a) The first criterion is a function of the consolidated collected turnover of the Company relating to a present or future partnership or licensing agreement, cumulated over the period from 1 July 2016 to 30 June 2019 (the "Cash Revenues"):

(i) If the Turnover is strictly inferior to 50 million euros, the conversion ratio under the Internal Condition will be equal to 0;

(ii) If the Turnover is superior or equal to 50 million euros and inferior to 150 million euros, the conversion ratio under the Price Condition will be equal to :

$$[(\text{Turnover}-50)/100]\times 100$$

(iii) If the Cash Revenues are equal or superior to 150 million Euros, the conversion ratio under the Internal Condition will be equal to 100;

(b) The second criterion is a function of the maturity of the portfolio of drug candidates developed by the Company during the three years before the Expiry Date of the Retention Period. "Drug candidates developed by the Company" mean Lirilumab, Monalizumab and IPH4102. For each of these products:

(i) In the event of the authorization by the competent regulatory authority the United States or in Europe for the Company or one of its partners to carry out a Phase III trial or a clinical trial with a view to register a product, the conversion ratio under the Internal Condition will be equal to 50;

(ii) In the event of the authorization by the competent regulatory authority in the United States or in Europe for the Company or one of its partners to carry out two Phases III trials or clinical trials with a view to register two products and/or two different indications for one product, the conversion ratio under the Internal Condition will be equal to 75;

(iii) In the event of an acceptance from the European Medicines Agency (EMA) in Europe or the Food and Drug Administration (FDA) in the United States to examine a filing by the Company or one of its partners of a marketing authorization request, the conversion ratio under the Internal Condition will be equal to 100.

The Market Condition in order to calculate the conversion ratio of B Shares into A Shares will be determined depending on the stock market price of the Innate Pharma share:

The terms **"Initial Price"** mean the average closing price of the Innate Pharma share on Euronext Paris for the sixty

trading days prior to the Allocation Date by the Executive Board.

The terms “**Final Price**” mean the highest average closing price of the Innate Pharma share on Euronext Paris over a period of sixty consecutive days calculated at any time during the three years prior to the Expiry Date of the Retention Period.

The terms “**High Price**” means the Initial Price multiplied by two.

(a) If the Final Price is strictly inferior to the Initial Price, the conversion ratio under the Market Condition will be equal to 0;

(b) If the Final Price is between (i) a value equal or superior to the Initial Price and (ii) a value inferior to the High Price, the conversion ratio under the Market Condition will be equal to:

$$[(\text{Final Price} / \text{Initial Price}) - 1 / ] \times 100$$

(c) If the Final Price is equal or superior to the High Price, the conversion ratio under the Market Condition will be equal to 100.

The right to convert B Shares into A Shares, as well as the right to vote in the general meetings of A Shares holders and the right to the dividend and to a portion of the reserves attached to B Shares that have become convertible pursuant to provisions set forth above, are subject to the condition of the beneficiary's presence in the Company or its consolidated subsidiaries as an employee, an executive officer or a member of an executive or supervisory body or, if applicable, of the equivalent thereof in foreign law as at the Expiry Date of the Retention Period. In the event that such condition ceases to be fulfilled, the Company may proceed at any moment to the redemption of B Shares in the conditions set forth below. It is specified that the provisions of this paragraph do not apply if the presence of the beneficiary in the Company or its consolidated subsidiaries ceases due to death, invalidity or retirement.

The fulfilment of the Performance Criteria will be recorded in a meeting of the Executive Board as soon as practicable after the Expiry Date of the Retention Period.

B Shares that cannot be converted into A Shares depending on the extent to which the Performance Criteria are fulfilled or if the presence condition as at the Expiry Date of the Retention Period is not fulfilled, and B Shares that can be but will not have been converted at the end of the Conversion Period, may be bought at any time by the

Company (which is under no obligation to do so) at their nominal value.

At the end of the Conversion Period, the Company will have the possibility to proceed, pursuant to applicable legal and regulatory provisions, to the cancellation of B Shares that will have not been converted, including those that it will have bought. The share capital will then be reduced accordingly, and creditors will have the right to oppose such reduction in the conditions set forth in Article L. 225–205 of the French Commercial Code.

New A Shares resulting from the conversion of B Shares will be assimilated to existing A Shares, will bear rights as from the first day of the financial year preceding the financial year during which they become convertible, and will grant to their holders, starting from their delivery, all the rights attached to A Shares. They will be subject to a request for listing on the regulated market of Euronext Paris on the same listing line as A Shares.

By way of derogation to the above, the allocation of B Shares can take place after the date of their allocation by the Executive Board and prior to the Acquisition Date, in the event of invalidity of the beneficiary corresponding to classification in the second or third categories set forth by Article L. 341–4 of the French Social Security Code, at the beneficiary's request.

The Executive Board will record the conversion into A Shares of the B Shares for which the conversion fulfils the conditions set forth above, as well as the number of A Shares resulting from the conversions of B Shares that have taken place, and will modify the by-laws accordingly, in particular with regards to the breakdown of shares by category. This competence may be delegated to the Chairman of the Executive Board under the conditions set forth by law.

If the conversion of B Shares into A Shares results in a capital increase, such increase will be fully paid up at issue through the incorporation of reserves, profits or issue premiums for the corresponding amount.

Shareholders will be informed of the conversions having taken place by the reports of the Executive Board and Statutory Auditors pursuant to Article R. 228–18 of the French Commercial Code. These supplementary reports will be made available to the shareholders at the Company's registered office as from the date on which each meeting is convened.

#### 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 depositary 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, 2017, Innate Pharma SA owned 100% of the shares of Innate Pharma, Inc.

On June 2, 2017, Innate Pharma entered into a contribution in kind agreement with Novo Nordisk A/S under which Novo Nordisk A/S undertook to make a contribution in kind, to the benefit of Innate Pharma, representing 100% of the share capital and voting rights held by Novo Nordisk A/S into NN C5aR, holding company incorporated for the purpose of acquiring the exclusive development and commercialization rights of anti-C5aR antibody. On July 13, 2017, Innate Pharma's Executive board recorded the completion of the contribution in kind

an issued, in return of the said contribution of 100% of the shares of NN C5aR by Novo Nordisk A/S. Thus, 3,343,748 ordinary shares newly issued to the benefit of Novo Nordisk A/S. To simplify the management of NN C5aR, 100% subsidiary of Innate Pharma, the Executive board of September 12, 2017 decided to merge NN C5aR with Innate Pharma. The simplified merger was completed on October 31, 2017. Following such simplified merger, 100% of NN C5aR assets and liabilities were transferred to Innate Pharma and NN C5aR was wound up without liquidation.

## 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 below.

### • Acquisition of C5aR from Novo Nordisk A/S

On June 2, 2017, Innate Pharma entered into a contribution in kind agreement with the company Novo Nordisk A/S under which Novo Nordisk A/S undertook to transfer shares to the Company by way of contribution (the "Contribution"), which contribution relates to all the shares held by Novo Nordisk A/S in a company named NN C5aR S.A.S, set up for the purpose of acquiring the exclusive development and commercial rights in the anti-C5aR antibody by Innate Pharma. Prior to completion of the Contribution, Novo Nordisk A/S transferred to NN C5aR all rights and proceeds relating to the anti-C5aR antibody (which will become the IPH5401 program) in accordance with a license agreement governing the subsequent rights and obligations of the parties. The Company will soon absorb NN C5aR and will itself become a party to the license agreement.

The terms of the agreement provide for an upfront payment of €40m, of which €37.2m will be paid in the form of new shares in the Company and €2.8m will be paid in cash. Novo Nordisk A/S is eligible for up to €370m

by way of development, regulatory and sales milestone payments and to double digit royalties on future net sales.

Under the transaction described above, the following agreements were entered into with Novo Nordisk A/S:

- Contribution in kind agreement dated June 2, 2017
- Exclusive license agreement dated July 4, 2017
- Side letter dated June 23, 2017 under which Innate Pharma and Novo Nordisk A/S agreed on the transaction terms and the payment by Innate Pharma of some external advisory costs and costs relating to the manufacturing of a first batch
- An indemnity agreement dated July 13, 2017

#### Motivation:

This acquisition will allow Innate Pharma to strengthen its proprietary pipeline with the acquisition of anti-C5aR (which becomes the IPH5401 program), a clinical-stage antibody, which could start clinical trials in oncology in 2018.

### • Agreement concluded with Novo Nordisk A/S under the NKG2A transaction

Under the NKG2A transaction, Innate Pharma entered into an agreement with Novo Nordisk A/S on December 8, 2017 to deal with the tax implications of such transaction.

Motivation: Clarification of tax consequences for the parties under the NKG2A transaction.

Modalities: Innate Pharma shall assist Novo Nordisk A/S with the French tax authorities and Novo Nordisk shall

cooperate and provide all necessary documents, which will be requested to ensure the payment to the French tax

authorities.

- **Manufacturing agreement concluded with Novo Nordisk A/S**

On December 13, 2017, Innate Pharma and Novo Nordisk A/S entered into an agreement under which Novo Nordisk A/S agreed to manufacture additional batches for an amount estimated to €2,349,000.

Motivation: such agreement allows Innate Pharma to obtain C5aR batches more easily, at a cost in line with those of other CMO (contract manufacturing organization).

- **Agreement concluded with 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 Hervé Brailly in addition to its functions as Chairman of the Supervisory board under article L. 224-84 of the French Code of Commerce. Such special mission mainly consisted in ensuring the transition to the new executive team of Innate Pharma and in providing strategic advices.

Under such special mission, Hervé Brailly received a gross compensation amounting to €100,000 in 2017.

Such special mission was renewed by the Supervisory Board meeting of December 13, 2017 and will end on December 31, 2018. For the fiscal year ending on December 31, 2018, Hervé Brailly will receive a gross compensation amounting to €100,000.

- **Agreements concluded with Mondher Mahjoubi as Chairman of the Executive Board**

Article 83:

Mondher Mahjoubi benefited from an « Article 83 » pension contract with France Vie, at a contribution rate of 2% of his gross compensation, of which 1.20% borne by Innate Pharma.

The amount paid by Innate Pharma for the 2017 fiscal year amounted to €3,964.

Company car:

Mondher Mahjoubi benefited from the lease of a company car, at a cost of €1,947 in 2017.

Accommodation:

For 2017, Innate Pharma paid a portion of accommodation costs of Mondher Mahjoubi. The accommodation costs

paid by Innate Pharma in 2017 amounted to €6,026. In accordance with Mondher Mahjoubi's mandate contract, the reimbursement of such costs ended on June 30, 2017.

Non-competition and non-solicitation undertaking:

Mondher Mahjoubi's mandate agreement dated December 14, 2016 with effect as from December 30, 2016, provides for the payment of a lump sum equivalent to two years of fixed and variable compensation in consideration of his 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.

No payment was made under such Mandate during the fiscal year ended on December 31, 2017.

- **Agreements concluded with Yannis Morel as Executive board member**

Compensation:

Yannis Morel received a monthly salary of 15,000 euros over a six-month period starting from January to June 2017 and of 18,000 euros over a six-month period starting from July to December 2017 under his employment contract.

Yannis Morel will receive, in 2018, for the year 2017, an individual bonus amounting to €46,305.

Article 83:

Yannis Morel benefited from an "Article 83" pension contract with France Vie, 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 2017 fiscal year amounted to €2,051.

Company car:

Yannis Morel benefited from the lease of a company car, at a cost of €1,800 in 2017.

- **Agreements concluded with Nicolai Wagtmann as Executive board member until June 23, 2017**

Compensation:

Nicolai Wagtmann received a monthly salary of €15,000 over a six-month period starting from January to June 2017 under his employment contract.

Nicolai Wagtmann resigned from his functions as CSO and his mandate as Executive Board member on June 23, 2017. He did not received any individual bonus under his employment contract in 2017.

School allowance:

Nicolai Wagtmann benefited from an in-kind advantage for school allowance amounting to €7,713.

Article 83:

Nicolai Wagtmann benefited from an "Article 83" pension contract with France Vie, 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 2017 fiscal year amounted to 2,049 euros.

Company car:

Nicolai Wagtmann a benefited from the lease of a company car, at a cost of €1,750 in 2017.

- **Agreement concluded with Novo Nordisk A/S as 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.

Agreement concluded with Novo Nordisk A/S:

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. Under such agreement, Innate Pharma paid to Novo Nordisk A/S an amount of €6.5 million. Moreover, if AstraZeneca pays the amount of USD 100 million provided under the contract entered into between Innate Pharma and AstraZeneca in April 2015, Innate Pharma shall pay an additional amount of USD 15 million to Novo Nordisk A/S. On the date of this letter, 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 letter, regarding the uncertainty on the development plans, the Company does not contemplate having to make such payment to Novo Nordisk A/S.



- **Statutory Auditors' special report on regulated agreements and commitments - Shareholders' Meeting held to approve the financial statements for the year ended 31 December 2017**

*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 Innate Pharma Annual General Meeting,

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 (Code de Commerce), 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 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 authorized during the 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.

##### *Acquisition of C5aR from Novo Nordisk A/S*

**Nature and purpose:** on June 2, 2017, Innate Pharma entered into a contribution in kind agreement with Novo Nordisk A/S under which Novo Nordisk A/S undertook to transfer to the Company by way of a contribution (the "Contribution") all the shares held by Novo Nordisk A/S in NN C5aR S.A.S, a company that was set up so that Innate Pharma could acquire the exclusive development and commercial rights to the anti-C5aR antibody. Prior to completion of the Contribution, Novo Nordisk A/S transferred to NN C5aR all rights and proceeds relating to the anti-C5aR antibody (which became the IPH5401 program) in accordance with a license agreement governing the subsequent rights and obligations of the parties. The Company then absorbed this subsidiary and became a party to the license agreement.

**Reasons:** this acquisition has enabled Innate Pharma to strengthen its proprietary pipeline with the acquisition of anti-C5aR (which became the IPH5401 program), a clinical-stage antibody, which could be subject to clinical trials in oncology in 2018.

**Terms and conditions:** The terms of the agreement provide for an upfront payment of €40 million, of which €37.2 million will be paid in the form of new Innate Pharma shares and €2.8 million will be paid in cash. Novo Nordisk A/S is eligible for milestone payments relating to the achievement of growth targets for up to €370 million and double digit royalties on future net sales.

In connection with the transaction described above, the following agreements were entered into with Novo Nordisk A/S:

- (i) A contribution in kind agreement dated June 2, 2017,
- (ii) An exclusive license agreement dated July 4, 2017,
- (iii) A side letter dated June 23, 2017 under which Innate Pharma and Novo Nordisk A/S agreed on the transaction terms and the payment by Innate Pharma of some external advisory costs and costs relating to the manufacturing of a first batch,
- (iv) An indemnity agreement dated July 13, 2017.

*Agreement concluded with Novo Nordisk A/S under the NKG2A transaction*

Nature and purpose: on December 8, 2017, Innate Pharma entered into an agreement with Novo Nordisk A/S to deal with the tax implications of the NKG2A transaction.

Reasons: clarification of tax implications for the parties to the NKG2A transaction.

Terms and conditions: Innate Pharma shall assist Novo Nordisk A/S in dealing with the French tax authorities. Novo Nordisk A/S shall cooperate and provide all the documentation required to secure payment to the French tax authorities.

*Manufacturing agreement concluded with Novo Nordisk A/S*

Nature and purpose: on December 13, 2017, Innate Pharma and Novo Nordisk A/S entered into an agreement under which Novo Nordisk A/S agreed to manufacture additional batches of C5aR.

Reasons: this agreement enables Innate Pharma to obtain C5aR batches more easily, at a cost in line with those of other CMOs (contract manufacturing organizations).

Terms and conditions: Novo Nordisk A/S shall invoice Innate Pharma an estimated amount of €2,349,000 before tax. Your Company did not bear any related expense for the year ended December 31, 2017.

**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.

*Agreement 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 entrust Mr. Hervé Brailly with the special duty of managing the transition with the new Innate Pharma executive team and providing strategic advice in addition to his functions as Chairman of the Supervisory Board under Article L. 225-84 of the French Commercial Code.

Mr. Hervé Brailly received a gross compensation of €100,000 in 2017 for carrying out this duty.

On December 13, 2017, this special duty was extended by the Supervisory Board to

December 31, 2018. For the fiscal year ending December 31, 2018, Mr. Hervé Brailly will receive an annual fixed gross compensation of €100,000.

*Agreements concluded with Mr. Mondher Mahjoubi as Chairman of the Executive Board*

Article 83:

Mr. Mondher Mahjoubi has an "Article 83" pension contract with France Vie, with a contribution amounting to 2% of his gross compensation, of which 1.20% is borne by Innate Pharma.

The amount paid by Innate Pharma for the 2017 fiscal year amounted to €3,964.

Company car:

Mr. Mondher Mahjoubi uses a company car under a long-term lease. This generated costs of €1,947 in 2017.

Accommodation:

For 2017, Innate Pharma paid a portion of Mr. Mondher Mahjoubi's accommodation costs in the amount of €6,026. In accordance with Mr. Mondher Mahjoubi's mandate agreement, the reimbursement of such costs ended on June 30, 2017.

Non-competition and non-solicitation undertaking:

The mandate agreement concluded on December 30, 2016 between Mr. Mondher Mahjoubi and Innate Pharma provides for the payment of lump sum compensation equivalent to two years of fixed and variable compensation in consideration of his 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.

No payment was made in respect of this compensation during the fiscal year ended December 31, 2017.

*Agreements concluded with Mr. Yannis Morel as Executive Board member*

Compensation:

Mr. Yannis Morel received a fixed monthly salary of €15,000 over the six-month period from January to June 2017 and of €18,000 over the six-month period from July to December 2017 under his employment contract.

In 2018, Mr. Yannis Morel will receive an individual bonus of €46,305 for 2017.

Article 83:

Mr. Yannis Morel also has an "Article 83" pension contract with France Vie, with a contribution amounting to 2% of his gross compensation, of which 1.20% is borne by the Company.

The amount paid by Innate Pharma for the 2017 fiscal year amounted to €2,051.

Company car:

Mr. Yannis Morel uses a company car under a long-term lease. This generated costs of €1,800 in 2017.

*Agreements concluded with Mr. Nicolai Wagtmann as Executive Board member until June 23, 2017*

Compensation:

Mr. Nicolai Wagtmann received a fixed monthly salary of €15,000 over the six-month period from January to June 2017 under his employment contract.

Mr. Nicolai Wagtmann resigned from his functions as Chief Science Officer (CSO) and his mandate as Executive Board member on June 23, 2017. He did not receive any individual bonus under his employment contract in 2017.

School allowance:

In 2017, Mr. Nicolai Wagtmann obtained a school allowance reimbursement of €7,713.

Article 83:

Mr. Nicolai Wagtmann also has an "Article 83" pension contract with France Vie, with a contribution amounting to 2% of his gross compensation, of which 1.20% was borne by Innate Pharma.

The amount paid by Innate Pharma for the 2017 fiscal year amounted to €2,049.

Company car:

Over the period from January to June 2017, Mr. Nicolai Wagtmann used a company car under a long-term lease. This generated costs of €1,750 in 2017.

*Agreement concluded with Novo Nordisk A/S as shareholder*

Collaboration agreement:

On March 28, 2006, Novo Nordisk A/S and Innate Pharma signed a collaboration and exclusive license agreement for the development and commercialization of IPH 2101.

Amendment No.1 was signed on October 6, 2008, with the main purpose being to give Innate Pharma exclusive rights for development and commercialization of the drug candidate IPH 2101.

Amendment No. 2 was signed on October 6, 2008; under the terms of this amendment, Innate Pharma gave up milestone payments rights and royalties on sales of IPH 2301, another drug candidate licensed to Novo Nordisk A/S.

Amendment No. 3 of June 26, 2009 related to adjustments in the management of patents.

Amendment No. 4 was signed on December 16, 2010, modifying the scope of their respective development, without any financial impact.

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 Bristol-Myers Squibb 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 development and commercialization rights of Anti-NKG2A for €7.0 million, broken down into €2.0 million paid in cash and 600,000 Innate Pharma shares. Under Amendment No. 7, Innate Pharma agreed 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 was signed on November 3, 2016 with retroactive effect to September 16, 2016, under which Innate Pharma and Novo Nordisk A/S agreed to adjust the terms of payment and precisely align Innate Pharma's obligations to reimburse Novo Nordisk A/S with the costs payable by Novo Nordisk A/S to that third party.

License agreement:

Novo Nordisk Health Care AG, a wholly-owned subsidiary of Novo Nordisk A/S, and Innate Pharma entered into a license agreement on December 9, 2013 under which Novo Nordisk Health Care AG granted Innate Pharma a co-exclusive license for patents relating to protein engineering.

Agreement concluded with Novo Nordisk A/S:

On March 24, 2016, Innate Pharma and Novo Nordisk A/S agreed on the amounts payable to Novo Nordisk A/S under the agreement entered into with AstraZeneca in April 2015. Under this agreement, Innate Pharma paid Novo Nordisk A/S an amount of €6.5 million. Moreover, if AstraZeneca pays the sum of USD 100 million provided under the contract entered into between Innate Pharma and AstraZeneca in April 2015, Innate Pharma shall pay an additional USD 15 million to Novo Nordisk A/S. On the date of this letter, 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 does not make this additional payment or should the co-development and commercialization agreement with AstraZeneca be terminated for any reason, Innate Pharma shall pay Novo Nordisk A/S a portion of the balance of the initial research and development budget that has not yet been spent or committed. Nevertheless, on the date of this letter, given the uncertainty surrounding the development plans, the Company does not contemplate having to make such a payment to Novo Nordisk A/S.

Marseille, April 23, 2013  
The Statutory Auditors

**Audit Conseil Expertise SAS**  
Member of PKF International

**Deloitte & Associés**

Nicolas Lehnertz

Hugues Desgranges

CHAPTER 5 - ADDITIONAL INFORMATION

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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

Nicolas Lenertz, Partner (signatory)

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

Hugues Desgranges, Partner (signatory)

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](http://www.innate-pharma.com)) and on the AMF website ([www.amf-france.org](http://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](http://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: [investors@innate-pharma.fr](mailto:investors@innate-pharma.fr)

## APPENDIX

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## 6.1. CROSS-REFERENCE TABLE

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| Selected financial and non-financial information (Art. L. 225-100 and L. 225-100-2 of the French "Commercial Code")                                                                     | Page 6                                          |
| Information on the use of financial instruments including financial risk, credit risk, liquidity risk, cash position (Art. L. 225-100 and L. 225-100-2 of the French "Commercial Code") | 1.9.6                                           |
| Main risks (Art. L. 225-100 and L. 225-100-2 of the French "Commercial Code")                                                                                                           | 1.9                                             |
| List of authorizations to increase the capital of the parent Company and consolidated entities as a whole (Art. L. 225-100 and L. 225-100-2 of the French "Commercial Code")            | 4.1.6                                           |
| Information on the buyback of shares (Art. L. 225-211 (2) of the French "Commercial Code")                                                                                              | 4.1.3                                           |
| Information which may have an impact in the event of a public offering (Art. L. 225-100-3 of the Commercial Code)                                                                       | 2.2.8                                           |
| <b>OTHER COMPONENTS OF THE ANNUAL FINANCIAL REPORT (Art. 222-3 of the General Regulations of the Autorité des Marchés Financiers)</b>                                                   |                                                 |
| Declaration by the Person Responsible for the annual financial report                                                                                                                   | 5.1.2                                           |
| Annual financial statements                                                                                                                                                             | 3.3.3                                           |
| Report from the Statutory Auditors on the annual financial statements                                                                                                                   | 3.3.4                                           |
| Consolidated financial statements                                                                                                                                                       | 3.3.1                                           |
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| <b>OTHER REGULATED INFORMATION</b>                                                                                                                                                      |                                                 |
| Fees paid to the Statutory Auditors                                                                                                                                                     | 3.3.3 Note 29                                   |
| Report on Corporate Governance (Art. L. 225-68 of the French Commercial Code")                                                                                                          | 2.6                                             |

**COMPONENTS OF THE MANAGEMENT REPORT AND OF THE CORPORATE GOVERNANCE REPORT FOR 2017**

| <b>MANAGEMENT REPORT (within the meaning of the French Monetary and Financial Code)</b>                                                                     | <b>Section of the<br/>Registration Document</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|
| <b>ACTIVITIES OF THE COMPANY</b>                                                                                                                            |                                                 |
| Activities (main achievements of the R&D programs, progress made and difficulties encountered)                                                              | 1.2                                             |
| Business results during the fiscal year 2015                                                                                                                | 1.2, 3, 3.2                                     |
| Future prospects and strategic directions                                                                                                                   | 1.3.1, 1.3.2                                    |
| Selected financial and non-financial information                                                                                                            | Page 6                                          |
| Post period events                                                                                                                                          | 3.3.1 Note 26                                   |
| Information on the use of financial instruments including financial risk, credit risk, liquidity risk, cash position                                        | 1.9.6                                           |
| Risks and Uncertainties                                                                                                                                     | 1.9                                             |
| Research & Development                                                                                                                                      | 1.5                                             |
| <b>LEGAL, FINANCIAL AND FISCAL INFORMATION OF THE COMPANY</b>                                                                                               |                                                 |
| Choice made of one of the two procedures by the management in case of change                                                                                | 2.2.4                                           |
| Shareholder structure                                                                                                                                       | 4.2                                             |
| Name of the companies participating in a self-control of the Company                                                                                        |                                                 |
| Significant acquisition of stakes in companies based in France                                                                                              | 4.5                                             |
| Ownership of more than 10% of the share capital of another company                                                                                          | 4.5                                             |
| Company's acquisition and purchasing of its own shares                                                                                                      | 4.1.3                                           |
| Employee Proprietary Interest                                                                                                                               | 2.4.1                                           |
| Possible adjustments:                                                                                                                                       |                                                 |
| - for the securities giving access to the Company's capital and stock options in case of purchasing of its own shares                                       | 4                                               |
| - for the securities giving access to the Company's capital in case of financial operation                                                                  |                                                 |
| <b>CORPORATE SOCIAL RESPONSIBILITY INFORMATION</b>                                                                                                          |                                                 |
| Social and environmental consequences of activities and corporate commitment to sustainable development and against discriminations and promoting diversity | Chapter 4 of the<br>Management Report           |
| Information on dangerous activities                                                                                                                         | Not applicable                                  |
| <b>REPORT ON CORPORATE GOVERNANCE</b>                                                                                                                       |                                                 |
| <b>Organization and operation of the Supervisory Board</b>                                                                                                  |                                                 |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Composition and conditions of preparation and organization of the Supervisory Board work, application of gender parity principles within the Supervisory Board                                                                                                                                                                                                                                                                                                            | 2.2.4          |
| List of positions held by the Supervisory Board members                                                                                                                                                                                                                                                                                                                                                                                                                   | 2.2.1.1.2      |
| <b>Participation to AGMs</b>                                                                                                                                                                                                                                                                                                                                                                                                                                              |                |
| Particular terms and conditions linked with the shareholders' participation to the Annual General Meeting or reference to the provision of the Articles of Association which provide for these terms and conditions                                                                                                                                                                                                                                                       | 2.2.6          |
| Related-party transactions                                                                                                                                                                                                                                                                                                                                                                                                                                                | 4.6            |
| <b>Public offering information</b>                                                                                                                                                                                                                                                                                                                                                                                                                                        |                |
| Report on the elements likely to have an impact in case of a public offering                                                                                                                                                                                                                                                                                                                                                                                              | 2.2.8          |
| Provisions of the AFEP/MEDEF code not followed by the Company and reasons why they are not followed and where to consult the code                                                                                                                                                                                                                                                                                                                                         | 2.2.9          |
| <b>Use of delegation of powers</b>                                                                                                                                                                                                                                                                                                                                                                                                                                        |                |
| List of delegations of powers granted by the AGM to the Executive Board in terms of capital increase, with the use made of these delegations                                                                                                                                                                                                                                                                                                                              | 4.1.6          |
| <b>Compensation</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>2.3</b>     |
| For each member of the Supervisory Board, total compensation and perks paid by the Company, including equity instruments, debt securities, or instruments awarding equity or debt securities of the Company                                                                                                                                                                                                                                                               | 2.3.2          |
| Description of the compensations and perks with a distinction between fixed, variable and exceptional elements and the criteria applied for their calculation or the circumstances in the wake of which they have been awarded                                                                                                                                                                                                                                            | 2.3.1          |
| Commitments of all nature made by the Company to the company officers' advantage related to elements of compensation, allowances or benefits that are due or likely to be because of the taking, termination or change of functions or subsequently to it, especially pension benefits and life annuity advantage; the information given has to specify precise ways and means to determine these commitments and the estimate of the amounts likely to be paid for these | Not applicable |
| Project of resolutions constituted by the Supervisory Board and submitted to the ex-ante vote to approve the criteria and principles of determination, distribution and awarding of fixed, variable and exceptional elements of the total compensation and perks attributable to the members of the Executive Board and of the Supervisory Board because of their mandate and details on these elements of compensation                                                   | 2.3.1          |
| Elements of variable or exceptional compensation granted and the precision that their payment has to be approved by an AGM                                                                                                                                                                                                                                                                                                                                                | 2.3.1          |



## 6.2. GLOSSARY

|                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>AFSSAPS/ANSM</b>              | 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)                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Autoimmunity</b>              | 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).                                                                                                                                       |
| <b>Autoreactivity</b>            | Ability of the immune system to recognize elements of the self. Autoreactivity is the phenomenon involved in autoimmune pathologies (see autoimmune).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Benefit / risk ratio</b>      | 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.                                                                                                                                                                                            |
| <b>Biological marker</b>         | 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.                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Cell therapy</b>              | 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Chemotherapy</b>              | 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Clinical development</b>      | 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. |
| <b>Consolidation treatment</b>   | 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.                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Conventional T lymphocyte</b> | 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                                                                                                                                                                                                                                                                          |

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|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                   | 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.                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Effector cells</b>                                                             | 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.                                                                                                    |
| <b>EMA<br/>(European Agency for the<br/>Evaluation of Medicinal<br/>Products)</b> | 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.                                                                                                                                                                                                                                                                     |
| <b>FDA (Food and Drug<br/>Administration)</b>                                     | This U.S. agency monitors clinical trials and issues marketing authorizations.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>First-in-class</b>                                                             | 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.                                                                                                                                                                                                                                                          |
| <b>First-line treatment</b>                                                       | Treatment applied upon diagnosis of tumor.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>GCP</b>                                                                        | 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.                                                                                                                                                                                                                                                                                                                                      |
| <b>GLP</b>                                                                        | 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. |
| <b>Immune response</b>                                                            | 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.                                                                                                                                                                                                                                   |
| <b>Immune system</b>                                                              | 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).                                                                                                                                                                                                                                                                                 |
| <b>Informed consent</b>                                                           | 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).

|                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>NCE ("New Chemical Entity")</b> | New synthetic organic molecule developed for pharmaceutical use.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>NK cells</b>                    | 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. |
| <b>Occurrence</b>                  | Number of new cases diagnosed over one year for a given pathology.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Orphan drug</b>                 | 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.                                                                                                                                                                                                                                                                       |
| <b>Pharmacokinetics</b>            | Study of what happens to a molecule in the organism, including its absorption, metabolism 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.                                                                                                                                                                                          |
| <b>Pharmacology</b>                | 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.                                                                                                                                     |
| <b>Potentiate</b>                  | To give something more power, more efficacy (a drug, notably).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Preclinical development</b>     | Studies carried out on a drug candidate to evaluate its toxicity and efficacy before its first administration to humans.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Prevalence</b>                  | Number of patients with a given pathology.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Proof of concept</b>            | 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Randomized study</b>            | 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.                                                                                                                |
| <b>Receptor</b>                    | 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.