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 2,335,764.60 euros

consisting of 46,715,292 shares with a par value of 0.05 euros each

Registered Office: 117 Avenue de Luminy, 13009 Marseilles

Marseilles 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 7, 2014, 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 S.A., 117 Avenue de Luminy, 13009 Marseilles, 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 S.A. with or without its subsidiaries.

This Reference Document contains or includes for reference the annual consolidated audited accounts of the Company and its subsidiaries for the financial years ending on December 31, 2012 and 2013 (the "Consolidated Accounts"). The Consolidated Accounts for the financial year ending on December 31, 2013 are presented in Section 20.1 of this Reference Document. The Statutory Auditors' report on the Consolidated Accounts for the financial year ending on December 31, 2013 is presented in Section 20.2 of this Reference Document.

This Reference Document contains or includes for reference the audited annual accounts of the Company prepared in accordance with generally accepted accounting principles in France (the "Annual Accounts") for the financial years ending on December 31, 2012 and 2013. The Annual Accounts for the financial year ending on December 31, 2013 are presented in Section 20.3 of this Reference Document. The Statutory Auditors' report on the Annual Accounts for the financial year ended on December 31, 2013 is presented in Section 20.4 of this Reference Document.

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 a bibliography are given at the end of this Reference Document.

CONTENTS

Components of the annual financial report for 2013:

Management report (within the meaning of the French Monetary and Financial Code)	
Analysis of the financial situation, results, cash position and capital of the Company	CHAPTER 9 and CHAPTER 10 and APPENDIX 3 -
Risk fact	CHAPTER 5
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")	21.1.5
Information on the buyback of shares (Art. L. 225-211 (2) of the French "Commercial Code")	Section 21.1.3
Information which may have an impact in the event of a public offering (Art. L. 225-100-3 of the Commercial Code)	N/A
Other components of the annual financial report (Art. 222-3 of the General Regulations of the Autorité des Marchés Financiers)	
Declaration by the Person Responsible for the annual financial report	Section 1.2
Annual financial statements	Section 20.3
Report from the Statutory Auditors on the annual financial statements	Section 20.4
Consolidated financial statements	Section 20.1
Report from the Statutory Auditors on the consolidated financial statements	Section 20.2
Other regulated information	
Fees paid to the Statutory Auditors	APPENDIX 5 -
Report by the Chairman of the Supervisory Board concerning the composition, preparation and organization of the proceedings of the Supervisory Board, the internal control and risk management procedures implemented by the Company and special conditions governing the attendance of shareholders at the General Meeting (Art. L. 225-68 of the French Commercial Code")	APPENDIX 1 -
Report from the Statutory Auditors on the Report by the Chairman of the Supervisory Board (Art. L. 225-235 of the French "Commercial Code")	APPENDIX 2 -

CHAPTER 1. PERSON RESPONSIBLE

1.1 NAME AND POSITION OF THE PERSON RESPONSIBLE FOR THIS REFERENCE DOCUMENT

Mr. Hervé Brailly
Chairman of the Executive Board

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 on page 9 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. The consolidated and annual accounts of the financial year ended on December 31, 2013 presented in this document, have been the subject of reports prepared by Statutory Auditors, which are included in chapters 20.2 and 20.4.

The consolidated accounts for the financial year ending on 31 December 2012 were the subject of a report by the official auditors which contains a comment, included in Chapters 20.2 and 20.4 of the 2012 Reference Document, filed with the AMF on 18 March 2013 under reference D.13-0142.

The consolidated accounts for the financial year ending on 31 December 2011 were the subject of a report by the official auditors, included in Chapters 20.2 and 20.4 of the Reference Document filed with the AMF on 26 April 2012 under reference D.12-0428.

Chairman of the Executive Board
Mr. Hervé Brailly

CHAPTER 2. PERSON RESPONSIBLE FOR THE AUDITING OF ACCOUNTS

2.1 STATUTORY AUDITORS

Audit Conseil Expertise, SA — Member of PKF International
Member of the Compagnie Regionale des Commissaires aux comptes d'Aix-en-Provence
17, boulevard Augustin Cieussa
13007 Marseilles

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 financialyears until the General Meeting of shareholders in 2018, called to approve the financial statements for the financialyear ending December 31, 2017.

Deloitte et Associés, SA
Member of the Compagnie Regionale des Commissaires aux comptes de Versailles
185 avenue Charles de Gaulle
92524 Neuilly-sur-Seine

Appointed by the General Meeting of shareholders on 27 March 2014 to replace PricewaterhouseCoopers Audit, whose term of office had expired, for a term of six financial years, expiring in 2020 after the General Meeting of shareholders called to approve the financial statements for the financial year ending December 31, 2019.

2.2 ALTERNATE STATUTORY AUDITORS

FIDEA Contrôle, SARL,
Member of the Compagnie Regionale des Commissaires aux comptes de 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 financial years, expiring after the General Meeting of shareholders in 2018 called to approve the financial statements for the financial year ended December 31, 2017.

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 financial years expiring in 2020 after the Ordinary Meeting of shareholders called to approve the financial statements for the financial year ending on 31 December 2019.

CHAPTER 3. 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, 2009. The 2011 Consolidated Accounts are shown in Section 20.1 of this Reference Document. The 2010 and 2009 Consolidated Accounts are incorporated for reference into this Reference Document (see CHAPTER 24 of this Reference Document). Furthermore, comments on the data set forth in the table below are made in CHAPTER 9 and CHAPTER 10 of this Reference Document.

In thousands of euros, except for information per share	**2013**	**2012**	**2011**
Revenue from collaboration and licensing agreements	12,469	10,377	7,454
Government financing for research expenditures	4,182	3,905	4,286
Revenue and other income	**16,652**	**14,282**	**11,740**
Research and development expenses	(15,131)	(13,417)	(14,843)
General and administrative expenses	(4,313)	(4,251)	(4,467)
Net operating expenses	**(19,444)**	**(17,668)**	**(19,310)**
Operating income (loss)	**(2,792)**	**(3,386)**	**(7,570)**
Financial income / (expense), net	146	556	425
Share of profit (loss) of associates and joint ventures	(245)	(371)	(165)
Net income (loss)	**(2,892)**	**(3,199)**	**(6,980)**
Number of shares outstanding			
Average number of shares outstanding (in thousands)	38,703	37,802	37,687
Net income (loss) per share (in euros)			
Net income (loss) per share (basic)	(0.07)	(0.08)	(0.19)
Balance sheet			
Cash, cash equivalents and current financial instruments	41,349	32,616	46,606
Total assets	56,882	48,295	60,109
Total capital and reserves attributable to equity holders of the Company	40,286	23,364	26,625
Total financial liabilities	4,819	4,505	6,770
Net cash, cash equivalents and current financial instruments [(1)]	**36,530**	**28,111**	**39,836**
Statement of cash flow			
Changes in working capital	(9,415)	(8,560)	19,120
Net cash generated from / (used in) operating activities	(10,967)	(10,475)	12,986
Net cash generated from / (used in) investing activities	(958)	(3,411)	2,445
Net cash generated from financing activities	19,677	(2,148)	(659)
Net increase / (decrease) in cash and cash equivalents	**7,776**	**(16,022)**	**14,789**
Cash and cash equivalents at the beginning of the year	**30,584**	**46,606**	**31,818**
Cash and cash equivalents at the end of the year*	**38,360**	**30,584**	**46,606**

* Does not include current financial instruments amounting 2,032 thousand euros and 2,989 thousands as at December 31, 2012 and 2013 respectively. No current financial instruments were held by the Company as at December 31, 2011.

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

CHAPTER 4. BUSINESS OVERVIEW

4.1 INTRODUCTION

Overview

Innate Pharma S.A. is a biopharmaceutical Company developing first-in-class immunotherapy drugs for cancer and inflammatory diseases.

The Company specializes in the development of new monoclonal antibodies targeting receptors and pathways controlling the activation of innate immunity cells. The mechanisms controlling these cells were described in the late 90's notably by the teams of the scientists who founded Innate Pharma.

It is on the basis of this science that Innate Pharma develops drug candidates with immuno-stimulating properties for cancer and with immuno-blocking properties in inflammatory conditions. Furthermore, many of the ligands for innate immunity receptors are expressed on cancer cells, opening the way to the development of directly cytotoxic antibodies.

Three product-candidates resulting from the Company's research platform are currently being tested in clinical trials; two of these by our partners, Bristol-Myers Squibb and Novo Nordisk A/S.

Innate Pharma's key expertise is in immunopharmacology and antibody technology. The Company has a large panel of molecular and cellular assays and *in vivo* models for assessing the pharmacodynamics, the pharmacotoxicology and efficacy of drug candidates. In addition, Innate Pharma has access to a very large set of unique research tools in cellular immunology through its worldwide network of scientific collaborations. Finally, the Company has expertise in early clinical development of immunomodulating antibodies and collaborates with a large number of clinical centres and networks..

Listed on Euronext-Paris, Innate Pharma is based in Marseille, France. It had 84 employees as at December 31, 2013.

Immunotherapy of cancer and immunomodulating antibodies

Despite major progress in recent decades, cancer is the second leading cause of death in developed countries, representing a quarter of all deaths. The current medical arsenal consists primarily of chemotherapy, small molecules called targeted therapies, and antibodies, in particular cytotoxic antibodies, which target tumor cells. These therapies have a significant initial effect, in particular on the reduction in tumor burden. However, the sustainability of treatment response remains to be improved and relapses are a major cause of death.

In contrast, responses to immunotherapy drugs have currently shown very long durations, and can last longer than a decade. This appears to be due to the involvement of an immune memory which could then control the tumor for an undetermined period of time. Nevertheless, historically, only a fraction of patients have responded, and at the cost of significant side effects.

Anti-cancer immunotherapy products fall within several therapeutic classes: cytotoxic antibodies, immunomodulating molecules in the broad sense (biological molecules such as IL-2 or interferons, small molecules such as lenalidomide) and therapeutic vaccines (one of the first vaccines of this type was approved in the U.S. in 2010).

A new class - immunomodulating antibodies - is currently emerging. The first immunomodulating antibody, ipilimumab, from Bristol-Myers Squibb, was approved in 2011 on the basis of impressive results achieved with metastatic melanoma, a very serious form of cancer which had not received any new treatment during the past 20 years. In its pivotal study, ipilimumab showed a very significant benefit in terms of long-term survival in approximately one quarter of patients.

Since these results, other immunomodulating antibodies targeting other targets have shown equally promising results in melanoma and lung cancer in particular, with lesser side effects.

Innate Pharma's first two drug candidates fall within this class. This type of drug could be a revolution in the treatment of cancer, with a treatment potential estimated by some scientific analysts of over half of patients with cancer. With two drug candidates in clinical development, including one in partnership with the world leader in immunomodulating antibodies, Innate Pharma is among the most advanced companies in this field.

Scientific bases of the Company

The Company develops immunotheapy drug candidates which are more specifically active on innate immunity cells and some of which can be activated to destroy tumor cells or cells infected by viruses. The activation of innate immunity also plays a key role in regulating the immune response, notably in implementing the immune memory and controlling tolerance to potentially pathogenic elements. This is particularly important in the case of cancers which the immune system is not able to control because, as it becomes tolerant to a tumor, the tumor is no longer recognized as a foreign element.

In the 1990s, a number of scientific breakthroughs made it possible to describe the activation mechanisms of innate immunity cell populations at a molecular level. These notably include:

- The discovery of the natural cytotoxicity receptors (NK activating receptors) by Alessandro and Lorenzo Moretta's group at the University of Genoa, Italy (Alessandro Moretta is one of the Company's founders) (1, 2, 3).

- Understanding of the inhibition mechanisms of NK cell activation activation by the above teams as well as Eric Vivier's laboratory from the Centre d'Immunologie de Marseille-Luminy (« CIML ») (4,5), thus giving a molecular basis for the "missing self" hypothesis formulated by Klas Karre (6). Eric Vivier is also one of Innate Pharma founders.

- The discovery by Marc Bonneville and Jean-Jacques Fournié of a new class of small synthetic molecules that are Gamma 9 Delta 2 T lymphocyte agonists ("γ9δ2 T") (7) (Marc Bonneville and Jean-Jacques Fournié are two of the Company's founders).

- The discovery of the Toll-like receptor family (TLR) by Jules Hoffman (8) (CNRS Strasbourg), Bruce Beutler (SCRIPPS United States) (9) and Ruslan Medzhitov and Charles Janeway of Yale University (10).

These scientific breakthroughs have led the way to the development of new drug candidate classes. Historically, the Company has primarily focused on unconventional lymphocytes, a field in which the founding scientists of the Company have made decisive contributions. Later, the Company started other programs targeting TLRs based on license agreements.

During the course of its development, the Company has maintained its specialization in innate immunity cell receptors while broadening the mechanism of action of its drug candidates beyond immuno-modulation.

Knowledge of the "danger markers" recognized by the receptors of the innate immunity cells is used for targeting these markers with antibodies. These antibodies are are directly cytotoxic for the cell expressing these markers ("cytotoxic antibodies"). In this perspective, some of the drug candidates could directly target tumoral antigens with a cytotoxic effect. This is the case of the IPH 41 program.

Therapeutic approach: targeting innate immune checkpoints

The Company works in a very specific field related to targets of therapeutic interest: the checkpoints of innate immunity. The targeting of immune regulatory checkpoints by antibodies is a very recent field of research, which has known a spectacular validation with the clinical results of the first authorized product using this mechanism of action: ipilimumab (Bristol-Myers Squibb), is currently marketed for treating melanoma (skin cancer). This field is continuously attracting new industrialists. Nevertheless, at present, most targeted receptors are adaptive immune receptors. Innate Pharma, founded in 1999 based on the principle of targeting unconventional innate immune lymphocytes, has occupied a major intellectual property position in the field of innate immune receptors.

Competitive intensity in the field of adaptive immunity and innate immunity targets

	Cible	Phase I	Phase II	Phase III	Market
Inhibitory receptors	**CTLA-4**		AZN		BMS
	PD-1 / PD-L1	AZN, Merck KGaA, Amplimmune/GSK, BMS	CureTech	Merck, Roche, BMS	
	KIR		BMS/IPH		
	LAG-3	BMS	IMP		
	NKG2A	IPH			
Activating receptors	**CD137**	Pfizer	BMS		
	CSF-1R	AMG, LLY, Roche			
	B7-H3	Servier/Macrogenics			
	CD40	Roche			
	OX40	AZN			
	GITR	GITR Inc			
	CD27	Celldex			

Portfolio of drug candidates being developed

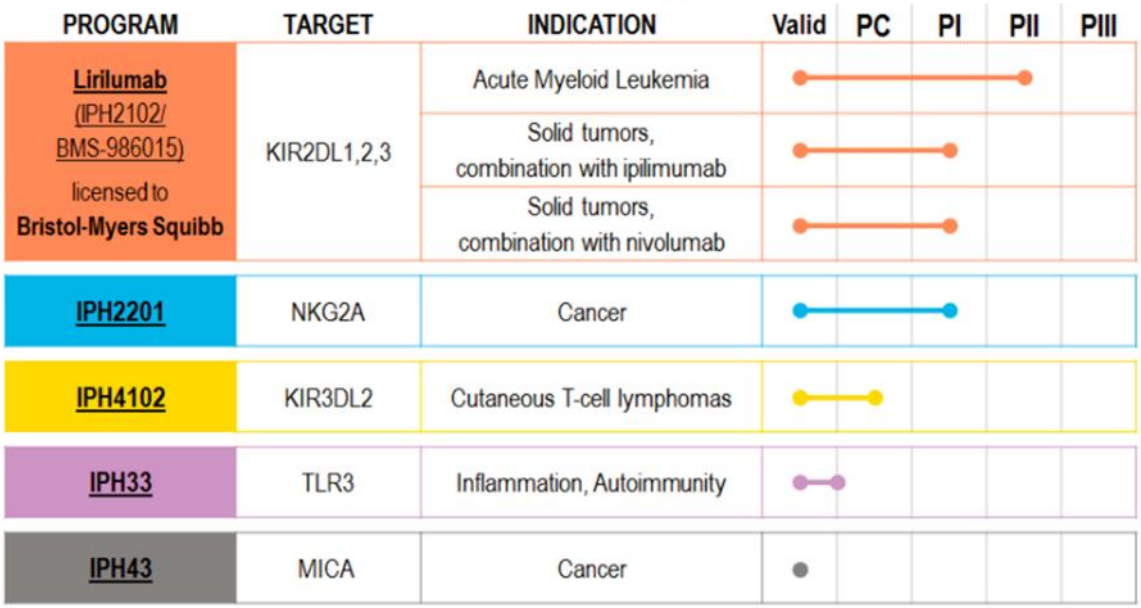
At present, the Company's pipeline includes two clinical programs:

- lirilumab, currently tested in Phase II clinical trials for cancer and licensed to Bristol-Myers Squibb.
- IPH22, for which the Company bought the rights from Novo Nordisk A/S in February 2014 (see paragraph 4.5.8.2.1).

It also aims to file for the authorisation of a clinical trial for the candidate IPH4102, which would bring its clinical programs in 2015 to three, including two proprietary programs.

Innate Pharma also has other proprietary preclinical programs, such as IPH33 and IPH43.

Innate Pharma's pipeline



2013 achievements

Lirilumab (anti-KIR antibody), partnered with Bristol-Myers Squibb:

In 2013, the three clinical trials started with lirilumab (IPH2102/BMS986015) in 2012 continued enrolment.

The double-blind placebo-controlled randomized Phase II trial of lirilumab as maintenance treatment in elderly patients with Acute Myeloid Leukemia ("AML") in first complete remission (study IPH2102-201, the "EffiKIR" trial) is recruiting as expected. In September 2013, a Data and Safety Monitoring Board ("DSMB") completed its first assessment of the EffiKIR study and unanimously recommended continuation of the trial without modification. In March 2014 the DSMB completed its second assessment of the EffiKIR study and recommended continuation of the trial, as planned.

The two Phase I trials of lirilumab in combination respectively with ipilimumab and nivolumab (Bristol-Myers Squibb) in solid tumors are ongoing. The trial testing the combination of lirilumab and nivolumab started cohort expansion in March 2014.

In 2013, several posters on the anti-KIR program were presented, among which three at the 55th ASH Annual Meeting (December 7-10, 2013). Two of these posters presented data from clinical studies with IPH2101, the hybridoma version of the anti-KIR antibody lirilumab. One presented the extension of the Phase I trial in AML testing the anti-KIR antibody in elderly patients in complete remission. The second one presented data from a Phase I trial testing IPH2101 combined with lenalidomide in relapsed Multiple Myeloma. The third poster presented preclinical data demonstrating enhanced efficacy of a cytotoxic antibody when combined with an anti-KIR antibody as well as evidence for lirilumab single-agent activity in lymphoma. A paper in *Blood* was published in December reporting these new combination data.

IPH2201 (anti-NKG2A antibody):

On February 5, Innate Pharma and Novo Nordisk A/S announced that Innate Pharma had acquired full development and commercialization rights to the anti-NKG2A antibody from Novo Nordisk and that Novo Nordisk A/S will reinforce its equity stake in Innate Pharma.

IPH2201 is a first-in-class therapeutic antibody that has been tested in a large Phase I safety trial in patients with rheumatoid arthritis, demonstrating a good safety profile for both iv and sc routes at single and multiple administrations.

NKG2A is a NK and T cell checkpoint relevant in both inflammatory disorders and immuno-oncology. Innate Pharma will prioritize development of anti-NKG2A in immuno-oncology and trials are expected to start in 2014. Novo Nordisk will receive 2 million euros in cash and 600,000 shares for licencing anti-NKG2A to Innate and be 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 shares was subject to approval by Innate Pharma's shareholders. At a general meeting called on 27 March 2014, shareholders voted in favour of this acquisition.

Novo Nordisk had licenced anti-NKG2A from IPH in 2006 as part of a multi-year research and collaboration agreement concerning anti-KIR and anti-NKG2D in addition to anti-NKG2A. That initial license included total milestones of €25 million and single-digit royalties.

IPH4102 (anti-KIR3DL2 antibody):

IPH4102 is a first-in-class cytotoxic antibody developed in some types of KIR3DL2-expressing cancers, such as the Sezary Syndrome ("SS") and Transformed Mycosis Fungoides ("TMF"), which are aggressive forms of cutaneous T-cell lymphomas. In 2013, an antibody candidate was selected and qualified for further development. IND-enabling studies and industrial production of the molecule have begun. The IND application is expected to be submitted in late 2014 and a Phase I to start early 2015.

IPH43 (anti-MICA antibody):

A new program to develop an anti-MICA therapeutic antibody in oncology was initiated.

MICA is a highly polymorphic ligand of the NK cell activating receptor NKG2D and specifically expressed on several highly prevalent solid tumors including breast, colorectal and lung. Innate Pharma has generated a panel of high affinity antibodies recognizing all forms of MICA which is now being tested and optimized to select the best development candidate.

Antibody-drug conjugate technology:

In October, Innate Pharma presented a new site-specific conjugation technology allowing homogeneous antibody-drug conjugates ("ADCs"). This technology addresses a bottleneck in ADCs development: rapidly obtaining homogenous ADCs based on a minimal change of the manufacturing process. It is a versatile approach that may be used for a broad spectrum of target antigens and which can accommodate both existing and future high potency toxins. The technology has been validated in preclinical models and opens new opportunities for portfolio expansion and partnering.

4.2 STRATEGY

Based on its know-how in translational research and its expertise in immuno-pharmacology, the Company aims at becoming a major player in the emerging field of immunomodulating antibodies.

Over the short-term, this strategy is based on maturing the portfolio of products being developed and on implementing partnerships with pharmaceutical or biotechnology actors with the financial and human capacity required for conducting large-scale clinical trials and possibly marketing campaigns requiring significant resources. At present, the Company has two candidate drugs licensed to major biopharmaceutical actors, Bristol-Myers Squibb and Novo Nordisk A/S. Costs related to both drug candidates are covered by the partners and the Company has received and will receive payments over the entire duration of the project if it proves to be successful (for example, signature of the agreement, development milestones, royalties on sales). Therefore, over the short-term, the Company does not expect recurring payments from product sales and will essentially depend on payments from programs developed in partnership with third parties and, for the other programs, on the signature of other partnerships and, if required, on raising capital from investors or on the markets to fund its activities.

Over the mid-term and on the basis of its current financial and human resources, the priorities of the Company are as follows:

- Maturing and expanding its portfolio of proprietary products while maintaining its scientific focus on targeting immune regulation checkpoints and clinical activities in wide therapeutic fields with major medical needs (cancer and inflammatory disease).
- Searching for partnerships to access downstream development capacities enabling to maximize the potential of its products and to fund the Company without resorting to dilutive routes for our hareholders.Progressively integrating downstream steps into the value chain while keeping certain development rights and possible marketing rights when they are compatible with the financial and human capacity of the Company.
- Constructing a proprietary antibody technology platform.

4.3 PRESENTATION OF THE COMPANY'S BUSINESS AND ITS INDUSTRIAL CONCEPT

4.3.1 Activities of the Company

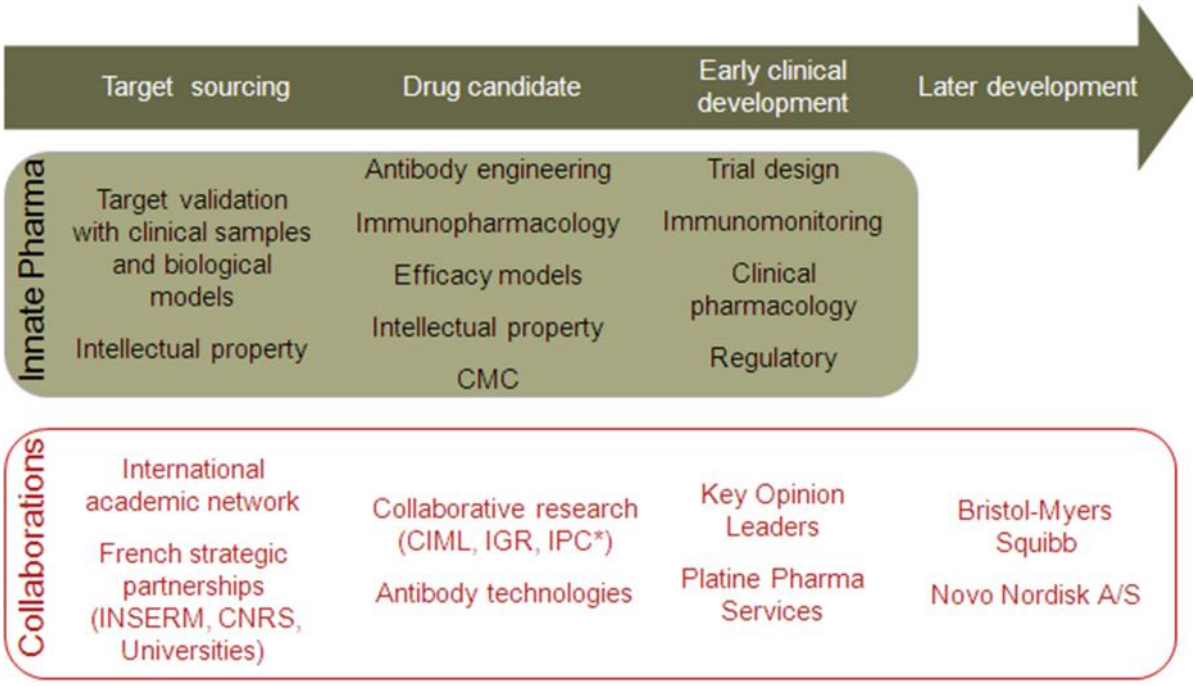
The Company's activity consists in discovering, characterizing and developing drug candidates. The research and development process, from the discovery of a drug candidate to the registration of a new drug, comprises elements common to all companies in the biopharmaceutical field. Nevertheless, due to 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 in "building" an antibody against this target with the desired specificity and affinity regarding recognition and the properties desired in relation 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 animal 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: the development objective is to determine the drug candidate's clinical efficacy and its safety of use 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.

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.

Value creation at Innate Pharma



* Centre d'Immunologie Marseille-Luminy, Institut Gustave Roussy, Institut Paoli Calmettes

Research & Development ("R&D") represents the core of the Company's work. The Company's R&D and pharmaceutical operations are managed within a matrix organization and implemented as programs. The Company's research and development activities are organized in programs corresponding to a drug candidate or family of drug candidates targeting a given cell receptor and to the development for an indication or a group of related clinical indications. Each program is overseen by a program manager and makes use of the skills from various research and development groups defined by branch (e.g., cell immunology, chemistry, protein chemistry). There are five research groups:

- The "antibody platform", which is in charge of the generation of drug candidates and of the optimization of the candidates through molecular engineering.

- The "immuno-pharmacology" group, which characterizes the mode of action of the candidate antibodies at molecular and cellular levels and which is also involved in the development of clinical and biological trials.

- The "efficacy models" group, which develops predictive models for physiopathological situations, tests the candidate antibodies in these models and produces pharmaco-kinetic and toxicological data.

- The "chemistry-manufacturing-controls"group ("CMC", pharmaceutical operations) for the physico-chemical characterization of the antibodies, the development of production and control methods and the galenic studies.

- Lastly, the "clinical" group, which designs and performs the clinical trials sponsored by the Company.

The first three groups report to the Scientific Director and the CMC and clinical groups report to the Development Director.

The medical and regulatory head office is involved at each level of the development process.

PLATINE Pharma Services (a common subsidiary with Transgene) is used for biomarkers and the monitoring of some clinical trials.

Quality system

Since its creation, the Company has placed great emphasis on quality management and has structured its organization and operations to comply with the best quality system standards in the industry.

The Company's quality system mainly aims at ensuring the quality of pharmaceutical operations, the safety of patients being treated with its drug candidates and the efficacy of these drug candidates. In addition, the quality system should enable the Company to control the costs and the progress of research and development operations, whether conducted in-house or by subcontractors.

On this basis, the Company's research and development activities have been certified by AFNOR CERTIFICATION as being compliant with the ISO 9001:2000 reference system since July 2005.

4.3.2 Company expertise and know-how

4.3.2.1 Research activities

To constitute its drug candidate portfolio, the Company has acquired patent rights mainly from academic research: these are patents for active molecules, therapeutic methods or a degree of ensured exclusivity for the exploitation of drug candidates targeting a given receptor. To acquire commercial rights from research institutions, the Company must maintain a high level of expertise and recognition in the scientific community so as to be considered as a legitimate and reliable business partner with the ability to continue the development process. The Company's specialization plays a decisive role and ensures its visibility. The involvement of the Company's founding scientists, who have made very significant contributions to the progress achieved in the Company's field of expertise, is another key asset.

Innate Pharma focuses its research resources on the high value-added stage, with the validation of a new target (generally from academic research), the validation of a therapeutic concept from a model molecule and the selection of an optimum drug candidate which may be developed clinically in a given indication.

The initial validation stage for a therapeutic concept requires *in vitro* and *in vivo* efficacy models, the ability to evaluate pharmacodynamic activity in the relevant animal models and expertise in clinical biology for designing and conducting retrospective studies in cooperation with hospital staff. These different approaches are then implemented during the entire development process. Accessing clinical samples, developing appropriate immunological tests or even selecting relevant biomarkers for a physiopathological process are key aspects.

The following step consists in generating an optimized drug candidate from a molecule model. For antibodies, this step may concern murine antibodies which cannot be directly used with humans. The Company does not have all of the in-house technology required for generating a human antibody or recombinant humanized antibody. However, it has implemented collaboration agreements or licenses enabling to access these tools.

4.3.2.2 Development

The questions raised during the development process are relatively standardized, but each development involves specific problems related to the drug candidate's mechanism of action. These problems notably consist in implementing pre-clinical pharmacology and toxicology methods in animal models. The Company's specialization in immunopharmacology and clinical immunology provides it with special expertise in the mechanisms of action common to all of its products, which is an important asset for this part of the development process.

In addition to the questions related to its products' mechanism of action, the Company must monitor the developments carried out by the subcontractors. Analytical and bioanalytical methods are initially developed in the Company's laboratories before being transferred to third parties who produce data through methods in accordance with the regulatory requirements for these activities ("Good Laboratory Practices" or "GLP"). Likewise, the Company conducts in-house preliminary studies to implement methods for the production and formulation of the active ingredient.

The Company's expertise lies primarily in immunopharmacology and in cellular immunology. In its laboratories, the Company has established the tools and skills required for implementing this specific expertise (cell culture laboratories, generation of non-standard animal models, flow cytometry, etc.). Approximately half of the Company's research and development staff is specialized in immunology. The other half is specialized in the various branches involved in the development process: chemistry and analytical chemistry, protein chemistry, bioanalytical and pharmacokinetic methods and pharmacotoxicology. For some aspects (chemistry of phosphorylated compounds, dosage tests using immuno-analysis, freeze-drying technologies), the Company believes to possess specific expertise which provides a competitive advantage in addition to its main field of expertise.

The clinical studies are managed by the Company, which currently is the trial promoter and has set up a dedicated organization ensuring that the design of clinical trials and the conditions for their implementation are in accordance with the "Good Clinical Practices" or "GCP" defined by the regulations. The biological follow-up of the trials ("immunomonitoring") is essential for extracting relevant biological information and evaluating the activity of the Company's drug candidates in patients on the basis of immunological markers. This aspect is part of the Company's expertise in clinical immunology. The Company is involved in the definition of measured parameters and the implementation of tests (notably cytometry tests).

4.4 INDUSTRIAL AND SCIENTIFIC CONTEXT

4.4.1 Cancer

General presentation

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 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 (2012), 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 (2012), 77 % of people with cancer in the United States were older than 55 at the time of diagnosis.

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 2012:

	Estimated number of cancer cases in the United States in 2013	
	New cases of cancer	**Deaths due to cancer**
Type of cancer		
Lung and bronchial	224,210	159,260
Colon and rectum	96,830	50,310
Breast	235,030	40,430
Pancreas	46,420	39,590
Prostate (men)	233,000	29,480
Melanoma	76,100	9,710
Leukemia	52,380	24,090
Lymphoma	79,090	20,170
Multiple myeloma	24,050	11,090
Others	598,430	201,590
Total	1,665,540	585,720

Source: American Cancer Society, 2014

4.4.2 Inflammatory diseases

Presentation

Acute inflammation is a physiological response to an aggression (infection, wound) involving various immunity effectors. When appropriate, the action of immune cells enables the destruction of the pathogen and the repair of the lesions. It therefore has a beneficial effect for the body. If the action is excessive or extended, it may have an adverse localized effect in one or several tissues or organs or a generalized adverse effect on the entire body.

Certain conditions are referred to as auto-immune due to the fact that they are caused by the activation of immune system effectors directed against self-constituents or pathogens for these constituents. Autoimmunity or loss of self-tolerance can result in multiple mechanisms, which in most cases are not very well understood, such as an infectious aggression of the target tissue or a mimesis between an exogenous antigen (infectious, medicinal or even food-related) or a self-constituent.

These inflammatory diseases (whether their autoimmune origin has been proved or is suspected) are often classified in two groups taking into account their extension:

- Organ-specific inflammatory (and/or autoimmune) diseases such as thyroïditis, hyperthyroïditis due to the production of antibodies directed against the receptor for Thyroid Stimulating Hormone (THS) (Basedow disease), type 1 diabetes (DT1), blood cytopenias and certain skin diseases such as psoriasis.
- Inflammatory diseases referred to as systemic diseases in which several organs, systems or tissues are affected successively or simultaneously. The most common diseases of this type are inflammatory rhumatisms, rheumatoid arthritis in particular, inflammatory bowel disease, multiple sclerosis, systemic lupus erythematosus, Gougerot-Sjögren syndrome with infection of the exocrine glands and dry eye syndrome, and less common diseases such as poly or dermatomyositis, scleroderma and various primitive vascularitis.

Epidemiology

The inflammatory diseases known to be autoimmune are generally very frequent and affect between 0.5 and 1 % of the population. Over the last 15 years, the pharmaceutical industry has focused its efforts on the 4 most frequent or most serious of these diseases:

- Rheumatoid arthritis which is believed to affect 0.5 % of the occidental population and which is predominant among women (with a ratio of at least 2 :1). Drugs developed in this indication have often been developed at a later stage in ankylosing spondylitis, which is globally as frequent as rheumatoid arthritis but is predominant among men, and in a group of heterogeneous rheumatic diseases, juvenile idiopathic arthritis whose prevalence is believed to reach 150 / 100 000 in developed countries.
- Psoriasis affects 1 to 3 % of the occidental population and, in 5 to 25 % of the cases, is associated with a rheumatic disease.
- Inflammatory bowel diseases, ulcerative arthritis and Crohn's diseases, which affect around 100,000 people (prevalence close to 150 for 100,000) in France.
- Multiple sclerosis which, in France, affects around 80,000 patients with a significant female predominance.

Other diseases, which are also frequent, such as type I diabetes, are undergoing numerous pharmaceutical developments. Lastly, lupus (a potentially less frequent disease but involving a development which is often acute) is a subject of increased interest due to the registration in 2011 of a new antibody (anti-BAFF, belimumab).

The treatment of these general diseases is historically based on the use of corticosteroids (administered systemically or topically) and of various immunosuppressive drugs with an action mechanism which is not very well understood (such as methotrexate in rheumatoid arthritis, cyclophosphamide or azathioprine in lupus).

These treatments have a high toxicity and an insufficient efficiency in most cases.

Significant progress has been made over the last 10 to 15 years with the emergence of new immunotherapy molecules with a more targeted effect and the work achieved in the rationalization of the treatment of these diseases. Most of these products (which are registered or being developed for treating rheumatoid arthritis, ankylosing spondylitis, psoriasis, or lupus) mainly block pro-inflammatory cytokines (TNF-α, IL-1, IL-6, IL-12/23, IL-7…). Others target T lymphocytes (anti-CD28 or CD3) or B lymphocytes (anti-BAFF, TACI, CD20, CD40) or the immune effector traffic (anti-integrin α4).

Their efficiency as a monotherapy (except in certain cases such as cutaneous psoriasis) is relatively modest. Nearly all of these products must be used as combinations in a sequential or simultaneous manner. Thus, for treating rheumatoid arthritis, the antibodies blocking the cytokines are generally combined with methotrexate or with another immunosuppressive treatment.

In 2012, a new class of small molecules emerged, targeting intra-cytoplasmic proteins such as JAK-3 and SYK, involved in the transduction of signals activating certain immune effector cells. Tofacitinib was the first representative of this new class to be approved in the the US for the treatment of rheumatoid arthritis and it could provide an additional benefit for patients, notably as it is an oral treatment. Overall, results are insufficient, even in the cases of diseases which have been developed the most (such as rheumatoid arthritis in which at least one third of the patients do not show significant responses). Controlling the forms or manifestations of the most serious cases of these diseases remains a delicate matter and still requires the use of an induction treatment which is heavily immunosuppressive, strong doses of corticoids in the case of inflammatory bowel diseases, combinations of highly dosed corticosteroids and cyclophosphamide for serious cases of lupus involving impaired renal functions and neuro-psychiatric disorders.

Neither of these treatments is curative and restores self-tolerance, even the treatments which display such a potential in animal models. The above-mentioned inflammatory diseases generally relapse when the treatment is ended. Therefore, maintenance treatments must be used and involve a significant long-term toxicity and frequent failures involving relapses. Let's mention the examples of Crohn's diseases for which many patients must still undergo extremely mutilating digestive surgery: according to some studies, up to 25 % of them are fitted with a definite artificial anus after 10 years of development.

4.4.3 Market data

The worldwide pharmaceutical market was estimated at 962 billion US dollars in 2012, a 2.4% increase with respect to 2011 at constant US dollar exchange rates (Source: IMS Health, 2013). The following table shows the geographical distribution of this market:

Geographical area	Market in 2012 in value (billions of US dollars)	% of the total market	% of growth over 2011	% expected growth in 2012-2017
North America	348.7	36.3%	3.4%	0.7 – 3.7%
Europe	221.8	27.8%	0.9%	-0.4-2.6%
Asia, Africa and Australia	168.3	17.3%	12.8%	11.4-14.4%
Japan	112.1	11.6%	5.6%	1.7-4.7%
South America	72.5	7.0%	12.4%	10-13%

Source : IMS Health, 2014

According to IMS Health, the worldwide pharmaceutical market should continue to expand over the next few years with an annual growth of circaa 5%.

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 61.6 billion dollars in 2012 and a 5.1% growth from 2011 (IMS Health, 2014).

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 combination with products from the older generation. This market is dominated by innovations, especially innovations generated through biotechnology. In 2012, 39 therapeutic agents were approved in the United States, which is a record since 1996. A third of the approvals concerned the field of cancer. Moreover, the many therapeutic innovations, which have been introduced, have resulted in a significant increase in the cost of treatment. Two immunotherapeutic drugs recently introduced benefit from very favorable prices, which exceed 90,000 US dollars per treatment course.

The market for anti-inflammatory drugs is also very large, owing to the large number of patients and the chronicity of the diseases. It is dominated (value) by biological, notably anti-TNF antibodies. The indication for rheumatoid arthritis alone represented a market exceeding 15.5 billion US dollars in 2011, and should increase and exceed 21 billion US dollars by the end of 2022 (GlobalData, 2013).

The Company estimates that biological drugs for this market represent sales in excess of 30 billion US dollars each year, with an annual growth superior to 10%.

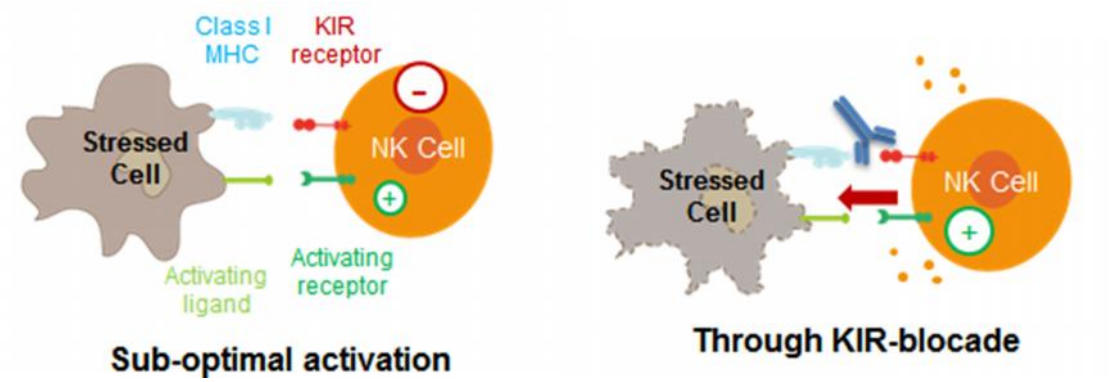
4.5 PROGRAMS BEING DEVELOPED IN THE COMPANY

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

4.5.1.1 Presentation

Lirilumab (IPH2102/BMS-986015) is a monoclonal antibody (IgG4) blocking KIR receptors, which are inhibitory receptors present at the surface of NK cells (Natural Killer cells). By blocking them, it potentiates NK cell activation and potentially the destruction of tumor cells. Lirilumab is currently tested in different clinical trials.

Lirilumab mechanism of action



The Company signed a global agreement for developing and marketing this program with the American company Bristol-Myers Squibb, in 2011 (see section 4.5.8.1.1) and is eligible for 430 million USD in milestone payments and double-digit royalties on future sales.

4.5.1.2 Clinical development

Lirilumab is currently being tested in different clinical trials for cancer.

- **Phase II trial EffiKIR (<u>IPH2102-201):</u>**

EffiKIR is a double-blind placebo-controlled randomized Phase II trial of lirilumab as a maintenance treatment in elderly patients with Acute Myeloid Leukemia (AML) in first complete remission.

The trial will include 150 patients, randomized into three arms. Two arms are to test lirilumab as a single agent at different doses and one arm will receive placebo. The primary efficacy endpoint is leukemia-free survival. Secondary endpoints include safety and overall survival.

The rationale of this trial is based on the capacity of activated Natural Killer (NK) cells to directly kill tumor cells and trigger a broad immune activation. This rationale is supported by clinical studies showing that NK cells activated in the context of hematopoietic stem cell transplantation, may significantly lower the recurrence of various hematological malignancies, including AML.

This trial is sponsored by Innate Pharma and performed in France, with the participation of the two French clinical cooperative groups, ALFA and GOELAMS[1], harnessing the research effort of the French centers qualified to treat patients with AML. First patient inclusion is expected before the end of the year.

[1] ALFA : Acute Leukemia French Association. GOELAMS : Groupe Ouest-Est des Leucémies Aiguës et Maladies du Sang (Acute Leukemia and Blood Diseases West-Est Group)

- **Phase I trial with lirilumab in combination with ipilimumab in solid tumors:**

The purpose of this Phase I open label study is to determine whether the combination of lirilumab and ipilimumab is safe and to provide preliminary information on the clinical activity of the combination.

The primary outcome is safety. Secondary outcomes include a preliminary assessment of efficacy, as measured by tumor assessment. The study is conducted in two parts - dose escalation and cohort expansion - and is expected to enroll 125 patients. Tumor types are restricted to the following advanced (metastatic and/or unresectable) tumor types: melanoma, non-small cell lung cancer - squamous and non-squamous histology, and castrate resistant prostate cancer.

- **Phase I trial with lirilumab in combination with nivolumab (anti-PD-1 mAb, BMS-936558) in solid tumors:**

The purpose of this Phase I open label study is to determine whether the combination of lirilumab and nivolumab is safe and to provide preliminary information on the clinical activity of the combination.

The primary outcome is safety. Secondary outcomes include a preliminary assessment of efficacy, as measured by tumor assessment. The study is conducted in two parts - dose escalation and cohort expansion - and is expected to enroll 162 patients.

IPH2101

Historically, the Company has developed another anti-KIR antibody, which is identical to IPH2102 but which has been produced in another cell line (hybridoma), IPH2101. This production method is not best suited for the industrialization of the manufacturing . This antibody has been used as a prototype in the initial clinical tests of the program and is not intended to be developed further. It is part of the agreement with Bristol-Myers Squibb. When the contract was signed, different trials were being ongoing with IPH2101. The history of the trials is described in paragraph 6.5.8.1 of our Reference Document 2010, which was filed with the AMF on April 29, 2011.

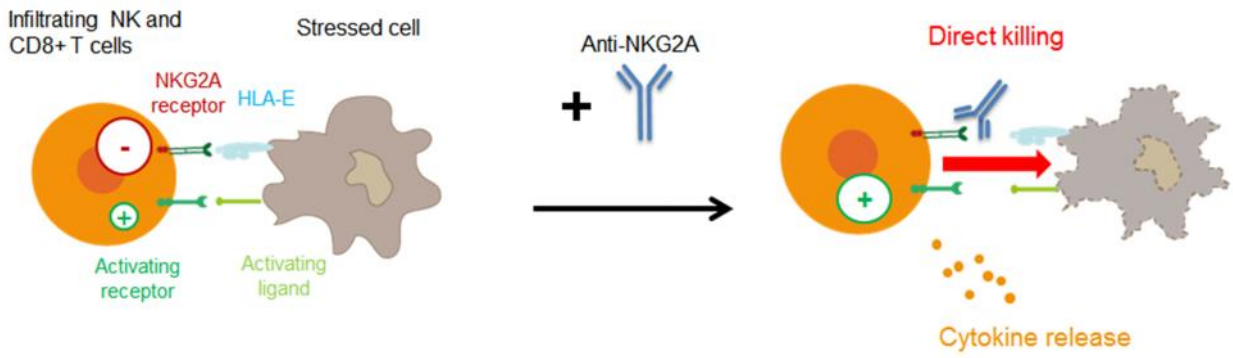
4.5.2 IPH2201 (NN8765)

4.5.2.1 Presentation

IPH2201 (anti-NKG2A) is a first-in-class humanized IgG4 antibody. CD94/NKG2A is a checkpoint receptor that inhibits anti-cancer functions of a subset of infiltrating NK and cytotoxic T lymphocytes. NKG2A recognizes HLA-E ligands, and by expressing HLA-E cancer cells can protect themselves from killing by CD94/NKG2A-positive NK-, NKT-, and T-cells (a/b and g/d). HLA-E is frequently up-regulated on cancer cells and this occurs in patients with different types of solid tumors or hematological malignancies. In some types of cancers, high-levels of HLA-E appear to confer poorer prognosis.

IPH2201 blocks the inhibitory function of CD94/NKG2A, thereby unleashing NK and T cells to kill cancer cells, despite expression of HLA-E. IPH2201 enhances killing of a variety of cancer cell types. Hence, IPH2201 may potentially re-establish a broad anti-tumor immune response. In an ongoing single- and multiple-dose Phase I dose-escalation safety trial in patients with rheumatoid arthritis, IPH2201 appears to have a safe and well-tolerated profile at all doses tested.

IPH22 mechanism of action



IPH2201 is the third therapeutic antibody generated through the collaboration between Novo Nordisk A/S and Innate Pharma to enter clinical trials and the second targeting a checkpoint receptor (after lirilumab). As part of this research collaboration, Novo Nordisk A/S selected anti-NKG2A, licensed from IPH in 2006, and chose to develop it in inflammation. Innate Pharma acquired the rights to IPH2201 from Novo Nordisk A/S in February 2014 to develop it in oncology (see section 4.5.8.2).

4.5.2.2 Clinical development

IPH2201 is currently being tested in a Phase I clinical trial in patients suffering from rheumatoid arthritis. The trial is ongoing under the responsibility of Novo Nordisk A/S. Innate Pharma will prioritize development of anti-NKG2A in immuno-oncology and trials are expected to start in 2014.

4.5.3 IPH4102: anti-KIR3DL2 cytotoxic monoclonal antibody

IPH4102 is a cytotoxic antibody targeting KIR3DL2 (which directly destroys the cell expressing its target).

KIR3DL2 is an inhibiting receptor of the KIR superfamily, normally expressed on a minor fraction of normal NK cells but specifically expressed in certain aggressive forms of the orphan indication of cutaneous T-cell lymphomas, such as Transformed Mycosis Fungoides (TMF) and Sezary Syndrome (SS). TMF and SS are the most severe forms of cutaneous T-cell lymphomas with a median survival of 2 to 3 years for their advanced stages. IPH4102 is a humanized cytotoxic antibody which targets and destroys cells expressing KIR3DL2. It selectively binds KIR3DL2 and has demonstrated a high level of efficacy in various pre-clinical models. IPH4102 is in pre-clinical validation at Innate Pharma. An investigational new drug (IND) application should be submitted in late 2014

4.5.4 IPH33 program: immunomodulating monoclonal antibody targeting TLR3

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

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

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

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

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

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

4.5.5 IPH43 program: anti-MICA antibody program

IPH43 is a program to develop a first-in-class anti-MICA therapeutic antibody in oncology. MICA is a highly polymorphic ligand of the NK cell activating receptor NKG2D. MICA is specifically expressed on several highly prevalent solid tumors including breast, colorectal and lung. Innate Pharma has generated a panel of high affinity antibodies recognizing all forms of MICA which is now being tested and optimized to select the best development candidate.

4.5.6 Discovery: New Targets

The Company has acquired intellectual property rights from academic organizations and is conducting, directly or through research collaboration agreements, exploratory research programs which, if successful, could enrich its portfolio with new target receptors and new drug candidates in the field of cancer immunotherapy or inflammatory diseases.

4.5.7 Discovery: New Technologies

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

4.5.7.1 Proprietary Antibody-Drug Conjugates technology

Innate Pharma has developed a new site-specific conjugation technology for homogenous antibody-drug conjugates (ADCs).

The proprietary technology of Innate Pharma 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. It uses bacterial transglutaminase (BTG) enzyme. A simple point mutation in the antibody heavy chain generates two or four conjugation sites for enzymes and linkers have been optimized in order to conjugate to these positions quantitatively.

The Innate technology, validated in pre-clinical models, could be used internally to expand its portfolio of developmental candidates or form strategic partnerships.

4.5.8 Agreements on assets

4.5.8.1 Agreements on lirilumab

4.5.8.1.1 Agreements with Bristol-Myers Squibb for outlicensing 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-MyersSquibb exclusive worldwide rights to develop, manufacture and commercialize lirilumab and related compounds blocking KIR receptors. The agreement covers all potential indications for lirilumab. Innate Pharma will continue to develop IPH2 lirilumab 102 in acute myeloid leukemia (AML) through to the end of Phase II. Innate Pharma will also provide pre-clinical support for the development of 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.

Additional payments of up to 430 million dollars, depending 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, 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.

4.5.8.1.2 Agreements by which the Company has acquired rights

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. 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.

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.

4.5.8.1.3Summary of the collaboration and/or licence agreements concerning lirilumab

Licencee	Licensor and owner of rights	Next milestones paiments (toward licencee)	Royalties (toward licencee)
Innate Pharma	Bristol-Myers Squibb	Not disclosed	Yes
Novo Nordisk A/S	Innate Pharma	Not disclosed	Yes
University of Genoa	Innate Pharma	Start of Phase III clinical trials	Yes
Lonza	Innate Pharma	Start of Phase III clinical trials	Yes

4.5.8.2 Agreements on IPH2201

4.5.8.2.1Agreement with Novo Nordisk A/S

On February 5 2014, Innate Pharma SA and Novo Nordisk A/S today announce that Innate Pharma has acquired full development and commercialization rights to the anti-NKG2A antibody and that Novo Nordisk A/S was to reinforce its equity stake in Innate Pharma.

IPH2201 is a “first-in-class” immunomodulating antibody, which has been tested in a large Phase I safety trial with anti-NKG2A in patients with rheumatoid arthritis, demonstrating a good safety profile for both iv and sc routes at single and multiple administrations.

NKG2A is a NK and T cell checkpoint relevant in both inflammatory disorders and immuno-oncology. Innate Pharma will prioritize development of anti-NKG2A in immuno-oncology and trials are expected to start in 2014

In consideration of the license of anti-NKG2A to Innate Pharma, Novo Nordisk A/S will receive 2 million euros in cash and 600,000 shares for licencing anti-NKG2A to Innate and be 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 licenced 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.

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

4.5.8.2.2Agreements 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.

4.5.8.2.3Summary of the collaboration and/or licence agreements concerning IPH2201

Licencee	Licensor and owner of rights	Next milestones paiments (toward licencee)	Royalties (toward licencee)
Novo Nordisk A/S	Innate Pharma	At market registration	Yes
University of Genoa	Innate Pharma	Not disclosed	Yes

4.5.8.3 Other agreements on intellectual property rights

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

- Exclusive collaboration and option agreements or research collaboration agreements. These agreements include a part covering collaboration on a specific work plan or in a specific field for a limited period of time and a part granting an exclusive option to license certain intellectual property rights. The duration of exclusive licenses under option varies according to the terms of the contract, but generally lasts for the duration of the underlying intellectual property rights. Under these agreements, the Company pays research and development fees for the collaboration part and for the exclusive license part, it agrees to pay an upfront fee (or technology access fees), milestone payments (which depend on the completion of certain stages) and, if the covered products or technologies are marketed, royalties on sales.

- Exclusive agreements for options, licenses or the assignation of rights by which the Company acquires rights to existing intellectual property. The option agreements are generally of limited duration, corresponding to a period during which the Company evaluates the opportunity to acquire the license for the intellectual property rights concerned, and as a compensation for this, the Company generally pays an option fee and covers the past and present intellectual property costs of the assets being optioned. As compensation for the exclusive license rights (whose duration varies according to the terms of the contract but generally lasts for the duration of the underlying intellectual property rights), the Company notably pays an upfront fee (or technology access fees), milestone payments which depend on the completion of certain stages, and, if the covered products or technologies are marketed, royalties on sales.

Collaboration agreements are important agreements for the Company, as they ensure the acquisition of intellectual property rights on discovery or early stage research, i.e. prior to its field of research and development activities. We notably have an agreement with the University of Genoa, Alessandro Moretta and his research group: the Company is bound to the University of Genoa, Italy, and/or Alessandro Moretta and his research group, by a contract initially signed in November 1999 and which has been renewed since. This contract covers the discoveries made by the laboratory headed by Alessandro Moretta (one of the Company's founding scientists) in the field of cell and NK physiology and their therapeutic applications. This contract enabled the exercise of the licenses for certain intellectual property elements used for the IPH21 (lirilumab) 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 and 2010 respectively, in relation to different research programs carried out at the Centre d'Immunologie de Marseille-Luminy (Marseille-Luminy Immunology Centre, "CIML").

We have other collaboration agreements, including an agreementsigned in 2011with 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 also has options, licenses or assignation of rights agreements, signed with organizations, academic laboratories or companies, whether or not they have other collaborative research agreements with the Company. It notably has a licensing agreement related to IPH41 for the treatment of the Sezary syndrome. This licensing agreement was signed with Inserm in September 2002. In addition to the lump-sum payments made by the Company at certain milestones reached by IPH41, this contract requires the Company to pay royalties on future sales. The Company has furthermore entered into a license agreement in December 2013 with Novo Nordisk Healthcare AG in respect of patents in the field of protein engineering.

Accounting for payments in relation to these agreements
The Company has two different accounting methods depending on 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.

4.5.9 Other agreements

For more details regarding other agreements, see Note 15) in the 2013 Consolidated Accounts in Section 20.1 of this Reference Document.

4.5.10 Regulatory environment

The Company operates in a strictly regulated environment. The research and development work, the pre-clinical trials, the clinical trials, the facilities as well as the manufacture and marketing of our products are subject to complex legislative and regulatory provisions defined by various public authorities in France, Europe and other countries in the world.

The Company must also comply with the laws and regulations concerning the environment, hygiene and safety, particularly those related to the storage, use, handling, transport and disposal of hazardous, chemical, biological and radioactive products and industrial and hospital waste. The Company's activities are notably subject to regulations concerning radioactive substances, according to which an authorization must be granted by the Directorate General of nuclear safety and radiation protection for the possession and use of radionuclides and which subjects the activities to specific rules for the training of workers and to the application of safety instructions in aim of limiting risks of exposing workers to ionising radiation.

4.6 COMPETITIVE POSITION

The biotechnology and pharmaceutical industry sector, and notably the cancer field, is characterized by a very fast evolution 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.

The current activity of Innate Pharma focuses on the validation of concepts and therapeutic targets to be licensed within the pharmaceutical industry. In this context, we believe that our competitive field is that of antibodies modulating immunity regulation checkpoints and innate immunity in particular.

The sector of immunomodulating antibodies has drawn the attention of the industry, particularly since the publication in 2010 of the clinical results of the first immunomodulating antibody, Yervoy (anti-CTLA4, BMS). Nevertheless, this mainly concerns targets regulating the activity of adaptive immunity. At present, in the field of targets regulating innate immunity, Innate Pharma and its partners occupy a key position (see paragraph 4.1) with competition from only few other companies.

As regards our projects concerning cytotoxic antibodies, the target for our cytotoxic antibody IPH4102 (Sezary's syndrome) is original and highly specific, a differentiating factor. Other approaches are being developed.

Many companies developing anti-cancer therapies have greater financial, industrial, commercial and technological resources than the Innate Pharma. The major pharmaceutical laboratories notably have greater experience in clinical trials and regulatory procedures. Furthermore, they have the resources to obtain regulatory authorizations and to market their new anti-cancer treatments much more quickly than our Company. For this reason, The Company intends to rely on partners for the advanced development and marketing of its candidates.

Competition between the developers of anti-cancer therapies and treatment for inflammatory diseases 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.

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 5.1, "Risks related to the Company's competitive environment").

4.7 DEPENDENCY FACTORS

See CHAPTER 5 and CHAPTER 11 of this Reference Document.

CHAPTER 5. RISK FACTORS

The Company operates in a constantly evolving environment involving many risks, some of which are beyond its control. Before buying the Company' 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 5 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 its objectives, and then to identify and evaluate ways to control these risks. The appropriateness of the analysis between risks and control actions theoreticall allows the determination of the level of residual risk.

The mapping of risks is a management tool. It is reviewed annually as well as at the time of occurrence of any significant event that could potentially impact the risk profile of the Company. At the time of the annual risks review, the set of risks and mitigation actions is reviewed and reassessed. This exercise should give a fair 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.

5.1 STRATEGIC RISKS

The main strategic risks are:

Risk of dependence on development programs

The development of a drug candidate, particularly for clinical development purposes, requires considerable investments in time, financial resources and qualified personnel. The Company's future success and ability to generate revenue over the long-term will depend on the technical and commercial success of our drug candidates, particularly on factors such as:

- The success of its clinical program
- The signing of partnerships and/or licensing agreements
- The authorization by regulatory authorities to market the Company's products
- The scalable production of pharmaceutical batches in sufficient quantities and of constant and reproducible quality
- 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.

The two most advanced development programs are lirilumab and IPH2201, see Section 4.5 of this reference document). If the Company is, in the end, unable to successfully develop and eventually market these programs and if, in parallel, the Company is unable to reduce its dependence on these programs, the Company's business, prospects, financial situation, results and development could be significantly affected.

In order to mitigate the risk of development failure, a number of the Company's most advanced programs may be partnered with more experienced pharmaceutical companies which are responsible for the development of these programs as of the date of partnering and finance the development, as is the case for example with lirilumab.

The pipeline of proprietary compounds of the Company includes compounds at ealier 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.

Risks related to the delay in or failure of the development of the Company's drug candidates, to the absence of appropriate planning control and monitoring

The Company is a biopharmaceutical company specialized in immunology. It is currently developing new immunotherapy drug candidates, targeting innate immunity cell regulation pathways (see CHAPTER 4). The Company's drug candidates are at varying stages of development.

The development of a drug candidate is a long, expensive and uncertain process that occurs in several phases, with the objective of showing the therapeutic benefit provided by the drug candidate in one or more indications. The Company may be unable to demonstrate a good tolerance or efficacy of one or more of the Company's drug candidates during pre-clinical or clinical testing . Any delay in the pre-clinical development of a drug candidate could lead to a delay in initiating its clinical development. A failure in the pre-clinical development of a drug candidate could lead to abandoning its development. Any failure at the various clinical stages for a given indication could delay the development, production and marketing of the product, or even lead to abandoning its development. If the Company is unable to show the therapeutic benefit of all the drug candidates of a class being developed, this could lead to terminating all development of this class.

If the Company's drug candidates are found to be ineffective or if they generate unacceptable side effects, it would be impossible to market them. This could have a material adverse effect on the Company's business, prospects, financial situation, results and development.

The risks related to the failure of a drug candidate's development are highly related to the stage of maturity of this drug candidate. Due to the relative precocity of its drug candidate portfolio, the Company believes that there is a non-negligible risk that some of them may not reach the marketing authorization stage. The risk of development failure of a drug candidate is inherent to the activity of this Company. The set of measures in place to control research and development activities, at the level of decision-making and at the level of project management, contribute to the mitigation of this risk.

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 most advanced program is partnered with Bristol-Myers Squibb for its advanced development and its potential future registration and marketing (see section 4.5.8.1 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. 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 development options, 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, pre-clinical 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.

In addition, although the Company aims to include non-compete 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.

In order to successfully carry out very specific tasks in the research and development of its products, the Company relies on a network of outside scientific collaborators, including researchers from academic institutions. 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.

One or more of these risks could have a material adverse effect on the Company's business, prospects, financial situation, results and development. In order to limit the risks related to our current or future partnerships, we maintain in place strategies of partnerships, growth and new drug candidates.

Risks related to financing the activity

The Company has invested heavily since its business began in 1999. Operating expense was 17.7 million euros and 19.4 million euros for the fiscal years ending on December 31, 2012 and 2013, respectively, in the absence of recurring income. The Company expects that the cash flow and short-term financial instruments are adequate to meet its capital needs until mid-2016 on the basis of current activities, which means that it must seek new funding sources to finance its long term growth, in particular from milestones related to partnered development stage products, the signing of new partnerships with industrial and commercial partners and possibly capital increases.

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.

It is possible that no milestones will be paid by current partners during the period covered by the current cash reserves of the Company, such milestones 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. If the necessary funds are not available, 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 Comapny 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.

In addition, further capital raising from issuing new shares would dilute the Company' existing shareholders'. Debt financing, if available, may also include restrictive conditions.

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.

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.

History of operational losses – Risks related to expected future losses

Since the Company's operations began in 1999, it has incurred operational losses. On December 31, 2013, the Company's cumulative net losses amounted to 90 million euros, including a net loss of 2.9 million euros for the fiscal year ended on December 31, 2013. Such losses result principally from significant investments in research and development for conducting pre-clinical 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. The Company's profitability will depend on the Company's ability to generate revenue from partnerships in relation to our programs in development, and/or to successfully develop, produce and sell the Company's products and programs, alone or with partners. The Company expects that its only revenue sources for the next four to five years will be:

- Payments from our partners; and
- Government research grants and research tax credit.

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 accouting and financial processes and their appropriate utilization is regularly monitored, in particular through the internal control system.

Specific risks related to pre-clinical studies and clinical trials

The Company's ability to make the right scientific and strategic choices such as the choice of a drug candidate, of the indication for a given drug candidate, or of a partner, is a key issue for the future of the Company. The organization of the different management and governance bodies as well as the use of external expertise aim at limiting the risk and thus optimizing the decision making process in this regards.

The Company conducts comprehensive pre-clinical studies and clinical trials on humans and must ensure the pharmaceutical quality of its products and demonstrate their safety and efficacy in the targeted indications. Each clinical trial on humans is subject to preliminary authorization and/or subsequent checks and all the development data must be evaluated by the competent regulatory authorities.

These 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. Fatalities and other undesirable events, whether related to the treatment under trial or not, may occur and force the Company to delay or suspend the trial, thereby preventing it from continuing the development of its product in the targeted indication or in other indications.

Moreover, the completion of clinical trials and the Company's ability to recruit patients to conduct such trials depend on numerous factors such as:

- The type of targeted indication;
- The number of affected patients eligible for the treatment;
- The evolution of the disease of patients included in the trials;
- The existence of other clinical trials targeting the same patient population;
- The Company's ability to convince clinical investigators to recruit patients for its trials;
- The possibility of recruiting and treating patients at a given clinical investigation centre; and
- The availability of the product in sufficient quantities.

For trials that are partly or fully carried out by subcontractors, the Company depends on the ability of these subcontractors to perform their work under the agreed terms and within the agreed time schedules. The distance or the geographical distribution of clinical investigation centers could raise operational and logistic difficulties, leading to costs and delays.

Clinical and pre-clinical trials are expensive. If the results of these trials are not satisfactory or conclusive, the Company might have to decide to either abandon the program, which would result in the corresponding losses in financial investment and time, or to continue it, with no guarantee that the additional investment will bear fruit.

Numerous pharmaceutical companies have experienced significant setbacks during clinical trials at an advanced stage or during the regulatory review procedure, even after obtaining promising initial results.

The Company's inability to conduct clinical trials successfully could have a material adverse effect on its 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. The Company has implemented processes to monitor its programs, decision processes and responsibilities in the context of limiting these risks.

Moreover, communicating incorrect interim or final results of pre-clinical or clinical trials could have major consequences for the reputation of the Company with key sectors of the public such as the scientific and medical world, pharmaceutical companies or the financial markets. The definition and implementation of a communication plan incorporating a review process for the outgoing data will limit this risk.

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 4.6 Competitive Positioning). 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, paticularly 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 strategic intent of the Company is to enter 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 a strong competitive pressure in favor of such partnerships.

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

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

It is important for the Company' 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, a process to manage the Company's patents and rights has been structured and implemented.

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.

The Company actively monitors its intellectual property activities to limit this risk.

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.

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 USA, 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 11.2 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 our brands and the ongoing monitoring of the same through our intellectual property process aim to mitigate these risks.

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;
- 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 wil not become material until the products of the Company will be marketed or close to market.

5.2 OTHER OPERATIONAL RISKS

In addition to risks related to delays or termination of the development of our drug candidates described above, the major operational risks are the following:

Risks related to integrating potential acquisitions of products or companies

The Company's strategy also involves promoting the growth of the Company's business externally, through selective acquisitions of complementary companies, products or technologies in Europe and elsewhere.

The Company's ability to implement this strategy depends, in part, on the Company's success in making such acquisitions on satisfactory terms and integrating them into the Company's operations or technology. Implementing a strategy to pursue external growth opportunities may impose significant strains on the Company's managers and operating systems. It may also be difficult to integrate these acquisitions into the Company's operations. In addition, the Company might finance such acquisitions by issuing debt or equity, which would impose certain constraints or have a dilutive effect on its shareholders.

If the Company is unable to integrate such acquisitions, this could have an material adverse effect on its business, prospects, financial situation, results and development.

Risks related to subcontracting (especially risks related to the outsourcing of manufacturing)

The Company frequently uses subcontractors in its business. The Company entrusts subcontractors with the manufacture and development of complex methods which must be carefully monitored. Even if the Company diversifies, wherever possible, its sources of supply, it depends on third parties to manufacture all of its products.

The Company might be unable to enter into subcontracting agreements for the production, development and future marketing of its products, or to do so on acceptable terms. If the Company is unable to enter into acceptable subcontracting agreements, it will not be able to successfully produce, develop or market its products.

In addition, 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;
- 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.

In addition, 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.

In the event that the Company changes the manufacturers of its products, the methods and manufacturing procedures of the new manufacturers would have to be approved in accordance with applicable Good Manufacturing Practices ("GMP") standards. This revalidation could be expensive, time-consuming and would require the attention of the Company's most qualified personnel. If revalidation is not successful, the Company might be forced to look for another supplier, which could delay the production, development and marketing of its products and increase their manufacturing costs. The Company would also be required to demonstrate, through new clinical trials, that its products, such as produced by the new manufacturers, are comparable to those used in its most advanced clinical trials. New clinical trials may also be required if pre-clinical studies do not fully demonstrate product similarity.

Such events could have a material adverse effect on the Company's business, prospects, financial situation, results and development. In order to limit these risks, the Company places the utmost importance on its relationships and communications with its subcontractors. The subcontractors are assessed annually and audited regularly.

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 product-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 subscribed several insurance policies for limiting these risks, as described in this Section.

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 materialization 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 their 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. In order to ensure data integrity, saving and filing processes have been set up and are reviewed on a regular basis.

Risks related to a shortage of raw materials needed for the Company's operations

The Company is reliant on third parties to supply various materials and chemical or biological products that are necessary to manufacture its drug candidates and conduct its clinical trials.

Even if the Company's policy encourages securing long-term contractual relationships with its strategic partners, the Company's supply of any of these products could be limited, interrupted or restricted. In such a case, the Company might not be able to find materials or chemical or biological products of acceptable quality, in appropriate quantities and at an acceptable cost from alternative suppliers. If the Company's key suppliers or manufacturers are unreliable or if its supply of products or materials is reduced or interrupted, it might be unable to develop, produce and market its products on a timely and competitive basis. The Company's materials are subject to stringent manufacturing requirements and rigorous tests. Delays in completing and validating its suppliers' facilities and manufacturing methods for these materials could affect the Company's ability to complete clinical trials and to market its products in a profitable and timely manner.

If the Company is not able to maintain its subcontracting agreements, sign new agreements, or obtain the materials, chemical or biological products necessary for the development and manufacturing of its products in the future, the Company's business, prospects, financial situation, results and development could be significantly affected.

In order to mitigate this risk, during regular program and project review sessions, particular attention is paid to the subject of potential shortage of raw materials needed for the Company's operations in order to examine the possibility, as and when feasible, to secure alternative sources of supply.

5.3 REGULATORY RISKS

The main regulatory risks include the following:

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 *Agence Nationale de Sécurité du Médicament (ANSM*) in France, the European Medicine Agency ("EMA") in Europe and the United States Food and Drug Administration ("FDA"), and their counterparts in other countries, regulate the research and development, pre-clinical 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, pre-clinical 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.

Such regulatory procedures are expensive and may take many years to complete and their results are unpredictable. One of the Company's departments focuses on issues of compliance with the regulatory environment.

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 pre-clinical 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 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.

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, were 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.

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.

Specific risks related to obtaining marketing authorizations for the Company's products

To obtain marketing authorizations for one or more of its products, the Company or its partners must prove the quality, safety and efficacy of its products in the targeted indications to the competent regulatory authorities.

Even if the Company is not immediately concerned by a marketing authorization issue, a marketing authorization file is compiled throughout the development of the drug candidate and the Company ensures that good practices are constantly complied with in order to avoid jeopardizing its chances of obtaining its future market authorizations under favorable conditions.

The Company's ability to obtain marketing authorizations for its products will depend on several factors, including whether:

- It is allowed to continue to develop its products, which are currently in early clinical stages, or to advance its products currently in the pre-clinical development stage to the clinical stage;
- The Company or its partners are able to successfully conduct clinical trials on time and within the budgeted human, technical and financial resources;
- Its products have received prior marketing authorizations for another indication; and
- Its competitors do not announce clinical results likely to change the evaluation criteria used by the competent regulatory authorities.

If the Company does not obtain the marketing authorizations, it will not be able to sell its products. In addition, the Company's products might not obtain marketing authorizations in a given geographical area, which could significantly restrict their sale potential.

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.

Risks related to the evolution of drug reimbursement policies

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

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

5.4 RISKS RELATED TO SECURITY, HYGIENE, TECHNICAL OPERATIONS AND THE ENVIRONMENT

Due to its research and development activities, the Company is exposed to chemical, biological and radiological risks and therefore imposes preventative 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 risk assessment document which lists all health and safety risks for the Company's personnel.

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

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

Regarding facilities, due to the nature of the Company's business it does not have any so-called 'classified' facilities. The use of radioactive elements requires a permit, which has been granted by the *Autorité de 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.

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 pre-clinical tests make use of hazardous materials and biological materials, particularly radio-labeled molecules, solvents and other potentially genotoxic chemicals. For the latter, the Company meets the requirements for prevention of CMR (carcinogenic, mutagenic, reprotoxic) risks in accordance with decree No. 2001-97 dated February 1st, 2001. The Company also handles genetically recombined material, genetically modified species and pathological biological samples. Consequently, in the jurisdictions where the Company operates, 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 (GM) organisms 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 is entrusted to a pick-up and recycling company with whom 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 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.

An accident in the Company's premises, such as a fire could also significantly impact its activity. Depending on the extent of the accident, delays in the development process could occur, and even a cessation of the Company's activities. In order to prevent this risk, a corpus of preventive processes has been set up and is tested regularly.

5.5 RISKS RELATED TO HUMAN RESOURCES

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 marketing, manufacturing and regulatory matters. 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 (stock-options and/or free shares). 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

5.6 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:

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 3.9 million euros and 4.2 million euros, for the fiscal years ending December 31, 2012 and 2013, respectively. The research tax credit was 3.5 million euros and 4.2 million euros, for the fiscal years ending December 31, 2012 and 2013, respectively. Receivables from the State in terms of the research tax credit were 4.2 million euros as at December 31, 2013.

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.

Risks related to financial instruments

The Company's exposure to interest rate variations is mainly related to two elements of the balance sheet: cash and current financial instruments. 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 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 Section 9.1.1.5 and Notes 3 and 5 to the Consolidated Accounts for the fiscal year ended December 31, 2013, that are in Section 20.1 of this Reference Document). The Company's policy in terms of cash investments is to favor the absence of risk on capital. This policy is described in the appendices of the Consolidated Accounts for the fiscal year ended on the of December 31, 2013 (included in Section 20.1 of this reference document).

Exchange rate risk

The Company currently has little exposure to the US dollar / euro exchange rate since, over the last three fiscal years. Most of the expenses of the Company are invoiced in euro. Expenses invoiced in US dollar are paid in this same currency thanks to the invoices we address to Bristol-Myers Squibb. This situation could however change if the Company expands its business in the United States, the world's largest anti-cancer therapy market. In addition, if the Company succeeds in marketing its products in the United States, part of its revenue will be denominated in U.S. dollars. The Company has not entered into any hedging arrangements to protect its business against exchange rate fluctuations. The Company will monitor its exposure to exchange rate risks as its business develops. If the Company does not enter into effective hedging arrangements in the future, its operating results could be affected.

Liquidity risk

Historically, the Company has financed its growth mostly by means of capital increase (see Section 10.1.1 of this Reference Document). Until the lease-financing arrangement for the Company's new headquarters and main laboratories was established in 2008, it had not made any substantial use of bank loans (see Note 9) of the consolidated accounts for the year ended 31 December 2013, which appears in Section 20.1 of this Reference Document). To date, the Company is not exposed to cash flow risks resulting from the implementation of early bank loan reimbursements. The Company has proceeded to a specific review of its liquidity risk and considers that it is in an appropriate position to deal with this risk in the near future.

Volatility risks

It is likely that 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. The Company has put in place a liquidity contract in 2009 in order to minimize to the extent possible this volatility (see section 21.1.3 of this Reference Document).

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 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 1,424,150 new shares, which represents around 2.95% of the diluted share capital (see Section 21.1.4.5 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.

Risks related 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.

It believes that the Company's environment in terms of control, which has been strengthened and better formalized from year to year, is adapted to the Company's current situation and allow this type of risk to be faced. The Company will continue to make improvements in the future.

5.7 INSURANCE AND RISK COVERAGE

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

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

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

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 107 thousand euros and 91 thousand euros for the fiscal years ending December 31, 2012 and 2013, 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 in 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. Insurance policies are subscribed with companies that have a good financial score and are selected for their ability to monitor the company's development. The Company feels that its insurance coverage and the limits of the latter are reasonable and cautionary due to its activities and related risks.

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

- a "damages to belongings" which covers risks of fire, explosion, lightning, electric damages, special risks, computer risks, cold-storage product loss, transportation loss, steals, equipment failure, and all damages other than those described and not excluded from its premises in Marseilles, with a maximum benefit of 19.9 million euros ;
- a "business civil liability" insurance policy which on the one hand covers the risks related to operations – for a guaranteed amount of 6.1 million euros per accident with a sub-limit of 1.5 million euros 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 euros per year of insurance.
- an "inventory and transit" policy which covers risks related to transporting and storing products with a maximum guaranteed amount per accident ranging from 15 thousand euros to 400 thousand euros depending on the storage site and 750 thousand euros per shipment, accident or event. This policy has been adapted to the scope of the updated insured values.

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

The Company's liability resulting from clinical trials is covered by specific agreements, the price and guaranteed amounts of which depend on the local regulations applicable in the jurisdiction where the clinical examination is located; for example, in France the "Code de la Santé Publique" (*Public Health Code*) specifies obligatory insurance for clinical trial promoters and the terms of such insurance. The overall amount of the premium and guarantees subscribed for the trials therefore depends on the number of trials, their location and the number of patients involved in the trial.

The Company has also subscribed to a directors and officers liability insurance regarding the execution of their duties, with a total annual maximum guarantee of 5.0 million euros.

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 6. INFORMATION ABOUT THE COMPANY

6.1 HISTORY AND DEVELOPMENT OF THE COMPANY

6.1.1 History of the Company

- Founded in 1999 by Hervé Brailly - current Chairman of the Executive Board, François Romagné – former Member of the Executive Board and the Executive Committee, Chief Scientific Officer, who left the Company on January 6, 2014, Éric Vivier (Centre d'Immunologie Marseilles Luminy – CIML, Marseilles, 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). First clinical trial with one of the Company's compounds (IPH11 program, targeting gamma-delta cells).

- 2006: agreement with Novo Nordisk A/S extended to a three-year collaborative research and development on all drug candidates targeting NK cells, and licensing of these drug candidates to Novo Nordisk A/S. Initial public offering on the Eurolist regulated market of Euronext in Paris.

- 2007: first clinical trial for the IPH2101 antibody. New drug candidate, IPH2201 (NN8765, anti-NKG2A antibody) selected by Novo Nordisk A/S.

- 2008: partnership with Novo Nordisk A/S focused on inflammation. New antibody drug candidate, IPH2301 (NN8855, anti-NKG2D antibody) 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.

- 2009: capital increase reserved to categories of investors.

- 2011: start of Phase I clinical trials with IPH2102 (lirilumab) and licence of the IPH21 program to Bristol-Myers Squibb. Start of Phase I clinical trials with IPH2201 by Novo Nordisk A/S.

- 2012: start of three clinical trials with IPH2102 in relation to the agreement with Bristol-Myers Squibb.

- 2013 : capital increase reserved to US-based specialist investors.

- 2014 : acquisition of rights to IPH2201 from Novo Nordisk A/S.

6.1.2 Company name

Company Name: Innate Pharma.

6.1.3 Business and company registry

Innate Pharma is registered with the Marseilles Business and Company Registry as number SIREN 424 365 336 RCS Marseilles.

The Company's NAF Code is 7211 Z. This is the code for Research and Development in Biotechnologies.

6.1.4 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. The Company will expire on September 23, 2098.

6.1.5 Head offices, legal form and applicable law

6.1.5.1 Head offices

117 Avenue de Luminy – BP 30191
F-13276 Marseilles Cedex 09
France
Tel : +33 (0)4 30 30 30 30

6.1.6 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.

6.1.7 Fiscal year

The fiscal year starts on January 1 and ends on December 31 of each year.

6.2 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 10.1.2).

6.2.1 Historical investments

At the end of 2008, the Company moved its offices and laboratories in its new headquarters in Marseilles, a 3,000 sqm building located in Luminy (South of Marseilles). 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 euros 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.

As at December 31, 2013, the net book value of the Company's property, plant and equipment was 6.3 million euros, compared to 6.8 million euros as at December 31, 2012.

6.2.2 Current investments

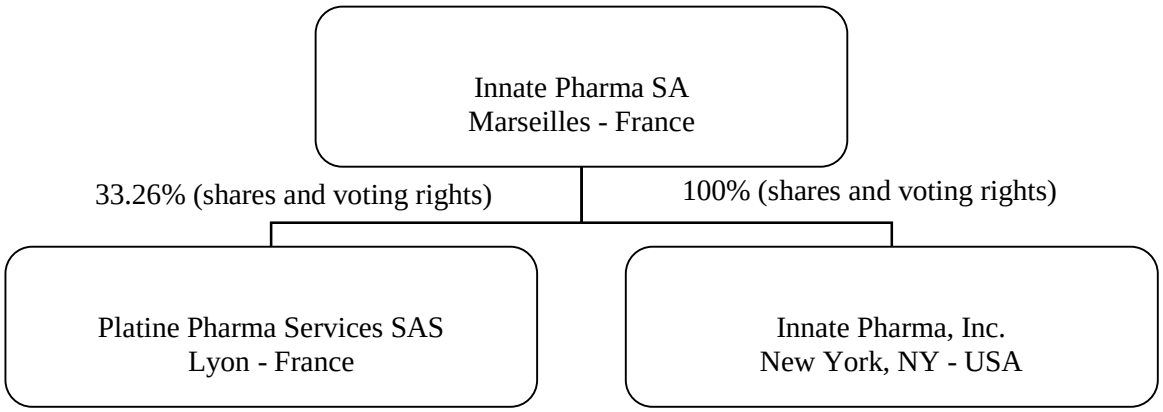
Amounts allocated for investment in laboratory equipment since the beginning of 2014 are insignificant.

6.2.3 Future investments

Apart from the investment program for the maintenance of the Company's existing premises, and on the basis of its current business plan, the Company does not forecast any significant investment in property, plant and equipment in the next coming years.

CHAPTER 7. ORGANIZATIONAL CHART

The Company and its subsidiaries and joint ventures organizational chart as at December 31, 2013, is shown below:



Innate Pharma, Inc. is a company registered in Delaware, USA, created to operate business and corporate development for Innate Pharma in the USA.

Platine Pharma Services SAS results from the will of Innate Pharma and Transgène SA to pool their assets and resources in order to provide in particular immunomonitoring services to biotechnology companies and pharmaceutical groups for the purposes of their pre-clinical and clinical trials. This activity is hosted by IPH Services SAS, 100% subsidiary of Innate Pharma, renamed as Platine Pharma Services. Platine Pharma Services was held equally by Innate Pharma et Transgène until July 31, 2013. On that date, the company Indicia Biotechnology SA acquired a stake in Platine Pharma Services SAS. Following this transaction, Innate Pharma SA's stake in Platine decreased from 49.62% to 33.26%.

CHAPTER 8. REAL ESTATE

On June 9, 2008, SOGEBAIL (a subsidiary of Société Générale) acquired from the City of Marseilles a real estate lot comprising approximately 10,000 sqm of land as well as an existing 3,000 sqm building located in Luminy (South Marseilles), 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 and as at December 31, 2008, it had 76 employees in this site.

The acquisition cost amounted 1,544 thousand euros (excluding VAT), half of which being allocated to the value of land, i.e. 772 thousand euros, and the other half, i.e. 772 thousand euros, allocated to the value of the building. The building is being depreciated since July 1, 2008.

In addition to the acquisition cost, the Company paid acquisition-related costs for around 16 thousand euros (excluding VAT).

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 euros (excluding VAT) as at December 31, 2008.

In addition to the acquisition of the real estate lot and renovation works, the Company paid 44 thousand euros (excluding VAT) in notary fees related to the execution of the lease-financing agreement with SOGEBAIL and 80 thousand euros (excluding VAT) in interest on the prepayments made by SOGEBAIL in 2008 before the renovation works were completed. These extra costs were accounted as tangible assets.

The total amount invested by the Company in this real estate transaction amounted to 6,770 thousand euros (excluding VAT), including acquisition price, acquisition-related costs and renovation works.

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

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

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

CHAPTER 9. MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL SITUATION

Innate Pharma S.A. (the "Company") is a biopharmaceutical company developing first-in-class immunotherapy drugs for cancer and inflammatory diseases. The Company specializes in the development of new monoclonal antibodies targeting receptors and pathways controlling the activation of innate immunity cells.

Innate Pharma's pipeline consists of two clinical assets, the more advanced of which, currently in Phase II of clinical trials in the field of cancer, is licensed to Bristol-Myers Squibb. The Company has other proprietary programs that are currently in preclinical development, the most advanced of which could reach the clinical stage in 2015.

Over the short-term, the Company's potential clients are actors from the pharmaceutical industry, via license agreements. Over the long-term, the Company may be able to deliver its products to patients, via anti-cancer hospital centers.

As at December 31, 2013, Innate Pharma SA fully owns a 100% participation into Innate Pharma, Inc., and a 33.26% participation into the company Platine Pharma Services SAS. In the 2013 consolidated financial statements, the Group recognizes its participation in Platine Pharma Services SAS using the equity method.

Annual Accounts of the Company prepared in accordance with generally accepted accounting principles in France (the "Annual Accounts") for the fiscal years ending on December 31, 2013 were approved by the Executive Board on February 10, 2014 and can be found in Section 20.3 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, 2012 and 2013 is included in the management report ("Rapport de Gestion") from the Executive Board that was presented to the general meeting of shareholders on March 27, 2014 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, 2013 were approved by the Executive Board on February 10, 2014 and are presented in Section 20.1 of this Reference Document. They were approved by the general meeting of the shareholders on March 27, 2014.

The analysis presented below is based on the Company's Consolidated Accounts for the fiscal year ended December 31, 2013, and should be read in conjunction with these accounts given in Section 20.1 of this Reference Document.

9.1 COMPARISON OF THE LAST TWO FISCAL YEARS

9.1.1 Operating result

9.1.1.1 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 was 14.3 million euros and 16.7 million euros for the fiscal years ended December 31, 2012 and 2013, respectively, from the following sources:

	Year ended December 31,	
In thousand euros	**2013**	**2012**
Revenue from collaboration and licensing agreements	12,469	10,377
Government financing for research expenditures	4,182	3,905
Revenue and other income	**16,652**	**14,282**

Revenue from collaboration and licensing agreements

Revenue from collaboration and licensing agreements respectively amounted to 12.5 million euros for the 2013 fiscal year, as against 10.4 million euros for the 2012 fiscal year. These revenues result from the licensing agreement signed with Bristol-Myers Squibb in July 2011.

Following the licencing agreement signed with Bristol-Myers Squibb for the development and commercialization of the drug candidate IPH2102 (lirilumab), the Company received an upfront payment of 24.9 million euros (35.3 million US dollars). This upfront payment, which is non-refundable and non-creditable, is recognized in turnover during the expected period of duration of the clinical program in course at the date of the contract. The amount that is not yet recognized as turnover is booked as deferred revenue in the balance sheet (2.2 million euros).

In addition to this upfront payment, the Company invoices Bristol-Myers Squibb for certain expenses relating to the licensed program.

Government funding for research expenditures

The table below details government financing for research expenditure for the fiscal years ended December 31, 2012 and 2013:

	Year ended December 31,	
In thousands of euros	**2013**	**2012**
Research tax credit	4,182	3,522
French and foreign public grants	-	383
Government financing for research expenditures	**4,182**	**3,905**

Since the fiscal year ended on December 31, 2008, 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, 2012 and 2013:

	Year ended December 31,	
In thousands of euros	**2013**	**2012**
R&D expenses eligible for the research tax credit	13,756	11,641
Grants received, net	(66)	916
Net expenses eligible for the research tax credit	**13,690**	**12,557**

The research tax credit is usually reimbursed by the French government during the fourth fiscal year following the one for which it was booked in the income statement, where it is not deducted from taxes payable by the Company. However, beginning in fiscal year 2010, companies classified as small and medium sized ("SMEs") according to the European Union criteria are eligible for an early reimbursement of the amounts owed to them in relation to research tax credit. The Company meets the European Union's SME criteria . It therefore benefits from early reimbursement and received the cash relating to the 2012 tax credit in September 2013.

Since 2008, repayable grants received are deducted from the basis of calculation of the research tax credit. These amounted to respectively 916 thousand euros (reimbursed) and 66 thousand euros (cashed in) in 2012 and 2013. In parallel, the Company conducts studies outside of the European Union, notably in the USA, and these research expenses are not eligible for the research tax credit calculation.

For the 2012 fiscal year, recorded grants involve a grant amounting to 0.4 million euros from "Lyon Biopôle", a competitiveness cluster.

This grant directly impacts our income statement, as opposed to repayable loans which are recorded as debt and thus only impact our balance sheet.

9.1.1.2 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, 2012 and 2013:

	Year ended December 31,	
In thousands of euros	**2013**	**2012**
Research and development expenses	(15,131)	(13,417)
General and administrative expenses	(4,313)	(4,251)
Net operating expenses	**(19,444)**	**(17,668)**

Research and development 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.

Research and development expenses amounted to 13.4 million euros and 15.1 million euros for the fiscal years ended on December 31, 2012 and 2013, respectively. These expenses represented 76% of net operating expenses for the fiscal year ended on December 31, 2012 and 78% for the fiscal year ended on December 31, 2013. The increase in research and development expenses between 2012 and 2013 results from several factors (notably an increase of subcontracting and consumable costs relating to the development and the progression of the portfolios of pre-clinical programs and a share based payment expense for 0.3 million euros).

General and administrative expenses include expenses for employees not directly working on research and development, as well as the expenses necessary for the management of the business and its development. General and administrative expenses were 4.3 million euros for the fiscal years ended on December 31, 2012 and 2013. These expenses are flat between 2012 and 2013, representing a total of 24% of the net operating expenses for the fiscal year ended on December 31, 2012 and 22% for the fiscal year ended on December 31, 2013.

9.1.1.3 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, 2012 and 2013:

	Year ended December 31,	
In thousands of euros	**2013**	**2012**
Cost of supplies and consumable materials	(1,453)	(1,279)
Intellectual property expenses	(309)	(275)
Other purchases and external expenses	(9,219)	(8,640)
Employee benefit other than share-based compensation	(6,946)	(6,385)
Share-based compensation	(325)	-
Depreciation and amortization	(880)	(839)
Other income and (expenses), net	(312)	(249)
Net operating expenses	**(19,444)**	**(17,668)**

Cost of supplies and consumable materials

The cost of supplies and consumable materials amounted 1.3 million euros and 1.5 million euros for the fiscal years endeding on December 31, 2012 and 2013, respectively. The increase in this figure between the two fiscal years results from the increase in purchases used in the Company's laboratories and from third parties with which it collaborates or which were used in its clinical trials.

Intellectual property expenses

Intellectual property expenses were 0.3 million euros for the fiscal years ended December 31, 2012 and 2013.

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 8.6 million euros and 9.2 million euros during the fiscal years ending ended on December 31, 2012 and 2013, respectively, broken down as follows:

	Year ended December 31,	
In thousands of euros	**2013**	**2012**
Sub-contracting	(5,817)	(5,309)
Leases, maintenance and utility	(854)	(703)
Travel and conference costs	(794)	(731)
Non-scientific consultancy	(694)	(815)
Marketing, communication and public relations	(283)	(406)
Scientific consultancy and services	(454)	(383)
Attendance fees	(150)	(129)
Others	(173)	(164)
Other purchases and external expenses	**(9,219)**	**(8,640)**

Sub-contracting expenses involve discovery research costs (financing research conducted externally, particularly academic research, antibody humanization technologies, manufacturing process development, etc.), pre-clinical 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 rise in sub-contracting costs relating to the pre-clinical programs.

Leases, maintenance and utility costs are mainly maintenance costs for laboratory equipment and the building. The increase between 2012 and 2013 mainly results from the leasing in 2013 of laboratory equipment.

Travel and conference costs mainly include expenses for employees travelling and attending conferences, particularly scientific, medical, business development and financial conferences. The purpose of the Company's participation in these meetings is to maintain its visibility, expertise, and credibility with respect to the players within these different communities.

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 for their assistance in negotiating collaboration and licensing agreements and general counselling assistance, to business strategy or development consultants and recruitment fees. The difference in these expenses between 2012 and 2013 results from reductions, that are not material individually, of several types of professional fees.

Marketing, communications and public relations costs cover fees for our communication and public relations consultants, costs of developing and producing communication tools, such as our website and business reports. The decrease in these costs between 2012 and 2013 mainly results from the organization during the first half of 2012 of a major press event relating to the awarding of the Nobel prizes for medicine and to innate immunity.

Scientific consultancy and services consist of costs related to outside consultants assisting in the research and development of our products. It also covers fees paid to members of our Scientific committee. The increase in these costs between 2012 and 2013 is mostly explained by the consultancy contract signed with Nicolai Wagtmann, the Company's new Chief Scientific Officer, for the period September – December 2013.

Employee benefits other than share-based compensation

Employee benefit expense other than share-based compensation came to 6.4 million euros and 6.9 million euros for the fiscal years ended on December 31, 2012 and 2013, respectively.

This includes salaries and social benefit costs. On average, Innate Pharma had 81 employees during the fiscal year ended on December 31, 2012 and 83 employees during the fiscal year ended on December 31, 2013.

The proportion of total staff, excluding Executive committee members, allocated to research and development operations was respectively 76% and 73% for the fiscal years ended on December 31, 2012 and 2013.

The average amount of staff costs per employee was 78 and 84 thousand euros for fiscal years ended on December 31, 2012 and 2013 respectively. This rise mainly results from better achievement of corporate goals driving up the amount of collective and individual bonuses.

Share-based compensation

Share-based compensation came to 0.3 million for the fiscal year 2013. No such cost was recognized in 2012.

In accordance with IFRS 2, these costs correspond to the fair value of the capital instruments allocated to directors and employees. The cost recognized in 2013 results from the issuance during the fiscal year of warrants for shares not including a condition requiring presence. As a consequence, the fair value of these instruments was not deferred but has been recognized as expenses in the income statement for the 2013 fiscal year.

Depreciation and amortization

These costs came to 0.8 and 0.9 million euros for the fiscal years ended December 31, 2012 and 2013 respectively.

Other income and expenses, net

There was a net expense of 0.2 and 0.3 million euros for the fiscal years ended on December 31, 2012 and 2013 respectively. Other income and expenses mainly include certain indirect taxes, as well as exceptional income and expenses.

9.1.1.4 Breakdown of net loss

	Year ended December 31,	
In thousands of euros	**2013**	**2012**
Revenue and other income	16,652	14,282
Net operating expenses	(19,444)	(17,668)
Operating income (loss)	**(2,793)**	**(3,386)**
Financial income (expense), net	146	556
Net gain on dilution	179	-
Share of profit (loss) of associates and joint ventures	(424)	(371)
Net income (loss) before tax	**(2,892)**	**(3,199)**
Income tax expense	-	-
Net income (loss)	**(2,892)**	**(3,199)**
(in € per share)		
- basic	(0.07)	(0.08)
- diluted	(0.07)	(0.08)

9.1.1.5 Net financial income

The net financial income amounted respectively to 0.6 million euros and 0.1 million euros for the fiscal years ended on December 31, 2012 and 2013.

The Company's cash investment policy favours the absence of risk on principal and, wherever possible, guaranteed minimum performance.

The balance of cash, cash equivalents and financial instruments was 32.6 million euros and 41.3 million euros for the fiscal years ended on December 31, 2012 and 2013, respectively. This improvement in terms of cash mainly results from the capital increase carried out in November 2013 for a net amount of 18.9 million euros.

9.1.1.6 Net gain on dilution

As a consequence of the acquisition of an equity interest in Platine Pharma Services SAS by the company Indicia Biotechnology SA in July 2013, the Group recognized a net gain on disposal for an amount of 0.2 million euros.

9.1.1.7 Share of result of associates and joint ventures

This amount represents the share of the Group of the loss of the company Platine Pharma Services SAS for the fiscal year 2013.

9.1.1.8 Income tax expense

Because of the existing tax losses reported this year and over the past fiscal years, there is no income tax expense. 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'.

9.1.2 Net income/(loss) per share

The net loss per authorized and issued share came to 0.08 euros and 0.07 euros for the fiscal years ended December 31, 2012 and 2013, respectively.

9.2 EXPOSURE TO VARIATIONS IN THE EXCHANGE RATE

The majority of the Group's expenses are denominated in euros. The revenue from the main partnership agreement is denominated in US dollars. Thus, fluctuations in the euro's exchange rate against the dollar may have an impact on the Group's results. Nevertheless, as at December 31, 2013, the commitments and debts of the Group to third parties that are stated in dollars are not significant. This situation could however change if the Company expanded its business in the United States, the world's largest anti-cancer therapy market. In addition, if the Company succeeds in marketing products in the United States, part of its revenue will be in U.S. dollars. The Company has not entered into any hedging arrangements to protect its business against exchange rate fluctuations.

9.3 POST BALANCE SHEET EVENTS

On February 5, 2014, Innate Pharma SA acquired full development and commercialization rights to the anti-NKG2A antibody, a first-in-class immune checkpoint ready for Phase II development in oncology from Novo Nordisk A/S. Novo Nordisk A/S will receive 2 million euros and 600,000 shares for licencing NKG2A to Innate Pharma and be eligible for a total of 20 million euros in potential registration milestones and royalties on future sales. The issuance of the Innate Pharma shares was submitted for approval by Innate Pharma's shareholders at a general meeting on March 27, 2014 and was voted through.

CHAPTER 10. CASH AND CASH EQUIVALENTS

10.1 INFORMATION ON THE COMPANY'S CAPITAL, CASH AND CASH EQUIVALENTS AND SOURCES OF FINANCING

Cash, cash equivalents and marketable securities amounted to 41.3 million euros as of December 31, 2013, compared with 32.6 million euros as of December 31, 2012. The cash assets held by the Company are composed of current accounts and fixed term accounts. Marketable securities are composed of shares of a mutual fund. Their purpose consists in financing our activities, including our research and evelopemnt costs.

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 - and from research tax credit.

10.1.1 Capital financing

Excluding redeemable warrants, founder warrants and stock-options, the Company has received a total of 127.8 million euros (before deducting the costs associated with capital increases) from capital increases between 1999 and 2013. The table below summarizes the main capital increases, in value, between the Company's creation and December 31, 2013:

Date	Amount raised
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
Total	**127.8 million euros**

10.1.2 Financing through loans

BPI France (previously Oséo)

Since the Company's creation, it has received financing from Oséo in the form of interest-free repayable loans. On December 31, 2013, the amount owed for these repayable loans was 0.1 million euros. This amount will be reimbursed during the first half of 2014.

Furthermore, in 2013 the Company obtained from BPI France a 1.5 million euros PTZI loan (Prêt à Taux Zéro Innovation – interest-free loan for innovation). This loan will be repayable from 2016 over a term of between one and four years.

Real estate lease-financing

For the acquisition of the Company's new headquarters and laboratories in Marseilles, a lease-financing facility was obtained in 2008 for a twelve-year duration and for a total amount of 6,551 thousand euros (excluding VAT). The real estate lease-financing agreement comprises three different financial tranches:

- The acquisition of the real estate lot for 1,560 thousand euros (excluding VAT), including acquisition related costs. The transaction took place on June 9, 2008 and the repayment schedule related to this tranche (Tranche A) began simultaneously. The interest rate applying to the lease-financing repayments is a combination of, for up to 20% of the financing amount, an annual indexed fixed rate of 4.00% (indexed on the French INSEE building cost index) and of, for up to 80% of the financing amount, an annual non-indexed fixed rate of 5.41%.

The principal of this tranche was presented as current financial liabilities for the amount repayable in the 12-month period following December 31, 2013 and as non current financial liabilities for the amount repayable beyond this period. The amount of the financial liabilities related to this Tranche A amounted to 955 thousand euros as at December 31, 2013, of which 128 thousand euros in short term liabilities and 827 thousand euros in long term liabilities.

- The financing of the renovation of the building, the total amount of which was initially set at 4,991 thousand euros excluding VAT (Tranche B). The repayment of this Tranche B started on January 1, 2009, and will last over the remaining duration of the repayment scheduled for the Tranche A, or around eleven (11) years years and five (5) months. Before completion of the refurbishing, SOGEBAIL pre-financed the refurbishing works and charged the Company solely with interests calculated on the basis of the T4M rate increased by a 0.80 annual basis point. At December 31, 2013, the financial liabilities related to the future payments to SOGEBAIL for the financing of these refurbishing works amounted to 3,008 thousand euros (excluding VAT), and were presented by the Company for respectively 415 thousand euros and 2,593 thousand euros as current financial liabilities and non current financial liabilities. The interest rate applying to this Tranche B is a combination of, for up to 20% of the financing amount, an annual indexed fixed rate of 4.00% (indexed on the French INSEE building cost index) and of, for up to 80% of the financing amount, an annual non-indexed fixed rate equal to the TEC 10 value (actuarial performance rate of a fictitious French treasury bond, the duration of which would be equal to ten years at any time) at commencement of the repayment, i.e. 3.39%, increased by 0.85 annual basis points (0.85%), i.e. a fixed rate of 4.24% as at January 1, 2009. The average rate for the Tranche B is therefore 4.19% as at the date of completion of the renovation works.

- A down-payment of 1,500 thousand euros was made by the Company to be used as collateral by SOGEBAIL. This down-payment, carrying interest at 5.21% per annum from June 9, 2008, will be deducted from the lease-finance repayments over the duration of the lease-finance, or twelve (12) years. 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 920 thousand euros as at December 31, 2013, of which 123 thousand euros are repayable in the short term and 797 thousand euros are repayable in the long term.

The following table shows the simplified schedule of repayment for these financial liabilities (principal only) as at December 31, 2013:

Schedule of repayment of financial liabilities	**2014**	**2015**	**2016**	**2017**	**2018 and following years**	**Total**
Lease-financing – Real estate transaction	557	582	608	636	1,676	4,060
Down-payment – Real estate transaction	(123)	(130)	(137)	(144)	(386)	(920)
Total	**434**	**452**	**472**	**492**	**1,290**	**3,140**

Other financial liabilities

The Company also uses lease-financing and bank loans to finance the acquisition of laboratory equipment and to set up new laboratories. The Company's future obligations resulting from this kind of financing facilities amounted to 0.05 million euros as at December 31, 2013 (not including future interest expenses).

The following table shows the simplified schedule of repayment for these financial liabilities (principal only) as at December 31, 2013:

Schedule of repayment of financial liabilities	**2014**	**2015**	**2016**	**2017**	**2018 and following years**	**Total**
Lease-financing – Other	48	-	-	-	-	48
Total	**48**	**-**	**-**	**-**	**-**	**48**

10.1.3 Off-balance-sheet commitments

The Company's off-balance-sheet commitments are described in Note 24 to its 2013 Consolidated Accounts.

10.2 CASH FLOWS

See the cash flow tables in chapter 20 of this reference document.

10.2.1 Cash flows from operating activities

The net cash flow absorbed by operations for the fiscal years ending on December 31, 2012 and 2013 amounts to 11 million euros.

10.2.2 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 10.1.2 of this Reference Document) for a total gross investment amounting to 6.8 million euros.

The Company's investments in other tangible assets, mainly laboratory equipment, came to 1.2 million euros and 0.4 million euros for the fiscal years ending on December 31, 2012 and 2013, respectively. The Company renews some of its existing laboratory equipment and acquires new equipment every year.

In 2012 and 2013, capital expenditures were mostly renewal of laboratory equipment.

The Company leases some of its computer equipment under operating-lease contracts. The Company's payments for these items are accounted as operating expenses in the income statement.

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 2.h to the Company's 2013 Consolidated Accounts that are in section 20.1 of this Reference Document). The acquisition and sale of current financial instruments have no impact on the total amount of cash on hand and current financial instruments.

10.2.3 Cash flows from financing activities

The Company carried out a capital increase in November 2013 for a net amount of 18.9 million euros. The variance of the financial liabilities between the fiscal years ended December 31, 2012 and 2013 mainly results from the reimbursement of the lease-financing transactions relating to real estate and equipment that are referred to in Section 20.1 of this Reference Document and, for the fiscal year 2013, from the receipt of an interest-free loan for innovation (PTZI) for an amount of 1.5 million euros.

10.3 INFORMATION ON BORROWING TERMS AND FINANCING STRUCTURE

See Note 10 to the Company's 2013 Consolidated Accounts, Section 20.1 in this Reference Document.

10.4 RESTRICTIONS ON USE OF CAPITAL

In the context of the real estate transaction described in Section 10.1.2 of this Reference Document and for which a lease-financing facility was obtained, the Company has made a 1,500 thousand euro down-payment to SOGEBAIL, 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.

10.5 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 10 of chapter 20.1.

10.5.1 Expenses and investments

The Company expects having to repay between 2014 and 2015 a total of 0.1 million euros in repayable loans to BPI France (ex-Oséo) and, over the same period, a total of 0.05 million euros (excluding interest expenses) of its lease-financing arrangements relating to equipment current as at December 31, 2013.

10.5.2 Financial resources

In addition to cash, cash equivalents and marketable securitues as of December 31, 2013, amounting to 41.3 million euros, 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.

CHAPTER 11. RESEARCH & DEVELOPMENT, PATENTS AND LICENSES

11.1 RESEARCH AND DEVELOPMENT ACTIVITIES

See Section 4.3 of this Reference Document for details on the Company's research and development activities and Section 9.1.2 and the note 16 (Intellectual property expenses) in the consolidated financial statements for an analysis of expenses in relation to these activities.

11.2 INTELLECTUAL PROPERTY

Patents

Patents and other intellectual property rights are extremely important to the Company's business. The Company regularly files patent applications to protect its technical processes and products, the processes used to prepare these products, the pharmaceutical compounds contained in these products and medical treatment methods. The Company also regularly licenses or acquires rights to patents belonging to third parties, academic partners or other companies in the pharmaceutical industry and which are of interest.

To acquire rights from third parties, the Company uses three different types of agreements:

- Exclusive option agreements: during an exclusive period, the Company evaluates whether it is appropriate to license the intellectual property rights, in exchange for which it usually pays an option fee and assumes the past or present intellectual property expenses for the rights covered by the option.
- Exclusive licensing agreements: the agreements vary in length based on the terms of the contract, but generally extend over the lifetime of the underlying intellectual property, in exchange for which the Company pays a fee for the access to the technology, milestone payments based on the completion of certain milestones, and if the products or technologies associated with the licensed intellectual property are marketed, royalties on sales. In addition, the Company pays for the past or present intellectual property expenses for the rights covered by the agreement.
- Exclusive option or licensing collaboration agreements: the agreements involve exclusive collaboration for a specific plan of work or in a specific field over a limited period of time and an exclusive option or license, which varies in length depending on the terms of the contract, but generally extends over the lifetime of the underlying intellectual property. In exchange for these agreements, the Company pays the research and development costs for the exclusive collaboration, and for the exclusive license, the cost of accessing the technology, milestone payments based on the completion of certain milestones and, if the products or technologies associated with the licensed intellectual property are marketed, royalties on sales. In addition, the Company pays for the past or present intellectual property expenses for the rights covered by the agreement.

A certain number of the Company's patent applications which cover key technologies based on its product portfolio have been accepted or are currently being examined in a number of key countries for this industry. Our patents and intellectual property rights include, in particular, patents and rights related to the targeting of NK cells as well as other patents and rights.

The Company's strategic policy is to expand the coverage of its patents to countries which could be growth markets for its products and technologies and therefore enable it to grant licenses or set up partnerships to develop its technologies and products in associated areas. The Company also uses its expertise and regulatory strategy for orphan drugs to protect its products and technologies.

The Company also protects its technology, products, expertise and data by signing confidentiality agreements with its employees, consultants, some of its subcontractors, partners and licensees.

As of December 31, 2013, the Company owned the rights to 48 families of patents, representing 82 granted patents and 163 applications in France and other countries. As of December 31, 2012, the Company owned the rights to 41 families of patents, representing 65 granted patents and 141 applications in France and other countries. As of December 31, 2011, the Company owned the rights to 44 families of patents, representing 64 granted patents and 165 applications in France and other countries.

The table below sets forth the number of the Company's approved patents and patent applications by country or region:

Country/Region	Approved patents	Patent applications in process
Country Patents		
France	1	0
United States	19	36
Australia	10	6
Japan	9	15
Canada	1	13
Israel	3	3
Mexico	5	2
China	2	14
India	4	4
South Korea	3	7
Brazil	0	7
Norway	0	5
Russia	5	1
South Africa	5	0
European Patents	15	22
Other country patents	0	14
Patent Cooperation Treaty (PCT)	—	11
Total	**82**	**163**

There are two types of patents: composition of matter patent and process or method patents (manufacturing, indication, posology, combination, …). During the development of a drug candidate, there are several steps of innovation which can lead to patentable intellectual property. On each project, we protect all these innovations.

Concerning the IPH21 program, the first proprietary patent will expire in 2024.

This first patent is completed by other types of patents and patent applications (change in molecule, formulation, therapeutic indications, method of use, etc.). The currently filed patents last until 2032.

These patents may potentially benefit from an extension or "adjustment" (United States) of the protection duration.

These extensions or adjustments generally depend on the duration of clinical development and, for a United States patent, the awarding of the patent.

Trademarks

As of December 31, 2013, the Company owned three trademarks, which have either been registered or are in the process of being registered: "Innate Pharma" in the United States of America, Australia, New Zealand and in Europe (EU community trademark), and "Innate" in Europe (EU community trademark).

The Company has also become aware of the existence of a biopharmaceutical company in the United States called Innate Immune, Inc.

The Company has signed an agreement with InnoSweet GmbH, owner of the "Innvite" trademark, concerning the "Innate" community trademark, in order to limit the use of the trademarks by the two companies to their respective activities. InnoSweet produces and sells sweeteners. The Company has had exchanges with Innate Immunopharmaceuticals Limited, a company registered in Australia and New Zealand which is listed on the Australian stock exchange (AXS) and is active in the pharmaceuticals sector. On December 16, 2013, the Company informed Innate Immunopharmaceuticals Limited that there was a likelihood of confusion between the name of their company and that of the Company, and also that any marketing activities carried out by Innate Immunopharmaceuticals Limited would constitute a violation of the Company's registered trademarks, which cover, inter alia, the United States and all the countries in the European Union. Innate Immunopharmaceuticals Limited replied on December 19, 2013, stating that it does not carry on business in the United States or in Europe and in those circumstances there cannot be any confusion in the market or any significant injury to the Company.

Protecting the Company's intellectual property rights

The Company has an intellectual property department including two people as at the date of this Reference Document. The Company also uses external consultants for the filing, maintenance and defense of its patents.

In 2013, the Company filed nine new proprietary patent applications as well as thirty applications for extending some of its existing proprietary patents (including four PCTs *(Patent Cooperation Treaties)* and twenty-six national applications). The Company has also filed three applications for patents co-owned with academic or industrial partners, eleven patent applications for extensions to patents owned jointly with academic or industrial partners and one patent application for an extension to a patent held solely by its academic or industrial partners. The Company did not seek to acquire patents during the fiscal year ended December 31, 2013 but was granted a co-exclusive license by Novo Nordisk Healthcare AG in respect of patents in the field of protein engineering.

In February 2014, Innate Pharma SA acquired from Novo Nordisk A/S the development and marketing rights for the anti-NKG2A candidate (see 4.5.8.2.1)

Intellectual property expenses were 0.5, 0.3 and 0.3 million euros for the fiscal years ending December 31, 2011, 2012 and 2013, respectively. During these years, intellectual property costs mainly resulted from the maintenance of our patents.

According to the application of IAS 38, due to the degree of maturity of the Company and the uncertainty that exists as to the outcome of its research and development projects, the Company must consider all intellectual property costs in the fiscal year in which they are incurred as expenses.

CHAPTER 12. INFORMATION ON TRENDS

In accordance with its strategic objectives (see section 4.2 of this Reference Document), the Company's priorities are as follows:

- Maturing and expanding its portfolio of proprietary products while maintaining its scientific focus on targeting immune regulation checkpoints and clinical activities in wide therapeutic fields with major medical needs (cancer and inflammatory disease).
- Searching for partnerships to access development capacities enabling the potential of its products to be maximized and the Company's proprietary assets to be financed;
- Progressively integrating downstream steps into the value chain while keeping certain development rights and possible marketing rights when they are compatible with the financial and human capacity of the Company.
- Constructing a proprietary antibody technology platform.

Over the short-term, the Company's revenue should mainly come from payments received under collaboration and licensing agreements, if it signs new ones.

The Company also expects to continue to benefit from government grants, especially from France and Europe, as well as from the research tax credit to finance its operations. The Company's expenses should be comprised of research and development expenses, overheads and milestone payments to third parties that it is required to make under the terms of collaborative research, option or licensing agreements (see Section 4.5.3 in this Reference Document).

In the medium to long term, the Company's revenue should come from royalties from 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 be comprised of research and development expenses, overheads as well as milestone and royalty payments to third parties which it is required to make under the terms of collaborative research, option or licensing agreements (see Section 4.5.8 in this Reference Document). In the event that we directly sell products, the Company could incur manufacturing costs (direct or otherwise) and marketing costs.

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

- Progress of its licenced programs which could trigger milestone payments from its partners;
- Its ability to enter into collaboration and licensing agreements for its other products with other companies in its sector
- Progress in the development of the Company's proprietary products, which could significantly affect the Company's research and development expenditures
- Acquisitions of intellectual property rights, assets or companies.

The goals, statements and forecasts summarized above are primarily based on data, assumptions and estimates which the Company believes to be reasonable. Investors should be aware that these forecasts depend on future circumstances or events which may or may not occur. These statements are not historical facts and should not be interpreted as guarantees that the facts and data given above will occur or that the goals will be reached. The information, assumptions, estimates and items taken into account to determine these goals, statements and forecasts, may turn out to be erroneous or not occur, and could change based on uncertainties in the economic, financial, competitive and regulatory environment. In addition, some information, assumptions and estimates are wholly or partly based on or result from assessments or decisions made by the Company's management, directors or shareholders, and may change or be amended in the future. Also, the occurrence of certain risks described in Section 4 "Risk Factors" in this Reference Document may have an impact on the Company's activities and the achievement of the goals, statements, and forecasts set forth above. The Company, shareholders and investment service providers therefore assume no liability and provide no guarantees as to the achievement of the goals, statements, and forecasts described in this Section or elsewhere in the Reference Document.

CHAPTER 13. PROFIT FORECASTS OR ESTIMATES

None.

CHAPTER 14. ADMINISTRATION, EXECUTIVE AND SUPERVISORY BOARDS AND GENERAL MANAGEMENT BODIES

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

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

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

An Executive Committee, a management body which is not mandatory (neither by law nor under the By-laws), notably composed by members of the Executive Board, is responsible for managing the operations. The Executive Committee meets at least once a month.

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

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

14.1 COMPOSITION OF THE EXECUTIVE BOARD, SUPERVISORY BOARD AND GENERAL MANAGEMENT BODIES

14.1.1 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. As of the date of this Reference Document, the Executive Board had three members.

Members of the Executive Board are appointed for renewable terms of three years. Under current law, the age limit for being a member of the Executive Board is 65. The appointment of any Executive Board member who reaches this legal age limit is terminated immediately and the Executive Board member is considered to have resigned.

While members of the Executive Board are not required to be shareholders, they must be individuals.

The members of the Executive Board are appointed 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.

If one of the seats on the Executive Board becomes vacant, the Supervisory Board must fill it within two months. The member of the Executive Board appointed as a replacement remains in office for the duration of his predecessor's appointment.

As of the date of this Reference Document, the members of the Executive Board of the Company are as follows:

First and last name, age [(1)]	**Duration of Term**	**Position**	**Other Positions and Appointments held in any other company over the last five years**
Hervé Brailly French age 52	First appointment: Supervisory Board meeting of Jun. 13, 2005 renewed by Supervisory Board meeting of Jun. 29, 2011then by the Supervisory Board meeting of March 27, 2014. Term expires: General Meeting of shareholders held to vote on the accounts for the fiscal year ending on	Chairman of the Executive Board - CEO	No position within a listed company. Member of the supervisory board of Inserm Transfert; Member of the board of France Biotech (2006-2008); Chairman of BioMediterranée (2006-2008); Member of the executive committee and treasury of EuroBioMed; Member of the development council of the "Marseille Provence Metropole"; Elected member of the Chamber of Commerce of Marseille (2007-2012); Member of

	Dec. 31, 2015		the Strategy and Prospects Committee of Aix Marseille University; Member of the Investment Committee of SATT Sud Est. Within the Innate Pharma Group: Member of the Board of Innate Pharma, Inc.; Member of the Executive Board of Platine Pharma Services.
Catherine Moukheibir Lebanese Age 54	First appointment: Supervisory Board meeting of May 5th, 2011, renewed by Supervisory Board meeting of Jun. 29, 2011, then by the Supervisory Board meeting of March 27, 2014. Term expires: General Meeting of shareholders held to vote on the accounts for the fiscal year ending on Dec. 31, 2015	Member of the Executive Board – Consultant Senior Finance Advisor	Position currently held in a listed company: Member of Supervisory Board and Audit Committee of Ablynx (from June 2013). Chairman of the Audit Committee of Octoplus (listed company) (2012-2013). Positions in unlisted companies: Partner in the consultancy firm STJ Advisors (2011-2013); Member of Supervisory Board and Member of Audit Committee of Creabilis (from December 2012);
Nicolai Wagtmann Age 50	First appointment: Supervisory Board meeting of December 12, 2013, replacing Mr François Romagné. Renewed by the Supervisory Board meeting of March 27, 2014. Term expires: General Meeting of shareholders held to vote on the accounts for the fiscal year ending on Dec. 31, 2015	Member of the Executive Board Chief Scientific Officer	None

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

(2) Mr Nicolai Wagtmann was appointed a member of the Executive Board by the Supervsory Board on December 12, 2013, replacing Mr François Romagné, who has since December 12, 2013 no longer been a Member of the Executive Board.

Catherine Moukheibir is linked to the Company by a consulting agreement (see CHAPTER 19 of the reference document).

Chairman of the Executive Board

Hervé Brailly, Ph.D., age 52, Chairman of the Executive Board, 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 supervisory board on June 13, 2005. Previously, he was a researcher at Immunotech SA, a biotechnology start up acquired in 1995 by Beckman-Coulter (1986-1994), and was in charge of marketing, business development and R&D at the same company (1994-1998). Beginning in 1998, Mr. Brailly was the director of a business unit of the company with 65 employees (R&D, marketing, manufacturing), with annual sales of 30 million U.S. dollars. He was the force behind the growth of the business activities in China for the same company between 1994 and 1998. Hervé Brailly is also member of the executive committee and treasurer of the bio cluster EuroBioMed which groups companies in life sciences and technologies together in the French PACA region, a member of the Board of Directors of INSERM-Transfert and of France Biotech. Hervé Brailly is a graduate of the Ecole des Mines de Paris (1983) and a Doctor of Immunology, with a specialization in immuno-pharmacology.

Other members of the Executive Board

Catherine Moukheibir age 54, MA, MBA (from Yale University), will be in charge of the financial strategy of the Company. She has 16 years of experience in finance including 10 in the biotechnology industry. Prior to joining Innate Pharma, Mrs Moukheibir was CFO of Movetis, a Belgian biotech company (from 2008 to 2010), for which she led the IPO on Euronext Brussels and then the acquisition by Shire. Previously, she was Director Capital Markets at Zeltia (from 2001 to 2007), a Spanish biopharma and consumer chemicals group, where she led financial strategy. Before joining Zeltia, she was Executive Director Investment Banking with Salomon Smith Barney and Morgan Stanley (from 1997 to 2000).

Nicolai Wagtmann, age 50, Ph.D., Executive Vice President and Chief Scientific Officer, and member of the Executive Board. He brings significant biopharmaceutical research and development experience to the company, having spent 14 years in the R&D organization at Novo Nordisk A/S where he built a portfolio of first-in-class therapeutic antibodies for treatment of cancer and chronic inflammatory diseases. In 2005, he was appointed Vice President and Head of Inflammation Biology and member of the Biopharmaceuticals Research Unit management team, with global responsibilities for Novo Nordisk's portfolio of biopharmaceuticals in immunology, growth hormone and hemophilia. Prior to that, he held roles as Director of Cancer & Immunobiology and other management roles at Novo Nordisk. Nicolai Wagtmann received his Ph.D. in immunology from the University of Copenhagen. He held academic appointments at the National Institutes of Health and the Center for Immunology in Marseille, France.

14.1.2 **Supervisory Board**

The Company's Supervisory Board is composed of a minimum of three members and a maximum of eighteen members. At the date of this Reference Document, the Supervisory Board has six members, four of which are classed as independent. In accordance with the decision of the Supervisory Board on September 23rd , 2010 and in accordance with the consolidated governance code for AFEP/MEDEF listed companies ("AFEP/MEDEF recommendations") dated June 2013, a member of the Supervisory Board is an independent member provided:

- He or she is not involved in any relationship with the Company, its group or its management, which could compromise his or her judgment; and
- He or she must not represent a shareholder holding more than 10% of the voting rights of the Company (this percentage, historically set at 1% by the Company, was increased to 10% in accordance with the AFEP/MEDEF recommendations, at the meeting of the Board of Directors on September 23rd , 2010 - see section 1.1.1. of Appendix 1).

The criteria used by the Supervisory Board to assess the independence of each member are listed in Article 2.2 of its Charter contained in Appendix 4 of this document, and cover the criteria used by the AFEP / MEDEF.

Members are appointed for two years. Any member who reaches the end of his or her term may be reappointed. The number of Members of the Supervisory Board who have reached the age of 70 may not be more than a third of the serving members. When this age limitation is exceeded, the natural person who is the oldest Member of the Supervisory Board shall be deemed to have resigned their position.

The Supervisory Board appoints a Chairman and a Vice-Chairman from its members, who hold these positions during their entire term as members of the Supervisory Board. They may be reappointed. They are in charge of convening the Supervisory Board and of leading the debates. The Chairman and the Vice-Chairman must be individuals.

Each member must directly own at least one Innate Pharma share during the entire term of his office.

The members of the Company's Supervisory Board as of the date of this Reference Document are as follows:

First and last name, age and professional address	Duration of Term	Position	Other Positions and Appointments held in any other company over the last five years
Mr. Gilles Brisson French age 62 Innate Pharma 117, Avenue de Luminy 13009 Marseille	First Appointment: General Meeting of shareholders dated June 26, 2007 Renewed by the General Meetings of shareholders dated June 23, 2009 June 29, 2011 and June 28, 2013 Term expires: General Meeting of shareholders of 2015 to be held to vote on the accounts for the fiscal year ending on Dec. 31, 2014	Chairman of the Supervisory Board	Chairman of Mutabilis holding SAS; Chairman of the supervisory board of Ethypharm SA; Member of the Supervisory Board of the Group Carso, Chairman of the Board of Directors of Mauna Kea Technologies (listed company), Vice-Chairman of the Board of Cytomics SA (not renewed in 2009); Chairman of the Board of Bioring SA (not renewed in 2009)
Mr. Patrick Langlois[(1)], French age 68 PJL Conseils 6, Avenue Frederic Le Play 75007 Paris	First Appointment: General Meeting of shareholders dated May 25, 2010 Renewed by the General Meetings of shareholders dated June 29, 2011 and June 28, 2013 Term expires: General Meeting of shareholders of 2015 to be held to vote on the accounts for the fiscal year ending on Dec. 31, 2014	Member of the Supervisory Board	Positions in listed companies: Exonhit (France) known as Diaxonhit since 2012: Director; Stallergènes (FR): President of the Board of Directors; BioAlliance Pharma (FR): Chairman of the Board of Directors and of the compensation and nominations committee; Positions in unlisted companies: Scynexis (US): Director and member of the audit committee; Newron (Italy): Director, member of the compensation committee and chairman of the audit committee; Shire (UK): Director, member of the audit committee and the compensation committee (not renewed in 2011); Nanobiotix (France): Chairman of the Board of Directors (not renewed in 2011)
Mr. Philippe Pouletty French age 55 Truffle Capital5, rue de la Baume 75008 Paris	First Appointment: General Meeting of shareholders dated December 22, 2001. Renewed by the General Meetings of shareholders dated June 26, 2007, June 23, 2009, June 29, 2011 and June 28, 2013. Term expires: General Meeting of shareholders of 2015 to be held to vote on the accounts for the fiscal year ending on Dec. 31, 2014	Member of the Supervisory Board	Chairman of the Board of Directors of Abivax S.A., Chairman of the Board of Directors of Deinove (listed company), Non Executive Chairman of BMD SA (up to May 29, 2012), Director of the Association of the Marie Lannelongue Surgical Centre, Director representing Truffle Capital SAS on the boards of Vexim SA, Wittycell SAS, Theraclion SA, Plasmaprime SAS, Carmat SA , Pharnext SAS, Neovacs SA, Biokinesis SAS, Carbios SA, Splicos SAS, Theradiag, Immune Targeting Systems Ltd (UK), Symetis (Switzerland), Myopowers (Switzerland); Member of the board of directors and managing director of Truffle Capital SAS, General Manager of Nakostech SARL, Honarary President and Director of France Biotech (Association), positions not renewed at Conjuchem, Cytomics and ITS

Ms. Irina Staatz-Granzer German age 53 Zielstattstrasse 44, D-81379, Munich, Germany	First Appointment: General Meeting of shareholders dated June 23, 2009 . Renewed by the General Meetings of shareholders dated June 29, 2011 and June 28, 2013 Term expires: General Meeting of shareholders of 2015 to be held to vote on the accounts for the fiscal year ending on Dec. 31, 2014	Member and Vice Chairman of the Supervisory Board	Staatz Business Development & Strategy, founder PLCD (German Pharma Licensing Club), Vice President U3 Pharma AG, CEO
Novo Nordisk A/S(1), represented by Mr. Per Falk(2) Swedish age 52 Novo Allé 2880 Bagsværd Denmark	First Appointment: General Meeting of shareholders dated June 26, 2007 Renewed by the General Meetings of shareholders dated June 23, 2009, June 29, 2011 and June 28, 2013 Term expires: General Meeting of shareholders of 2015 to be held to vote on the accounts for the fiscal year ending on Dec. 31, 2014	Member of the Supervisory Board	Other positions held by Mr Per Falk: Member of the Management Board of Recopharma
Michael A. Caligiuri American Age 58, OSU James Cancer Hospital, 300W. 10th Avenue, Suite 519, Columbus, OH43210	First Appointment: General Meeting of shareholders dated June 28, 2013 Term expires: General Meeting of shareholders of 2015 to be held to vote on the accounts for the fiscal year ending on Dec. 31, 2014	Member of the Supervisory Board	Member of the Board of Directors of the American Association of Cancer Research (AACR); Member of the Executive Committee of the American Society of Hematology; Member of the Management Committee of Pelotonia; President of the Society for Natural Immunity

(1) Non-independent member of the Supervisory Board.
(2) Mr Per Falk was appointed permanent representative of Novo Nordisk A/S on March, 4th, 2013, replacing Mr. Lars Fruergaard Jørgensen.

At present, one of the six members of the Supervisory Board is a woman. Since the departure of Alta Partners LLP, the Supervisory Board no longer complies with Article 5-II of law no. 2011-103 of January 27, 2011, which provides that the Supervisory Board must comprise at least 20% of members of each gender at the end of the first General Meeting of shareholders that will take place in 2014. The Board is studying ways of remedying this situation before the terms of the members of the current Supervisory Board expire, that is to say before the Annual General Meeting of 2015 that will vote on the 2014 accounts.

Gilles Brisson, age 62, HEC graduate, has fulfilled management positions at Rhône-Poulenc then Aventis, as Chairman of the Executive Board, Chairman of the Supervisory Board of Aventis Pharma SA, and then Europe Manager for Aventis Pharma. He had previously held an international career with Rhône-Poulenc Rorer and then Aventis, in the United States, in France and in Japan, with overall responsibilities especially as *Senior Vice President Corporate Development* of Rhône-Poulenc Rorer and *Senior Vice President of Worldwide Communications and Public Affairs* for Aventis.

Irina Staatz-Granzer, age 53, 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). She founded and is currently CEO of Staatz Business Development & Strategy and within this frame advised her international clients successfully on a number of licensing agreements and M&A

Patrick Langlois, age 68, was appointed as a new member of the supervisory board as proposed by the shareholder Fonds Stratégique d'Investissement ("FSI"). Mr. 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. Patrick has been Associate Managing Director of PJL Conseils since 2005 and is a Director of several biopharmaceutical companies.

Philippe Pouletty, age 55, is co-Founder and General Partner Biotech and Medtech industry veteran with dual experience in Silicon Valley and in France. He is founder and Chairman of Deinove (Alternext: ALDEI), Co-founder and Board member of Carmat (Alternext: ALCAR), former chairman and Board member of Neovacs (Alternext: ALNEV), Chairman of BMD and Splicos, co-founder and Board member of Pharnext, Plasmaprime, Vexim, Wittycell, Board member of Immune Targeting Systems, Myopowers, Symetis, Theraclion, all Truffle Capital portfolio companies. He is founder of SangStat (1988, organ transplantation therapeutics, IPO on NASDAQ in 1993, sold to Genzyme for $600M in 2002), Conjuchem (founded in 1993, IPO on the Toronto stock exchange in 2000).
Philippe Pouletty is former Chairman (2001-2009) and Honorary Chairman of France Biotech, the French biotech industry association. He is inventor of the Young Innovative Entreprise Status (JEI), implemented by President Chirac in 2004 in France. Former vice chairman of Europabio, the European biotech industry association.
Inventor of 29 patents, including the second highest revenue generating life science patent for Stanford University, MD from the University of Paris VI, MS degrees in immunology and virology from the Pasteur Institute, post-doctoral research fellow at Stanford University. 1999: laureate of the American Liver Foundation. Philippe Pouletty is a *Chevalier* of the French "*Légion d'Honneur*".

Novo Nordisk A/S, represented by Mr Per Falk, age 52, of Swedish nationality, is Senior Vice President of the Biopharmaceutical Research Unit. He has a medical degree and a PhD in Biochemistry from Gothenburg University in Sweden. Prior to joining the pharmaceutical industry he held research positions the US and in Sweden and has served as adjunct Associate Professor at the Department of Molecular Biology and Pharmacology at Washington University School of Medicine in St. Louis and as Associate Professor/Lecturer at the Dept. of Medicine, at the Karolinska Institute in Stockholm. In 1998 he joined AstraZeneca, initially as a research scientist and later as Director and head of the Gastrointestinal Pharmacology and Molecular Biology departments. He joined Novo Nordisk in 2002 as VP of Experimental Medicine. In 2004 he transferred to the Business Region Japan/Oceania office as VP of Development and Regulatory Affairs. In 2008 he joined Novo Nordisk Inc. as Associate VP for Diabetes Clinical Development and Medical Affairs and in 2009 he was promoted to VP for the North American CMR organization. In 2011 he was promoted to SVP Biopharmaceutical Research Unit.
Michael A. Caligiuri, age 58, is the CEO of The James Cancer Hospital and Director of the Comprehensive Cancer Center at The Ohio State University. He attended Stanford University Medical School and trained in Internal Medicine, Oncology, Bone Marrow Transplantation, and Immunology at Harvard's Brigham and Women's Hospital and The Dana Farber Cancer Institute. Dr. Caligiuri is a leukemia physician and a laboratory scientist focused on innate immunity (natural killer cell biology) and genesis and treatment of leukemia. His laboratory is comprised of 30 people (postdoctoral students, research scientists, predoctoral students, technicians and undergraduate students) and is well-funded by the United States National Cancer Institute. Over 1500 patients have been accrued to clinical trials designed or co-designed by Dr. Caligiuri.

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

14.1.3 **Executive Committee**

The Executive Committee of the Company, which is composed by the members of the Executive Board and three senior managers, meets at least once a month to discuss and make decisions on issues regarding the Company's strategy and operations management.

As of the date of this Reference Document, the six members of the Executive Committee including the three members of the Executive Board are:

Name	Starting Date in this Position	Age	Main operational responsibilities
Hervé Brailly	Since 1999	53	CEO, General management, General corporate policy and Human resources
Nicolai Wagtmann	Since 2014	50	Executive Vice-President, CSOt
Catherine Moukheibir	Since 2011	54	Executive Vice-President, Senior Advisor Finance
Marcel Rozencweig	Since 2010	68	Executive Vice-President, CMO, Medical affairs
Jérôme Tiollier	Since 2001	54	Executive Vice-President, CDO, Operations
Yannis Morel	Since 2011	40	Executive Vice-President, Business Development

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

Marcel Rozencweig, aged 68, joined the company in 2009. He is Executive Vice-President and Chief Medical Officer. Doctor of Medicine, a graduate of the Free University of Brussels, Belgium, he created and directed Bristol-Myers Squibb (BMS)'s clinical research group, which developed all new cancer-related products marketed by BMS between 1983 and 2001 (including carboplatin and le paclitaxel). Under his management, 17 registration files (for new molecules or additional indications) were successfully filed by BMS in relation to cancer, AIDS and infectious diseases. Before joining the industry, Dr. Rozencweig pursued an academic career, and he is still Adjunct Associate Professor of Medicine at the University of New York. He set up and chaired several EORTC study groups, dedicated to multinational therapeutic studies, in particular, the Early Clinical Trials Group (or clinical trial groups of new products).

Jérôme Tiollier, aged 54, joined Innate in September 2001. He is the Executive Vice-President in charge of operations. Dr. Tiollier is a graduate of 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) as Director of Pre-clinical 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.

Yannis Morel, aged 40, 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 Superieure of Cachan (France).

14.1.4 Statement on the Executive Board, Supervisory Board and General Management Bodies

To the best of the Company's knowledge and as of the date of, there are no family ties between the members of the Executive Board, Supervisory Board and Executive Committee. Likewise, to the best of the Company's knowledge and as of date of this Reference Document, there are no arrangements or agreements signed with the main shareholders, customers, suppliers or others, except as set out in section 19 of this document.

Furthermore, to the best of the Company's knowledge and as of the date of this Reference Document, no members of the Executive Board, Supervisory Board or Executive Committee have been:

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

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

14.2 CONFLICTS OF INTEREST IN THE EXECUTIVE BOARD, SUPERVISORY BOARD AND GENERAL MANAGEMENT BODIES

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

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

CHAPTER 15. COMPENSATION AND BENEFITS

15.1 COMPENSATION AND BENEFITS GIVEN TO MEMBERS OF THE EXECUTIVE BOARD, SUPERVISORY BOARD AND GENERAL MANAGEMENT BODIES

The Company follows AMF recommendation no 2012-02 of February 9, 2012, updated on December 4, 2013, relating to corporate governance and directors'compensation with reference to the AFEP/MEDEF code. Members of the Executive Board, including the Chairman, are bound to the Company by either an employment contract whereby the reference salary is decided annually by the Supervisory Board on the basis of a proposal made by the Compensation and Nominations Committee, or by a consultancy contract. Executive Board members do not receive any specific compensation for their board mandate. AFEP/MEDEF recommendations relating to the combination of an employment contract and a board mandate are specifically limited to the Chairman of the Executive Board. On March 27, 2014, the Supervisory board renewed Mr. Brailly as Chairman of the Executive board and has authorized the combination of Mr Brailly's employment contract and his board mandate. It is understood that he does not receive any specific compensation for his board mandate, such as the other members of the Executive board.

The following tables result from AMF recommendation no. 2009-16 of December 20, 2010, updated on December 16, 2013 relating to the guide to the preparation reference documents. The tables recommended by the AMF which are not mentioned in this document do not apply to the Company.

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

Table 1	**Compensation, options and shares allocated to each member of the Executive Board [(1)]**	
	2013	**2012**
Hervé Brailly, Chairman of the Executive Board		
Compensation for the fiscal year (see details in Table 2).....	316,665	265,881
Valuation of options allocated during the fiscal year (see details in Table 4)	None	None
Valuation of free shares allocated during the fiscal year (see details in Tables 6 - 1 and 6 - 2) - Excluding additional social security charges.....	None	None
Total	**316,665**	**265,881**
François Romagné, Member of the Executive Board up to December 12, 2013		
Compensation for the fiscal year (see details in Table 2).....	217,673	196,110
Valuation of options allocated during the fiscal year (see details in Table 4)	None	None
Valuation of free shares allocated during the fiscal year (see details in Tables 6 - 1 and 6 - 2) - Excluding additional social security charges.....	None	None
Total	**217,673**	**196,110**
Catherine Moukheibir, Member of the Executive Board		
Compensation for the fiscal year (see details in Table 2).....	244,500	214,500
Valuation of options allocated during the fiscal year (see details in Table 4)	65,366	None
Valuation of free shares allocated during the fiscal year (see details in Tables 6 - 1 and 6 - 2) - Excluding additional social security charges.....	None	None
Total	**309,866**	**214,500**

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

There is no restriction on the use of hedging instruments on options received by company officers. To the best of the Company's knowledge, no hedging instruments have been set up.

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			
	2013		2012	
	Due for the fiscal year	Paid during the fiscal year	Due for the fiscal year	Paid during the fiscal year
Hervé Brailly, Chairman of the Executive Board				
Fixed compensation	200,040	200,040	200,040	200,040
Variable compensation	105,123	71,003	53,830	63,102
Exceptional compensation	-	-	-	-
Attendance fees	-	-	-	-
Other compensation items[(2)]	11,502	11,502	12,011	12,011
Total	**316,665**	**282,545**	**265,881**	**275,153**
François Romagné, Member of the Executive Board				
Fixed compensation	160,008	160,008	160,008	160,008
Variable compensation	53,950	39,801	32,635	31,468
Exceptional compensation	-	-	-	-
Attendance fees	-	-	-	-
Other compensation items[(2)]	3,715	3,715	3,467	3,467
Total	**217,673**	**203,524**	**196,110**	**194,943**
Catherine Moukheibir, Member of the Executive Board				
Fixed compensation	244,500	267,500	214,500	172,689
Variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Attendance fees	-	-	-	-
Other compensation items[(2)]	-	-	-	-
Total	**244,500**	**267,500**	**214,500**	**172,689**

[(1)] Reported compensations relate to compensation paid to Members of the Executive Board under employment contracts and consulting agreement.
[(2)] Company car and pension benefits. Pension benefits to the Executive Board members are described in the Section 19 of the Reference Document and in Note 2.l in the appendix to the 2013 Consolidated Accounts.

The amounts given in the table above are gross pre-tax amounts. They include the advantage resulting from a complementary pension scheme.

Compensation paid to the members of the Executive Board and other members of the Executive Committee contains a variable part which may be equal to as much as 40% of the total compensation, consisting of both and individual and a collective bonuses (the latter being paid to all of the Company's employees).

The amount of these bonuses depends on the Company's results as well as on individual achievements. It is set by the Supervisory Board based on the recommendations of the Compensation and nomination committee, which sets the annual objectives and then assesses the extent to which these objectives have been successfully achieved. The degree of achievement required for these quantitative criteria has been determined in detail but cannot be made public for confidentiality reasons.

A collective bonus of 40% of the beneficiaries' gross monthly salary was initially decided for the 2013 fiscal year after consulting the Compensation Committee. Subsequently, after consulting the Compensation Committee and the Supervisory Board, the collective bonus for the 2013 fiscal year was increased to 120% of the beneficiaries' gross monthly salary because exceptional targets were met (capital increase and performance on the stock market). The difference between the amount initially decided and the amount paid in 2014 is shown in the column "Due for the fiscal year" for the 2013 fiscal year. Catherine Moukheibir is not eligible for a bonus.

The reference salary of the members of the Executive Board and other members of the Executive Committee is also set once a year by the Supervisory Board based on the recommendations of the Compensation and nomination committee.

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

Table 3	Compensation allocated to each member of the Supervisory Board	
	Paid in 2014 for 2013	**Paid in 2013 for 2012**
Gilles Brisson, Chairman, independent member		
Attendance fees	44,250	41,000
Other compensation	None	None
Irina Staatz-Granzer, independent member of the Supervisory Board		
Attendance fees	26,000	19,500
Other compensation	None	None
Philippe Pouletty, independent member of the Supervisory Board.		
Attendance fees	27,000	31,500
Other compensation	None	None
Patrick Langlois, member of the Supervisory Board		
Attendance fees	40,000	37,000
Other compensation	None	None
Michael Caligiuri, member of the Supervisory Board		
Attendance fees	12,750	None
Other compensation	None	None

No stock allocation or purchase options were assigned during the 2013 fiscal year to members of the Executive Board. No stock allocation or purchase options were exercised during the 2013 fiscal year by members of the Executive Board and Supervisory board. No "performance" free shares or other free shares were assigned during the 2013 fiscal year to members of the Executive Board of the Company. No "performance" free shares became available during the 2013 fiscal year for current members of the Executive Board of the Company.

The following table (Table 4-1) summarizes the subscription warrants ("BSA 2008") distributed to the company officer by the Executive board on January 19, 2009, upon authorization of the General Meeting of June 27, 2008:

Table 4-1	**BSA 2008**		
	Date of the Executive board	**Number of BSA 2008 distributed**	**Acquisition conditions**
Philippe Pouletty	January 19, 2009	35,000	None

The following table (Table 4-2) summarizes the subscription warrants ("BSA 2011-1") distributed to the Company officer and independent members of the Supervisory board by the Executive board on July 29, 2011, upon authorization of the General Meeting of June 29, 2011:

Table 4-2	**BSA 2011-1 distributed to the company officer and consultant**		
	Date of the Executive board	**Number of BSA 2011-1 distributed**	**Acquisition conditions**
Catherine Moukhebir	July 29, 2011	30,000	None

The following table (Table 4-3) summarizes the subscription warrants ("BSA 2011-2") distributed to the Company officers and independent members of the Supervisory board by the Executive board on July 29, 2011, upon authorization of the General Meeting of June 29, 2011:

Table 4-3 **BSA 2011-2 distributed to the company officer and independent members of the Supervisory Board**

	Date of the Executive board	Number of BSA 2011-2 distributed	Acquisition conditions
Gilles Brisson	July 29, 2011	25,000	None
Irina Staatz	July 29, 2011	25,000	None
Philippe Pouletty	July 29, 2011	12,500	None
Catherine Moukheibir	July 29, 2011	70,000	None

The following table (Table 4-4) summarizes the subscription warrants ("BSA 2013") distributed to a consultant Company officer and a new independent member of the Supervisory board by the Executive board on July 17, 2013, upon authorization of the General Meeting of June 28, 2013:

Table 4-4 **BSA 2013**

	Date of the Executive board	Number of BSA 2013	Acquisition conditions
Michael A. Caligiuri	July 17, 2013	25,000	None
Catherine Moukheibir	July 17, 2013	75,000	None

The following table (Table 4-5) summarizes the subscription warrants ("BSA 2013-1") distributed to a Company officer by the Executive board on September 18, 2013, upon authorization of the General Meeting of June 28, 2013:

Table 4-5 **BSA 2013-1**

	Date of the Executive board	Number of BSA 2013-1	Acquisition conditions
Nicolai Wagtmann	September 18, 2013	50,000	None

The following table (Table 4-6) summarizes the other free shares definitively acquired and assignable since March 25, 2012 for each Company officer:

Tableau 4-6 **Free shares available to each Company officer**

	Plan number and date	Number of shares definitively acquired and assignable fiscal year	Acquisition conditions
Hervé Brailly	March 25, 2008	299,000	None
François Romagné*	March 25, 2008	199,300	None

* Mr François Romagné is no longer a member of the Executive Board from December 12, 2013.

The following table (Table 5-1-A) summarizes the history of distribution of redeemable warrants (BSAAR) to the company officers during the 2010 fiscal year, upon authorization of the General Meeting of June 23, 2009 :

Tableau 5-1-A	**Date of the Executive board**	**BSAAR subscribed by the Company Officers**	**Acquisition Conditions**
Hervé Brailly	June 18, 2010	15,000	None
François Romagné*	June 18, 2010	12,000	None
Hemanshu Shah*	June 18, 2010	10,000	None

*Mr Hemanshu Shah is no longer member of the Executive Board from December 13, 2010 and Mr François Romagné is no longer member of the Executive Board from December 12, 2013.

The following table (Table 5-1-B) summarizes the history of distribution of redeemable warrants (BSAAR) to the company officers during the 2011 fiscal year, upon authorization of the General Meeting of June 29, 2011 :

Tableau 5-1-B	**Date of the Executive board**	**BSAAR subscribed by the Company Officers**	**Acquisition Conditions**
Hervé Brailly	Sept. 9, 2011	200,000	None
François Romagné	Sept. 9, 2011	100,000	None

The following table (Table 5-2) summarizes the outstanding stock-options, the subscription warrants and redeemable warrants distributed by the Company to company officers and remaining applicable as at the date of this Reference Document:

Table 5-2				***History of stock options, subscription warrants (BSA) and redeemeable warrants (BSAAR)***					
	Stock options			**BSA**			**BSAAR**		
Date of the General Meeting	**Jul. 1, 2003**	**Jul. 22, 2004**	**Jun. 26, 2007**	**Jun. 27, 2008**	**Jun.29, 2011**	**Jun. 28, 2013**	**Jun. 28, 2013**	**Jun. 23, 2009**	**Jun.29, 2011**
Date of the Executive Board	**Jul. 1, 2003**	**Jun. 13, 2005**	**Mar. 25, 2008**	**Jan. 19, 2009**	**July 29, 2011**	**Jul. 17, 2013**	**Sep. 18, 2013**	**Jun. 18, 2010**	**Sept.9, 2011**
Total number of shares to be subscribed	570,000	500,000	199,998	35,000	325,000	237,500	50,000	100,000	650,000
Total number of shares allocated to Company officers [(1)]	-	60,000	70,588	35,000	162,500	100,000	50,000	15,000	200,000
Hervé Brailly, Chairman of the Executive Board	-	60,000	-	-	-	-	-	15,000	200,000
Catherine Moukheibir	-	-	-	-	100,000		75,000	-	-
Nicolai Wagtmann	-	-	-	-	-	-	50,000	-	-
Gilles Brisson, Chairman of the Supervisory Board, independent member	-	-	47,059	-	25,000	-	-	-	-

Philippe Pouletty, independent member of the Supervisory Board	-	-	23,529	35,000	12,500	-	-	-	-
Patrick Langlois, member of the Supervisory Board	-	-	-	-	-	-	-	-	-
Irina Staatz-Granzer, independent member of the Supervisory Board	-	-	-	-	25,000	-	-	-	-
Michael A. Caligiuri, independent member of the Supervisory Board	-	-	-	-	-	25,000	-	-	-
First vesting date	Jul. 1, 2004	Jun. 13, 2006	May 16, 2009	Feb. 28, 2010	Jul. 29, 2011	July 17, 2013		Jun. 18, 2010	**Sept. 9, 2011**
Expiry date	Jun. 30, 2013	Jun. 12, 2015	May 16, 2013	Feb. 28, 2019	Jul. 29, 2021	July 17, 2023		Jun. 18, 2015	**Sept. 9, 2021**
Price of share	€2.975	€3.750	€2.022	€1.467	€1.77	€2,36		€2.34	€**2.04**
Arrangements for exercise	All benefi- ciaries are entitled to exercise 1/4 of the total number shares they hold one year after the date they are distributed, 1/50th per full month comp- leted for 36 months one year after that date, and the remaining options to be exercised four years after that date.	(1)		(1)				**(2)**	
Number of shares subscribed as of March 26, 2014	7 775	138,500	199,998	-	93,060	18,640	-	38,000	**85,000**
Total number of stock-options or warrants canceled or void	562,225	240,000		-			-	-	**350,000**
Stock options or warrants outstanding at the end of the fiscal year	-	**121,500**	-	**35,000**	**231,940**	**218,860**	**50,000**	**62,000**	**565,000**

(1) All beneficiaries of BSA 2011-1, BSA 2013 and BSA 2013-1 are entitled to exercise monthly 1/24th BSA for two years after the distribution and all beneficiaries of BSA 2011-2 are entitled to exercise monthly 1/48th BSA for four years after that distribution date.

The following table summarizes the stock-options allocated or exercised by the top ten beneficiaries (excluding Company officers) during the 2013 fiscal year:

Table 6	Stock-options allocated or exercised by the top ten beneficiaries (excluding Company officers)
Stock-options allocated in 2013	None
Stock-options exercised in 2013	None

The following table gives additional details on the compensation package given to members of the Executive Board during the 2013 fiscal year:

Table 8	Additional details on the compensation package given to members of the Executive Board			
	Employment contract	**Pension scheme****	**Golden parachute**	**Contractual compensation for non-competition clause**
Hervé Brailly Chairman of the Executive Board, CEO	Yes	Yes	No	No
François Romagné, Member of the Executive Board	Yes	Yes	No	No
Catherine Moukheibir*, Member of the Executive Board	No	No	No	No

* Ms Catherine Moukheibir has a consultancy agreement described in CHAPTER 19

** The features of the pension scheme are described in CHAPTER 19

15.2 TOTAL AMOUNTS IN RESERVE FOR PAYING PENSIONS, RETIREMENT OR OTHER BENEFITS

See Note 2.l referring to the Company's 2013 Consolidated Accounts in section 20.1 of this Reference Document Chapter 20.1.

The total amount expensed in the financial year for contributions under defined contribution plans amounted to 471 thousand euros.

CHAPTER 16. OPERATION OF THE EXECUTIVE BOARD, SUPERVISORY BOARD AND GENERAL MANAGEMENT BODIES

See also CHAPTER 14 of this Reference Document

16.1 OPERATION OF THE EXECUTIVE BOARD

Meetings of the Executive Board

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 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 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.

The Executive Board met 14 times during the fiscal year ended December 31, 2013, and the average attendance rate was 80%. Between January 1, 2014 and the date this Reference Document was filed, the Executive Board met 3 times and the average attendance rate was 77.7%.

Powers of the Executive Board

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 (the *objet social*) 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.

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.

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.

Ms Moukheibir is linked to the Company by a consultancy agreement (see CHAPTER 19 of the reference document).

16.2 OPERATION OF THE SUPERVISORY BOARD

The Charter of the Supervisory Board sets the operating rules for the Supervisory Board and also for its committees (see Appendix 4 of this Reference Document). This Charter is also available on the Company's web site: www.innate-pharma.com.

Meetings of the Supervisory Board

The Supervisory Board meets as often as is required in the interest of the Company, but at least once a quarter, as called for by the Chairman or the Vice-Chairman, at the headquarters or in any other place indicated in the notice of the meeting.

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.

During the fiscal year ended on December 31, 2013, the Supervisory Board met 7 times, with an average attendance rate of 92%. Since the start of the 2014 fiscal year, and up to the date of this Reference Document, the Supervisory Board has met 4 times with an attendance rate of 87%.

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 conducted a self-evaluation in 2012. The results of this self-evaluation were presented to the Supervisory board meeting of June 28th, 2012. No self-evaluation has been carried out since that date. A decision on the performance of any upcoming self-evaluation, and the arrangements for it, will be the subject of discussions by the Board if necessary.

Powers of the Supervisory Board

The Supervisory Board exercises permanent control over the Company's management by the Executive Board. 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. Once a quarter, the Supervisory Board receives a report written by the Executive Board.

The Supervisory Board alone is competent to authorize certain significant transactions. Any material transaction is subject to prior authorization by the Supervisory 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.

In a report to the General Meeting of shareholders attached to the Executive Board's Management Report, the Chairman of the Supervisory Board reports on the conditions for preparing and organizing the work of the Supervisory Board as well as the internal control procedures set up by the Company (see APPENDIX 4 - and APPENDIX 5 - of this Reference Document).

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.

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

16.3 COMMITTEES OF THE SUPERVISORY BOARD, OBSERVER

16.3.1 Audit committee

The Audit committee was 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 main tasks of the Audit committee in 2013 entailed making recommendations to the Executive Board and the Supervisory Board regarding internal control and drawing up the Company's financial reports. More specifically, the Audit committee was given the following tasks:

- Monitor the process for drawing up the financial information published by the Company and check the consistency and relevance of the accounting standards and methods used by the Company;
- Assess whether it would be opportune to make any changes to the accounting methods;
- Evaluate, at least once a year, the quality of the Company's internal control and risk management procedures, and where applicable notify the Company of any irregularities or anomalies found in the accounts, and assist the Chairman of the Supervisory Board in the drafting of his annual report on internal control;
- Evaluate the work performed by the Statutory Auditors on the control of the annual accounts and consolidated accounts;

- Verify the independence and objectivity of the Statutory Auditors and review their annual remuneration; and
- Give an opinion on the Statutory Auditors whom the general meeting of shareholders proposes to appoint.

The Audit committee meets as often as the Company's interests require, but at least twice a year.

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.

In 2009, the Audit committee was composed of three members, including an independent member of the Supervisory Board. The other two members were external consultants, linked to the Company by a consulting contract. In 2010 the composition of the Audit committee was modified in accordance with article L823-19 of the Commercial code. Its members are now exclusively members of the Supervisory Board including two independent members.

Mr Brisson, an independent member of the Supervisory Board, has specific financial and accounting skills on the basis of his experience in the pharmaceuticals industry and positions in general management which he has held at Rhône-Poulenc and Aventis.

The Company believes that the composition of the Audit committee is adapted to its size and means, to the nature of the Company's activities and to its development stage. The members of the Audit committee and their relationship with the Company, at the date the Reference Document was filed, are listed in the table below:

Name	Relationship to the Company	Audit committee member since
Patrick Langlois	Member of the Supervisory Board and Chairman of the Audit committee	2010
Gilles Brisson	Chairman of the Supervisory Board and expert member of the Audit committee	2010
Irina Staatz-Granzer	Member of the Supervisory Board and of the Audit committee	2013

The Audit committee met twice during the 2013 fiscal year. The average attendance rate of the members was 89%. It has met once since the start of 2014 with an attendance rate of 100%.

The Charter of the Supervisory Board sets the rules of operation for the Audit committee. It was modified on June 28, 2012 and is included in the report in the Appendix 4.

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.

During the 2013 fiscal year, the main issues dealt with by the Audit committee were:

- Review of the financial reports presented by management;
- Auditors' presentation regarding the legal audit and the accounting options adopted;
- Review of the budget process;
- Selection/renewal of the Auditors.

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.

16.3.2 **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. Its main task is to make recommendations to the Executive Board and the Supervisory Board regarding the Company's recruiting and compensation policy and the distribution of securities to the employees and management (stock-options free shares, BSAAR) and to external consultants (subscription warrants). During its meeting on March 15, 2007, the Supervisory Board adopted its charter and approved the change in the name of the Compensation committee into Compensation and nomination committee.

In 2013, the key tasks of the Compensation and nominations committee were as follows:

- Review the professionalism and objectivity of the procedures for appointing officers and members of the Executive Committee, as well as certain key employees. The Committee was responsible for arranging the recruitment of independent members of the Supervisory Board;
- Analyze the situation of each member of the Supervisory Board in terms of their other relations with the Company in order to verify that there is no conflict of interest and ensure that their independence is not compromised;
- Make recommendations for salary adjustments for members of the Executive Board and Executive Committee;
- Set the annual collective objectives of the Company as well as the individual objectives of the members of the Executive Board and Executive Committee and make proposals for appropriate bonuses;
- Assess the extent to which such goals have been reached and make recommendations about the amount of the final collective and individual bonuses to be given each year to the members of the Executive Board and the Executive Committee;
- Make recommendations as to the Company's salary policy for the other members of the staff; and
- Make recommendations to the Executive Board on allocating investment instruments approved or authorized by the General Meeting of shareholders.

In 2013, the Compensation and nomination committee was composed of three members, The Chairman of the Executive Board does not attend the discussions that concern him.

With effect from February 2011, the Chairman of the Executive Board is no longer a member of the Compensation and nomination committee.

The Compensation and nomination committee members that are also independent members of the Supervisory Board receive attendance fees for their participation in this committee. The other members do not receive any compensation for their participation.

The Compensation and nomination committee fiscal year met five times in 2013 , with an attendance rate of 100%. It has met once since the beginning of 2014 with an attendance rate of 100%.

During the 2013 fiscal year, the main issues dealt with by the Compensation and nomination committee were:

- The description of collective objectives (of the Company) and individual objectives (of the members of the Executive Board and of the Supervisory Board)
- The compensation of the members of the Executive Board and of the Supervisory Board;
- The policy for the distribution of means of equity participation such as share subscription warrants, BSAAR
- The distribution of attendance fees to the independent members of the Supervisory Board.

The Charter of the Supervisory Board set the operating rules for the Compensation and nomination committee (see Appendix 4 of the present Reference Document). As reminder, the Article 10.1 of the Charter of the Supervisory Board has been modified on June 28, 2012 in order to indicate that the Chaiman of the Executive Board has been not anymore member of the Compensation and nomination committee, since the meeting of the Supervisory board of February 28, 2011.

The members of the Compensation and nomination committee and their relationship with the Company, at the date the Reference Document was filed, are listed in the table below:

Name	Relationship to the Company	Member of the Compensation and Nominations Committee since
Gilles Brisson	Chairman of the Supervisory Board	2007
Patrick Langlois	Member of the Supervisory Board	2011
Philippe Pouletty	Member of the Supervisory Board	2003

16.3.3 **Transactions committee**

The Transactions committee was created by the Supervisory Board on September 21, 2007.

The Transactions committee's primary responsibility is to examine with the Company and its investments bankers and/or consultants, business and corporate development opportunities (these strategic opportunities may include in-licensing of products and acquisitions 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 Transactions committee did not meet during the fiscal year ended December 31, 2013, It has not met since the start of 2014.

At the date of this Reference Document, the Transactions committee was composed of three members, all of whom are also members of the Supervisory Board:

Name	Relationship to the Company	Member of the Transactions Committee since
Irina Staatz-Granzer	Member of the Supervisory Board	2009
Gilles Brisson	Chairman of the Supervisory Board	2007
Novo Nordisk A/S represented by Per Falk	Member of the Supervisory Board	2011

The two members of the Transactions committee who are also independent members of the Supervisory Board in 2009 received attendance fees for their participation to this committee. The other member of this committee does not receive any remuneration in this capacity.

16.3.4 Scientific Advisory Board

The Scientific Advisory Board was created by the Management Committee (when the Company was a *société par actions simplifiée*) on May 9, 2000. Scientific Advisory Board is not a committee under Article R.225-29 of the French "*Code de commerce*".

In 2013, the key tasks of the Scientific committee were as follows:

- Evaluate the Company's new product development strategy from a scientific perspective;
- Evaluate the progress of the Company's research programs to implement this strategy, examining both the results obtained and the skills and expertise involved; and
- Propose or evaluate opportunities for acquiring new products and new technologies.

In 2013, the Scientific Advisory Board was composed of four external consultants.

The members of the Scientific committee receive compensation based on their attendance at meetings of the Scientific committee. In the 2013 fiscal year, this compensation totaled 4 thousand euros.

During the fiscal year ended on December 31, 2013, the Company' Scientific committee met twice, with an attendance rate of 87%. It has not met since the beginning of the 2014 fiscal year.

At the date this Reference Document was filed, the Charter of the Supervisory Board governs the operating rules of the Scientific Advisory Board.

The members of the Scientific Advisory Board and their relationship with the Company, at the date the Reference Document was filed, are listed in the table below:

Name	Relationship to the Company	Member of the Scientific committee since
Bernard Malissen	Observer to the Supervisory board [(1)] and Consultant	2000
David Raulet	Consultant	2000
Philip Greenberg	Consultant	2000
Ronald Levy	Consultant	2013
François Romagné	Consultant	2014

(1) The renewal of Mr Bernard Malissen's observer mandate was not put to the vote at the General meeting of March 27, 2014.

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

David Raulet is a specialist in cell and molecular immunology. In that capacity, he has made significant contributions to the advancement of knowledge on γδ T lymphocytes and NK cells. His most recent work is related to stimulator and inhibitor receptors activated by NK cells to detect tumor cells, and the molecules corresponding to these receptors. Mr. Raulet was the head of the immunology department at the University of California at Berkeley and teaches immunology in the Department of Cell and Molecular Biology. He received the Choh Hao Li prize in 1999 and the William B. Coley prize for immunology in 2002 in recognition of his accomplishments. Before going to Berkeley in 1991, he was an assistant and associate professor at MIT.

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

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

François Romagné is an Engineering graduate of the Institut National Agronomique Paris Grignon, a Doctor (Ph.D.) of Immunology, a co-founder of Innate Pharma, and has been its Scientific Director since 1999. Mr. Romagné has devoted his entire career to translational research in immunology in the areas of T cell immunology and innate immunity, having authored 34 publications and been named as inventor on 10 patents. Mr. Romagné spent the first 14 years of his career at the biotechnology company Immunotech, where he held various positions in research and development while control of Immunotech changed hands (Coulter, then Beckman Coulter). At the time he held his last position at Immunotech/Beckman Coulter as the R&D manager of a business unit, he was also the coordinator of a wide European network to develop a new technology for tracking specific Antigen T cells (Tetramere Technology). His scientific work at Immunotech gave him the opportunity to establish the long-term working relationships with the other scientific founders of Innate Pharma, which finally led to the creation of Innate.

16.3.5 Observers

Article 23 of the By-laws (applicable since the Company went public on a regulated market) 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 appointment. These appointments 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.

Since the Ordinary General meeting of June 28, 2013, the observer mandates with the Company had been held by:

- Mr. Bernard Malissen, Chairman of the Company's Scientific Advisory Board;
- Bpifrance Participations (formerly Fonds Stratégique d'Investissement), represented by Mr. Olivier Martinez;
- O.G.B.B.A. van Herk B.V., represented by Mr Dharminder Chahal. O.G.B.B.A. van Herk B.V. is a shareholder in the Company

Only Bpifrance Participations's mandate has been renewed by the General shareholders meeting of March 27, 2014

16.4 STATEMENT REGARDING CORPORATE GOVERNANCE

At the date this Reference Document, the Company had three Supervisory Board committees: the Audit committee, the Compensation and nomination committee, and the Transactions committee (see Sections 16.3.1, 16.3.2, 16.3.3 and 16.3.4 of this Reference Document). It does exist also a Scientific Advisory Board which is composed with no member of the Supervisory board.

The operating rules of these committees are governed by the Charter of the Supervisory Board, as amended on June 28, 2012 and as enclosed in APPENDIX 7 - of this Reference Document.

The Company believes that it complies with the AFEP/MEDEF recommendations, apart from exceptions as listed in the table set out in Report by the Chairman of the Supervisory board (See Appendix 1)

CHAPTER 17. EMPLOYEES

17.1 HUMAN RESOURCES

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.

On December 31, 2013, the Company had 84 employees, compared to 82 on December 31, 2012 and 80 on December 31, 2011, The table below, shows the allocation of employees with the following breakdown per department:

Research and Development	61
Support staff	19
Executive Committee	4

The staff comprises 26 PhDs, MDs or PharmDs, representing 31% of the total staff (including the members of the Executive Committee).

On December 31, 2013, on the staff ex-Executive Committee, 76% of Company employees worked directly in R&D. The remaining staff worked in support functions, such as intellectual property, human resources, legal affairs, finance, accounting, information systems.

On December 31, 2013, the average age of Company employees was 38. 37% were men while 63% were women.

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, available on its website. An auditors' limited assurance report was issued on February 10, 2014 by the firm Deloitte and is available on the Company's website. As at March 4, 2014, the enterprise's staff numbered 87 employees, with three additional employees having been recruited in R&D.

17.2 EQUITY INTERESTS OF THE MEMBERS OF THE EXECUTIVE BOARD, SUPERVISORY BOARD AND EXECUTIVE COMMITTEE.

17.2.1 Summary of the equity interests in the Company held by the members of the Executive Board, Supervisory Board and Executive Committee as of April 4, 2014:

Executive Board, Supervisory Board or Executive Committee	Number of shares owned directly (I)	Number of shares owned by related entities[(1)] (II)	Total (IV) (I+II)	Total number of new shares upon exercise of stock-options, warrants redeemable warrants (III)	Total (III+IV)	Percentage of diluted capital[(2)]
Executive Board Members						
Hervé Brailly	1, 018,960	0	1, 018, 960	275, 000	1,293,960	2.69%
Catherine Moukheibir	0	0	0	175,000	175, 000	0.36%
Nicolas Wagtmann	0	0	0	50 ,000	50, 000	
Supervisory Board Members						
Gilles Brisson	48,059	0	48,059	25,000	73,059	0.15%
Patrick Langlois	1	0	1	0	1	0.00%
Philippe Pouletty	10	0	10	47,500	47,510	0.09%
Irina Staatz - Granzer	100	0	100	25,000	25,100	0.05%
Novo Nordisk A/S represented by Per Falk	5,172,708	0	5,172,708	0	5,172,708	10.74%
Michael A. Caligiuri	1	0	1	25,000	25,001	0.05%
Executive Committee						
Jérôme Tiollier	189,500	0	189,500	90,000	279,500	0.58%
Marcel Rozencweig	0	0	0	75,000	75,000	0.15%
Yannis Morel	22,205		22,205	50,000	72, 205	0.15%
Total	**6,451,544**		**6, 451,544**	**837,500**	**7,289,044**	**15.14%**
Other shareholders	40,263,748	0	40,263,748	586,650	40,850,398	84.86%
Total	**46,715,292**	**0**	**46,715,292**	**1,424,150**	**48,139,442**	**100.00%**

(1) Related entities refer to entities with which the member has a capital, statutory or contractual relationship (employment or other contract).
(2) The diluted capital is calculated after the theoretical exercise of all options, company founder share subscription warrants and redeemable warrants and after a final allocation of the shares distributed free of charge on that date.

17.2.2 Interests held by the members of the Executive Board, Supervisory Board and Executive Committee in the Company's share capital

At April 4, 2014, the interests of the members of the Executive Board, the Supervisory Board and the Executive Committee were as follows:

Members of the Executive Board and Supervisory Board	Number of shares	%[(1)]
Members of the Executive Board:	**1,018960**	**2.18%**
Hervé Brailly	1,018,960	2.18%
Catherine Moukheibir	0	0.00%
Nicolas Wagtmann	0	0.00%
Members of the Supervisory Board	**5,220,879**	**11.18%**
Gilles Brisson	48,059	0.10%
Patrick Langlois	1	0.00%
Philippe Pouletty	10	0.00%
Irina Staatz-Granzer	100	0.00%
Novo Nordisk A/S, représentée par Lars Fruegaard Jorgensen	5,172,708	11.07%
Michael A. Caligiuri	1	0,00%
Executive Committee	**211,705**	**0.45%**
Jérôme Tiollier	189,500	0.40%
Marcel Rozencweig	0	0.00%
Yannis Morel	22,205	0.05%

(1) Based on the number of shares forming the Company's share capital at March 7, 2014.

17.2.3 Stock-option plans

There were two stock-option plans, the first of which has expired:

- The first plan was approved by the Executive Committee on July 1, 2003, and authorized by the General Meeting of shareholders held on the same day. 28,500 options were issued under this plan, each giving the right to 20 Company shares with a par value of 0.05 euros (the "Stock-Options2003"). At June 30, 2013, there were 12,690 exercisable Stock-Options2003 potentially giving right to subscribe to 253,800 new shares of the Company, all of which have been cancelled.
- The second plan was approved by the Executive Committee on June 13, 2005, as authorized by the General Shareholders' Meeting held on July 22, 2004. 25,000 options were issued under this plan, each giving the right to 20 Company shares with a par value of 0.05 euros (the "Stock-Options2004"). At February 28, 2014, there were 6,075 exercisable Stock-Options2004 potentially giving right to subscribe to 121,500 new shares of the Company.

Information about each of these stock-option plans is given in Section 21.1.4.2 of this Reference Document.

17.2.4 Other securities giving access to the Company's capital

The General Meeting of shareholders held on June 26, 2007 authorized the issuance of 200,000 warrants giving right to the subscription of 200,000 new shares (the "Warrants$_{2007}$"). 199,998 of these Warrants$_{2007}$ were distributed to independent members of the Supervisory Board and to members of the Scientific Advisory Board by the Executive Board on March 25, 2008. These Warrants$_{2007}$ have all been exercised by their beneficiaries.

The General Meeting of shareholders held on June 27, 2008 authorized the issuance of 240,000 warrants reserved for individuals and entities that are members of the Supervisory Board or consultants to the Company and able to prove a contractual relationship with the Company current as of the date of the general meeting (the "Warrants$_{2008}$"). On January 19, 2009 the Executive Board assigned 35,000 Warrants$_{2008}$ to Mr. Philippe Pouletty who subscribed them in full.

On June 18, 2010 the Executive Board, using delegation granted by the General Meeting of shareholders held on June 23, 2009, proposed 100,000 redeemable share subscription and/or acquisition warrants ("BSAAR") to certain employees and company officers. On July 15, 2010 the Executive Board minuted the subscription of all 100,000 BSAAR, which may give rise to the issue of 100,000 new shares.

The General Meeting of shareholders held on June 29, 2011 authorized the issuance of 350,000 subscription warrants reserved for individuals and entities that are members of the Supervisory Board or consultants to the Company and able to prove a contractual relationship with the Company current as of the date of the general meeting. On July 29, 2011, the Executive Board assigned 325,000 subscription warrants to members of the Supervisory Board, member of the Scientific Advisory Board and consultants to the Company who subscribed them in full.

On September 9, 2011 the Executive Board, using delegation granted by the General Meeting of shareholders held on June 29, 2011, proposed 1,000,000 redeemable share subscription and/or acquisition warrants ("BSAAR 2011") to certain employees and company officers. On January 11, 2012 the Executive Board minuted the subscription of 650,000 BSAAR 2011, which may give rise to the issue of 650,000 new shares.

On June 28, 2012, the General Meeting of shareholders authorized the issuance of 200,000 subscription warrants and/or redeemable shares ("BSAAR 2012") giving rights for the subscription of 200,000 new shares. On July 3, 2013, the Executive Board noted that 146,050 BSAAR 2012 had been subscribed to, which could give rise to the issuance of 146,050 new shares.

On June 28, 2013, the General Meeting of shareholders authorized the creation of 300,000 share subscription warrants (BSA) that could give rights for the subscription of 300,000 new shares. The Executive Board, which met on July 17, 2013, after authorization had been given by the Supervisory Board, distributed 237,500 BSA ("BSA 2013") to a new independent member of the Supervisory Board, to consultants and to members of the Scientific Advisory Board. There remained 62,500 BSA that were not distributed out of the 300,000 authorized by the Meeting.

The Executive Board, which met on September 18, 2013, after authorization had been given by the Executive Board, distributed 50,000 BSA ("BSA 2013-1") to a consultant of the Company.

17.2.5 Free shares distributed to members of the Executive Board, Supervisory Board and Executive Committee

On July 1, 2008 , the Executive Board, using the delegation granted by the General Meeting of shareholders dated June 27, 2008, approved the distribution of 249,100 free shares with a par value of 0.05 euros each to Mr. Jérôme Tiollier and Mr. Hemanshu Shah (the "Free Shares$_{2008}$"). These free shares has been definitively acquired on July 1st, 2012;

This distribution of free shares is further detailed in Section 21.1.4.3 of this Reference Document. Employee profit sharing

17.2.6 Employee profit sharing

There is no profit-sharing agreement.

17.2.7 Company savings plan

The Company created a company savings plan on October 29, 2004.

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.

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.

CHAPTER 18. MAIN SHAREHOLDERS

18.1 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 April 4, 2014, to the knowledge of the Company:

	Shares		Voting rights	
Shareholders	**Number**	**%**	**Number**	**%**
Company officers[1]	6,239,829	13.36%	6,239,829	13.37%
Including members of the :				
- *Executive Board*	*1,018,960*	*2.18%*	*1,018,960*	*2.18%*
- *Supervisory board*	*5,220,869*	*11.18%*	*5,220,869*	*11.18%*
- *including Novo Nordisk A/S*	*5,172,708*	*11.07%*	*5,172,708*	*11.08%*
Employees excluding company officers [2]	375 ,05	0.80%	375,305	0.80%
BPI Groupe	4,845,814	10.37%	4,845,814	10.38%
Wellington Management Company, LLP	4,113,263	8.80%	4,113,263	8.81%
Fidelity Investments	2,763,091	5.,91%	2,763,091	5.92%
OrbiMed	2,743,896	5.87%	2,743,896	5.88%
Company's own shares[3]	37,096	0.08%	0	0.00%
Other shareholders	25,596,998	54.79%	25,596,998	54.84%
Total	**46,715,292**	**100.00%**	**46,678,196**	**100.00%**

[1] Not acting in concert
[2] Employees holding their shares in registered form
[3] Through the liquidity contract

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.

Crossing of thresholds by Wellington Management Company, LLP:

By a letter received on January 31, 2014, Wellington Management Company, LLP (280 Congress Street, Boston, MA 02210, United States), acting on behalf of clients for which it undertakes management duties, declared that on January 29, 2014 it had passed beneath the thresholds of 10% of the capital and voting rights of the company INNATE PHARMA and that it held, on behalf of said clients, 4,566,083 INNATE PHARMA shares representing the same amount of voting rights, i.e. 9.98% of the capital and voting rights of that company.

This crossing of thresholds results from a sale of INNATE PHARMA shares on the market.

By a letter received on January 16, 2014, Wellington Management Company, LLP (280 Congress Street, Boston, MA 02210, United States), acting on behalf of clients for which it undertakes management duties, declared that on January 14, 2014 it had passed above the thresholds of 10% of the capital and voting rights of the company INNATE PHARMA and that it held, on behalf of said clients, 4,610,973 INNATE PHARMA shares representing the same amount of voting rights, i.e. 10.08% of the capital and voting rights of that company. This crossing of thresholds results from an acquisition of INNATE PHARMA shares on the market.By the same letter, the same declaration of intent was made:

« Wellington Management Company, LLP declares:

The acquisition of the shares in the company INNATE PHARMA by Wellington Management Company, LLP (280 Congress Street, Boston, MA 02210, United States), acting on behalf of clients for which it undertakes management duties, took place within the normal scope of its work as a "discretionary investment manager" and was undertaken without any intention to implement a particular strategy with tregard to the company INNATE PHARMA, or to exercise, in this regard, a specific influence on the management of the latter. Wellington Management Company, LLP is not acting in concert with a third party and does not intend to take control of the company INNATE PHARMA or to seek its own appointment or the appointment of one or more persons as a director or member of the Executive Board or of the Supervisory Board."

By a letter received on August 9, 2013, Wellington Management Company, LLP (280 Congress Street, Boston, MA 02210, United States), acting on behalf of clients for which it undertakes management duties, declared that on August 7, 2013 it had passed above the thresholds of 5% of the capital and voting rights of the company INNATE PHARMA and that it held, on behalf of said clients, 2,518,322 INNATE PHARMA shares representing the same amount of voting rights, i.e. 6.60% of the capital and voting rights of that company.

This crossing of thresholds results from an off-market acquisition of INNATE PHARMA shares.

Crossing of thresholds by Fidelity Investments :

By a letter received on January 15, 2014, the company FMR LLC (245 Summer Street, Boston, Massachusetts 022210, United States) declared that on January 14, 2014 it had gone above the thresholds of 5% of the capital and the voting rights in the company INNATE PHARMA and that it held 2,763,091 INNATE PHARMA shares representing the same amount of voting rights, i.e. 6.04% of the capital and voting rights of that company.

This crossing of thresholds results from an acquisition of INNATE PHARMA shares on the market.

Crossing of thresholds by OrbiMed:

By a letter received on December 6, 2013, supplemented in particular by a letter received on December 11, the companies OrbiMed Advisors LLC and OrbiMed Capital LLC (c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, United States), acting on behalf of funds, declared, for purposes of regularization, that on November 20, 2013 they had passed above the thresholds of 5% of the capital and the voting rights in the company INNATE PHARMA and that they held, on that date and on that day, on behalf of said funds, 2,743,896 shares representing the same amount of voting rights, i.e. 6.00% of the capital and voting rights of that company.

This crossing of thresholds results from an off-market acquisition of INNATE PHARMA shares.

Crossing of thresholds and declaration by Novo Nordisk A/S:

By a letter received on December 10, 2013, the company under Danish law Novo Nordisk A/S (Novo Allé, 2880 Bagsvaerd, Denmark) declared, for purposes of regularization, that on November 25, 2013 it had passed beneath the thresholds of 10% of the capital and the voting rights in the company INNATE PHARMA and that it held, on that date and on that day, 4,572,708 INNATE PHARMA shares representing the same amount of voting rights, i.e. 9.99% of the capital and voting rights of that company

This crossing of thresholds results from a capital increase by the company INNATE PHARMA..

On June 24, 2013, Novo Nordisk A/S declared that it had sold off-market 2,500,000 euros of Innate Pharma shares at a standard price of 2.50 euros.

Crossing of thresholds by O.G.B.B.A. van Herk B.V. :

By a letter received on December 9, 2013, the company under Dutch law O.G.B.B.A. van Herk B.V. (Lichtenauerlaan 30, 3062 ME, Rotterdam, the Netherlands) declared that on December 4, 2013 it had passed beneath the thresholds of 5% of the capital and the voting rights in the company INNATE PHARMA and that it held 2,254,355 INNATE PHARMA shares representing the same amount of voting rights, i.e. 4.93% of the capital and voting rights of that company.

This crossing of thresholds results from a sale of INNATE PHARMA shares on the market.Crossing of thresholds by Federal Finance :

By a letter received on December 6, 2013, the public limited company Fédéral Finance Gestion (1 allée Louis Lichou, 29480 Le Relecq Kerhuon), acting on behalf of clients for which it performs management duties, declared, for purposes of regularization, that on November 27, 2013 it had passed beneath the thresholds of 5% of the capital and the voting rights in the company INNATE PHARMA and that it held, on that date, on behalf of said clients, 1,303,263 INNATE PHARMA shares representing the same amount of voting rights, i.e. 2.85% of the capital and voting rights of that company.

This crossing of thresholds results from a sale of INNATE PHARMA shares on the market.

In addition, the party making the declaration stated that on December 6, 2013 it held 1,103,263 INNATE PHARMA shares representing the same amount of voting rights, i.e. 2.41% of the capital and voting rights of that company.

Crossing of thresholds by Alta Partners :

By a letter received on August 12, 2013, supplemented by a letter received on August 13, 2013, the company Alta Partners (One Embarcadero Center, 37th Floor, San Francisco, CA 94111, United States), acting on behalf of funds for which it performed management duties, declared that on August 7, 2013 it had passed beneath the thresholds of 5% of the capital and the voting rights in the company INNATE PHARMA and that it held, on behalf of said fund, 1,798,274 INNATE PHARMA shares representing the same amount of voting rights, i.e. 4.72% of the capital and voting rights of that company.

This crossing of thresholds results from an off-market sale of INNATE PHARMA shares.

Declarations by BPI Groupe :

By a letter received on July 18, 2013, the *Caisse des Dépôts et Consignations* (French Deposits and Consignments Fund) declared that it held, directly and indirectly, via the intermediary of Bpifrance Participations SA, a company which it controls via the company BPI Groupe SA[8], 5,276,434 INNATE PHARMA shares representing the same amount of voting rights, i.e. 13.84% of the capital and voting rights of that company[9], distributed as follows:

	Shares	**% capital**	**Voting rights**	**% voting rights**
Bpifrance Participations SA	845,814	12.71	4,845,814	12.71
CDC EVM	430,620	1.13	430,620	1.13
Total CDC	**5,276,434**	**13.84**	**5,276,434**	**13.84**

This holding results from the establishment of the Banque Publique d'Investissement, in the context of which:

- on July 12, 2013, the State contributed the entirety of its holding in the Fonds Stratégique d'Investissement (Strategic Investment Fund) (the "FSI"), henceforth known as "Bpifrance Participations", i.e. 49% of the capital of FSI, to the company BPI Groupe SA.

- on July 12, 2013, the *Caisse des Dépôts et Consignations* ("CDC") contributed the entirety of its holding in FSI, henceforth known as "Bpifrance Participations", i.e. 51% of the capital of FSI, to the company BPI Groupe SA.

In view of these contributions (and other transactions performed simultaneously in the context of the establishment of the Banque Publique d'Investissement), BPI Groupe SA is henceforth 50% owned by the CDC and 50% owned by the State and the EPIC BPI-Groupe, with it being stated that is now agreed that the shares in BPI Groupe SA that are temporarily held by the State shall be reclassified to the EPIC BPI-Groupe at the latest within 4 months, and is jointly controlled by the CDC and the EPIC BPI-Groupe.

The CDC did not cross any threshold on making these transactions.

By a letter received on July 18, 2013, BPI Groupe, a public establishment of an industrial and commercial nature (formerly the EPIC OSEO), referred to hereinafter as "EPIC BPI-Groupe" (27-31 avenue du Général Leclerc - 94710 Maisons Alfort Cedex), declared that on July 12, 2013 it passed above the thresholds of 5% and 10% of the capital and the voting rights in the company INNATE PHARMA, indirectly via the intermediary of Bpifrance Participations SA, a company which it indirectly controls via the company BPI Groupe SA[9] and that it held indirectly on that date 4 845 814 INNATE PHARMA shares representing the same amount of voting rights, i.e. 12.71% of the capital and voting rights of that company[10], that are distributed as follows:

	Shares	**% capital**	**Voting rights**	**% voting rights**
EPIC BPI-Groupe (directly)	0	0	0	0
EPIC BPI-Groupe (indirectly via the intermediary of Bpifrance Participations SA (formerly FSI))*	4,845,814	12.71%	4,845,814	12.71%
Total (shares and voting rights held altogether)	**4,845,814**	**12.71%**	**4,845,814**	**12.71%**

* Bpifrance Participations (formerly FSI) is 100% owned by BPI-Groupe SA

This crossing of thresholds results from the establishment of the Banque Publique d'Investissement, in the context of which:

- on July 12, 2013, the State contributed the entirety of its holding in the Fonds Stratégique d'Investissement (Strategic Investment Fund) (the "FSI"), henceforth known as "Bpifrance Participations", i.e. 49% of the capital of FSI, to the company BPI Groupe SA.

- on July 12, 2013, the *Caisse des Dépôts et Consignations* ("CDC") contributed the entirety of its holding in FSI, henceforth known as "Bpifrance Participations", i.e. 51% of the capital of FSI, to the company BPI Groupe .

In view of these contributions (and other transactions performed simultaneously in the context of the establishment of the Banque Publique d'Investissement), BPI Groupe SA is henceforth 50% owned by the CDC and 50% owned by the State and the EPIC BPI-Groupe, with it being stated that is now agreed that the shares in BPI Groupe SA that are temporarily held by the State shall be reclassified to the EPIC BPI-Groupe at the latest within 4 months, and is jointly controlled by the CDC and the EPIC BPI-Groupe.2. The following declaration of intent was made by the same letter:

"This declaration of crossing of indirect thresholds is made within the context of the transactions establishing the Banque Publique d'Investissement. In the absence of any change to the number of INNATE PHARMA shares held by Bpifrance Participations, the latter has not crossed any new threshold and no financing was put in place on the occasion of the present crossing of an indirect threshold.

In accordance with Article L. 233-7 VII of the French "*Code de Commerce*", the EPIC BPI-GROUPE declares that, for the next six months, the intentions of Bpifrance Participations, a company which it indirectly controls via the company BPI-Groupe SA[12] and a direct shareholder in INNATE PHARMA, are as follows:

- Bpifrance Participations is acting alone;

- Bpifrance Participations does not envisage purchasing shares in the coming months;Bpifrance Participations does not intend to take control of INNATE PHARMA;Bpifrance Participations has no particular strategy with regard to INNATE PHARMA and does not envisage making any of the transactions set out in Article 223-17 I, 6 of the general regulations of the French Financial Markets Authority (AMF)- Bpifrance Participations is not a party to any agreement or financial instrument referred to in 4° ad 4° *bis* of Article L. 233-9 of the "*Code de commerce*";

- Bpifrance Participations has not entered into any reverse transaction agreement relating to the shares and/or the voting rights of INNATE PHARMA

- Bpifrance Participations does not intend to request the appointment of a representative other than the member of the Supervisory Board who has already been appointed upon the proposal of Bpifrance Participations and his position as observer."

The table below shows the distribution of the Company' shares and voting rights as of March 4, 2013, to the knowledge of the Company:

	Shares		**Voting rights**	
Shareholders	**Number**	**%**	**Number**	**%**
Company officers	7,116,910	18.76%	7,116,910	18.78%
Including members of the :				
- Executive Board	*1,543,100*	*4.07%*	*1,543,100*	*4.07%*
- Supervisory board	*5,573,810*	*14.69%*	*5,573,810*	*14.71%*
- including Novo Nordisk A/S	*5,572,708*	*14.69%*	*5,572,708*	*14.71%*
Employees excluding company officers[1]	514,935	1.36%	514,935	1.36%
French sovereign fund (FSI)	4,845,814	12.77%	4,845,814	12.79%
Van Herk Group	3,222,631	8.49%	3,222,631	8.51%
Alta Partners[2]	2,715,871	7.16%	2,715,871	7.17%
Company's own shares[3]	48,195	0.13%	0	0.00%
Other shareholders	19,471,538	51.33%	19,471,538	51.39%
Total	**37,935,894**	**100,00%**	**37,887,699**	**100.00%**

[1] Employees holding their shares in registered form
[2] The Alta Group holds shares in Innate Pharma through Alta Biopharma Partner II LP and Alta Embarcadero BioPharma Partners
[3] Through a liquidity contract

The table below shows the distribution of the Company' shares and voting rights as at April 16, 2012, to the knowledge of the Company:

	Shares		Voting rights	
Shareholders	**Number**	**%**	**Number**	**%**
Company officers	9,736,420	25.84%	9,736,420	25.93%
Including members of the :				
- Executive Board	*1,543,100*	*4.09%*	*1,543,100*	*4.11%*
- Supervisory board	*8,194,320*	*21.74%*	*8,193,320*	*21.82%*
- including Novo Nordisk A/S	*5,572,708*	*14.79%*	*5,572,708*	*14.84%*
*- including Alta Biopharma Partner II LP**	*2,619,510*	*6.95%*	*2,619,510*	*6.98%*
Employees excluding company officers **	424,585	1.13%	424,585	1.13%
French sovereign fund (FSI)	4,845,814	12.86%	4,845,814	12.91%
Company's own shares	139,192	0.37%	0	0.0%
Other shareholders	22,540,783	59.81%	22,540,783	60.03%
Total	**37,686,794**	**100.00%**	**37,547,602**	**100.00%**

* Alta Biopharma Partner II LP belongs to the Alta group, which also owns 96,361 shares via another investment fund. This brings the total number of shares to 2,715,871, which represents 7,2 % of the total number of company shares and voting rights.
** Employees holding their shares in registered form.

18.2 LOCK-UP COMMITMENTS OF MAIN SHAREHOLDERS AND EXECUTIVE DIRECTORS

None.

18.3 EXISTENCE OF DIFFERENT VOTING RIGHTS

None.

18.4 CONTROL OF THE COMPANY BY THE MAIN SHAREHOLDERS

To the best of the Company's knowledge:

- no single shareholder holds a majority of voting rights, directly or indirectly.
- there is no agreement among shareholders giving any single shareholder a majority of voting rights;
- no shareholder has the ability to affect decisions by Company shareholders solely based on the voting rights he holds;
- there is no agreement likely to result in a change of control of the Company; and,
- no shareholder has the power to appoint or dismiss the majority of the members of the Executive Board, Supervisory Board or general management bodies.

In addition, to the best of the Company's knowledge, no shareholder or group of shareholders directly or indirectly owns more than 40% of the Company's voting rights (BPI Groupe, the shareholder with the largest number of shares, owns 10.60%), which would give presumptive control of the Company to one shareholder or a group of shareholders.

18.5 SHAREHOLDERS' AGREEMENTS

None.

CHAPTER 19. RELATED-PARTY TRANSACTIONS

Related-party transactions are as detailed below.

In accordance with Articles L.225-86 and R.225-57 of the French Commercial Code, the following agreements covered by Article L.225-86 thereof were duly authorized and executed during previous fiscal years and were still in force during the fiscal year ended December 31, 2013:

1. Agreements concluded with Hervé Brailly, Chairman of the Executive Board:

Compensation:

Mr. Hervé Brailly received a monthly salary of 16,670 euros in the twelve-month period starting from January to December 2013 under his employment contract as well as a collective bonus of 10,002 euros for the 2013 year and an additional 7,168 euros for the 2012 collective bonus. Mr. Hervé Brailly also received in 2013 an individual bonus of 53,833 euros for the 2012 year.

Defined contribution pension plan:

Mr. Hervé Brailly 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 2013 fiscal year amounted to 2,242 euros.

Specific unemployment benefits for executive directors (GSC):

The purpose of this contract is to guarantee the payment of compensation in case of dismissal (up to the limit of 70% of the last compensation as declared to the tax authorities) for company executives and officers who are not eligible to the French ASSEDIC unemployment benefits. This contract was set up with effect from April 1, 2006 under the authorization of the Supervisory Board given on September 23, 2005. The amount paid by Innate Pharma for the 2013 fiscal year amounted to 7,205 euros.

Company car:

Mr. Hervé Brailly benefited from the lease of a company car, as agreed by the compensation committee on January 19, 2007, at a cost of 2,055 euros in 2013.

2. Agreements concluded with François Romagné, member of the Executive Board:

Compensation:

Mr. François Romagné received a monthly salary of 13,334 euros in the twelve-month period starting from January to December 2013 under his employment contract as well as a collective bonus of 8,000 euros for the 2013 year and an additional 5,734 euros for the 2012 collective bonus. Mr. Romagné also received in 2013 an individual bonus of 26,067 euros for the 2012 year.

Defined contribution pension plan:

Mr. François Romagné 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 2013 fiscal year amounted to 1,615 euros.

Company car:

Mr François Romagné benefited from the lease of a company car, as agreed by the compensation committee on January 19, 2007, at a cost of 2,100 euros in 2013.

3. Agreement concluded with Catherine Moukheibir, member of the Executive Board:

A consultancy agreement dated April 18th, 2011 has been entered into Innate Pharma and Mrs Catherine Moukheibir for providing services of Senior Advisor Finances. Under this Agremeent, Mrs Catherine Moukheibir is involved in decisions of general, financial and market strategies of the Company. This agreement was effective from March 1st, 2011. An amendment n°1 has been signed on April 30, 2011. Innate Pharma has paid 267,5000 euros for services performed between January 1st, 2012 and December 31st, 2013.

4. Agreement with Inserm Transfert, a company in which Mr. Hervé Brailly has a directorship

On December 17, 2010 Inserm Transfert and Innate Pharma signed a cooperation and operation agreement whereby Innate Pharma and CIML wish to develop an antibody engineering technology which will be jointly owned by the two parties. This agreement grants Innate Pharma an exclusive licence to apply the results.

Amendment No. 1 signed on June 28, 2011 and an amendment signed on July 12, 2012 have extended the works to June 15, 2013

5. Agreements with Novo Nordisk A/S, a shareholder:

Novo Nordisk A/S and Innate Pharma signed on December 16, 2010 amendment No. 4 to their co-operation agreement, modifying the scope of their respective development, without financial incidence.

Amendment No. 5 has been also 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. This agreement continued in 2012 without modification.

Agreements covered by Article L.225-86 of the French Commercial Code executed during previous fiscal year ended December 31, 2013

1- Agreements with Novo Nordisk A/S, a shareholder:

Novo Nordisk Health Care AG, a fully owned subsidiary of Novo Nordisk A/S, and Innate entered into a License Agreement on December 9th, 2013 by which Novo Nordisk Health Care AG granted to Innate Pharma a co-exclusive license to patents relating to protein engineering.

CHAPTER 20. 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 (see CHAPTER 24 of this Reference Document):

- Consolidated Accounts and Annual Accounts for the fiscal year ended December 31, 2012 with corresponding reports from the Statutory Auditors, including in Sections 20.1, 20.2, 20.3 and 20.4 of the Reference Document D.13-0142 registered with the AMF on March 18, 2013.

- Consolidated Accounts and Annual Accounts for the fiscal year ended December 31, 2011 with corresponding reports from the Statutory Auditors, including in Sections 20.1, 20.2, 20.3 and 20.4 of the Reference Document D.12-0428 registered with the AMF on April 26, 2012.

The key line items of the Consolidated Accounts for the fiscal year ended December 31, 2012 and 2011, as restated, are included in CHAPTER 3 of this Reference Document.

20.1 CONSOLIDATED FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS AS AT DECEMBER 31, 2013

Balance Sheet
(in thousands of euros)

	Note	At December 31, 2013	2012
Assets			
Current Assets			
Cash and cash equivalents	5	38,360	30,584
Current financial instruments	5	2,989	2,032
Current receivables	6	8,002	8,381
Total current assets		**49,350**	**40,997**
Non-current assets			
Intangible and tangible assets	7	6,258	6,824
Associates and joint ventures	8	272	475
Other non current assets		2	-
Total non-current assets		**6,532**	**7,299**
Total assets		**55,882**	**48,295**
Liabilities			
Current liabilities			
Trade payables	9	8,665	14,186
Financial liabilities	10	613	1,178
Provisions	11	-	-
Total current liabilities		**9,278**	**15,364**
Non-current liabilities			
Financial liabilities	10	4,206	3,327
Defined benefit obligations	12	789	643
Other non current liabilities	13	1,324	5,597
Total non-current liabilities		**6,319**	**9,567**
Shareholders' equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	4, 14	2,287	1,897
Share premium		128,000	108,552
Retained earnings		(87,072)	(83,870)
Net income (loss)		(2,892)	(3,199)
Other reserves		(38)	(17)
Total capital and reserves attributable to equity holders of the Company		**40,286**	**23,364**
Total liabilities and equity		**55,882**	**48,295**

Income Statement
(in thousands of euros)

	Note	Year ended December 31, 2013	2012
Revenue from collaboration and licensing agreements	15	12,469	10,377
Government financing for research expenditures	16	4,182	3,905
Revenue and other income		**16,652**	**14,282**
Cost of supplies and consumable materials	18	(1,453)	(1,279)
Intellectual property expenses	17	(309)	(275)
Other purchases and external expenses	18	(9,219)	(8,640)
Employee benefits other than share-based compensation	19	(6,946)	(6,385)
Share-based compensation	20	(325)	-
Depreciation and amortization		(880)	(839)
Other expenses	21	(312)	(249)
Net operating expenses		**(19,444)**	**(17,668)**
Operating income (loss)		**(2,793)**	**(3,386)**
Financial income	22	533	890
Financial expenses	22	(387)	(334)
Net gain on dilution	8	179	-
Share of profit (loss) of associates and joint ventures	8	(424)	(371)
Net income (loss) before tax		**(2,892)**	**(3,199)**
Income tax expense	23	-	-
Net income (loss)		**(2,892)**	**(3,199)**
Net income (loss) per share attributable to equity holders of the Company:			
Weighted average number of shares (in thousands):		38,703	37,802
(in € per share)			
- basic	27	(0.07)	(0.08)
- diluted	27	(0.07)	(0.08)

Statement of comprehensive income
(in thousands of euros)

		Year ended December 31,	
In thousands of euros	**Note**	**2013**	**2012**
Net loss for the period:		**(2,892)**	**(3,199)**
Elements which will be recycled in the income statement:			
Currency translation gain / (loss)		23	12
Elements which won't be recycled in the income statement:			
Actuarial gains and (losses)	2, 12	(44)	(190)
Other comprehensive income:		**(21)**	**(178)**
Comprehensive income:		**(2,913)**	**(3,377)**

Statement of cash flows
(in thousands of euros)

	Notes	Year ended December 31, 2013	2012
Net income (loss)		**(2,892)**	**(3,199)**
Depreciation and amortization	**7**	880	839
Provisions for charges and defined benefit obligations	11,12	102	72
Share-based compensation	20	325	-
Share of profit (loss) of associates and joint ventures	8	424	371
Net gain dilution	8	(179)	-
Debt write-off	8	79	-
(Gains) / losses on disposal of fixed assets		3	3
Gains on assets and other financial assets	22	(438)	(727)
Net paid interests		144	168
Operating cash flow before changing in working capital		**(1,552)**	**(2,473)**
Current receivables and prepayments	6	379	(2,012)
Deferred revenue	9, 13	(4,273)	(7,516)
Trade payables	9	(5,521)	969
Net cash generated from / (used in) operating activities		**(10,967)**	**(10,475)**
Acquisition of property and equipment	7	(433)	(1,225)
Disposals of non-current assets		116	-
Purchase of current financial instruments	5	(2,996)	(2,032)
Disposal of current financial instruments	5	2,038	-
Variance of the intercompany account with the associate	8	(120)	(154)
Gains on assets and other financial assets	22	438	727
Net cash generated from / (used in) investing activities		**(958)**	**(2,684)**
Proceeds from the exercice / subscription of equity instrument	14	423	-
Capital increase	14	18 394	-
Increase in financial liabilities	10	1,500	-
Repayment of financial liabilities	10	(1,186)	(2,264)
Net paid interests		(144)	(168)
Transactions on treasury shares		151	116
Net cash generated from / (used in) financing activities		**19,677**	**(2,316)**
Effect of the exchange rate changes		23	12
Net increase / (decrease) in cash and cash equivalents		**7,776**	**(16,022)**
Cash and cash equivalents at the beginning of the year	5	**30,584**	**46,606**
Cash and cash equivalents at the end of the year	5	**38,360**	**30,584**

Statement of changes in shareholders' equity
(in thousands of euros)

	Note	Number of shares (in thousands)	Share capital	Share premium	Retained earnings	Net loss	Other comprehend -sive income	Total attributable to equity holders of the Company
Balance as at December 31, 2011		**37,687**	**1,884**	**108,449**	**(76,889)**	**(6,980)**	**161**	**26,625**
Net loss 2012		-	-	-	-	(3,199)	-	(3,199)
Actuarial gains and (losses) on defined benefit obligations	12	-	-	-	-	-	(190)	(190)
Foreign exchange variation		-	-	-	-	-	12	12
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(3,199)**	**(178)**	**(3,377)**
Net loss appropriation 2011		-	-	-	6,980	6,980	-	-
Definitive grant of own shares		249	12	(12)	-	-	-	-
Liquidity contract		-	-	116	-	-	-	116
Total contributions by and distributions to owners of the company, recognised directly in equity		**249**	**12**	**103**	**(6,980)**	**6,980**	**-**	**116**
Balance as at December 31, 2012		**37,936**	**1,897**	**108,552**	**(83,870)**	**(3,199)**	**(17)**	**23,364**
Net loss 2013		-	-	-	-	(2,892)	-	(2,892)
Actuarial gains and (losses) on defined benefit obligations	12	-	-	-	-	-	(44)	(44)
Foreign exchange variation		-	-	-	-	-	23	23
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(2,892)**	**(21)**	**(2,913)**
Net loss appropriation 2012		-	-	-	(3,199)	3,199	-	-
Directoire 24th May 2013 – Exercice BSA 2007	14	200	10	394	-	-	-	404
Directoire 27th May 2013 – Subscription BSAAR 2012	14	-	-	16	-	-	-	16
Directoire 17th July 2013 – Subscription BSA 2013	14	-	-	2	-	-	-	2
Directoire 18th September 2013 – Subscription BSA 2013-1	14	-	-	1	-	-	-	1
Directoire 20th November 2013 – Capital increase 2013	14	7,600	380	18,554	-	-	-	18,934
Share based payment	20	-	-	325	-	-	-	325
Liquidity contract		-	-	151	-	-	-	151
Others		-	-	5	(3)	-	-	2
Total contributions by and distributions to owners of the company, recognised directly in equity		**7,800**	**390**	**19,448**	**(3,202)**	**3,199**	**-**	**19,835**
Balance as at December 31, 2013		**45,736**	**2,287**	**128,000**	**(87,072)**	**(2,892)**	**(38)**	**40,286**

Notes to the Financial Statements

1) The Company

Innate Pharma (the "Company") is a French Société Anonyme incorporated and domiciled in Marseilles, France. The Company, founded in 1999, is listed on the NYSE-Euronext stock exchange in Paris, France, since 2006.

Innate Pharma is a biopharmaceutical firm specialized in immunology, developing first-in-class drug candidates. The Company develops monoclonal antibodies targeting regulation pathways of innate immunity cell activation. This therapeutic approache could have an application in several therapeutic areas such as cancer, inflammation or infectious diseases.

The Company's most advanced drug candidates are licenced to major biopharmaceuticals groups. IPH2102, currently in Phase II clinical trial in cancer, is licenced to Bristol-Myers Squibb, and IPH2201, currently in Phase I clinical trial in rheumatoid arthritis, is licenced to Novo Nordisk A/S.

The Company's strategy is to develop its drug-candidates for cancer on its own or through partnerships, and through partnerships only for the other therapeutic areas.

In the long run, the Company intends to become a commercial company, selling its product directly or through commercial partners.

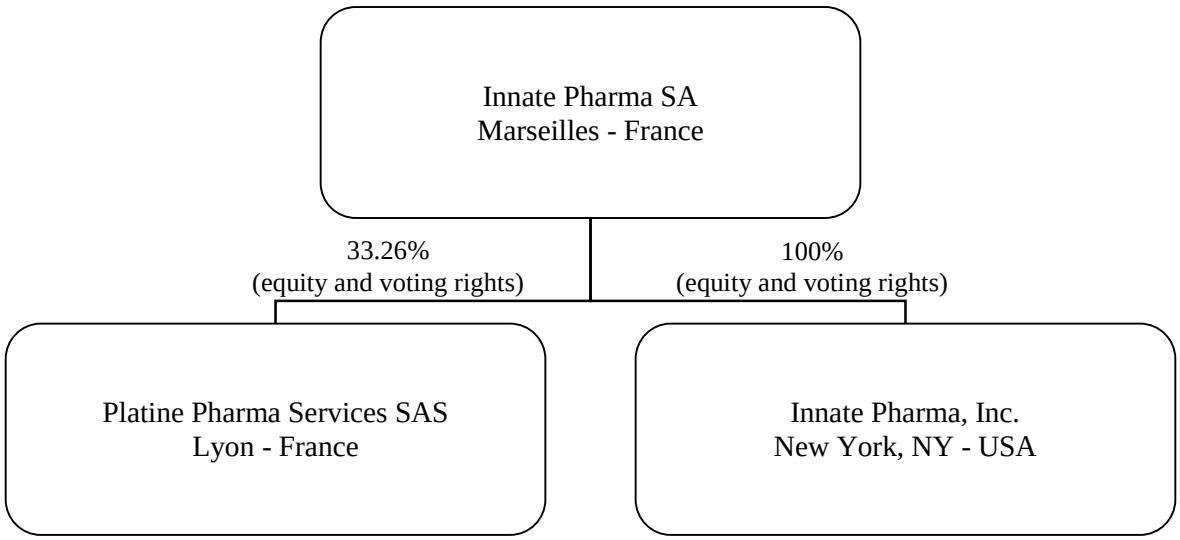
The Company is and should continue, in the near to mid-term, to be financed through partnership agreements for the the development and the commercialization of its drug-candidates and through the issuance of new equity instruments.

The Company's activity is not subject to seasonal fluctuations.

As at December 31, 2013, 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 in managing the business development activities in the United Sates.
- A 33,26% stake in Platine Pharma Services SAS, which is co-owned with Transgene SA and Indicia Biotechnology SA. This company was initially a 100% subsidiary of Innate Pharma SA. Following the acquisition of an equity interest in Platine Pharma Services SAS Transgene during the fiscal year 2011, the percentage of ownership changed from 100% to 50%, then from 50% to 49.62%.
- In 2013, following the acquisition of an equity interest in Platine Pharma Services AS by Indicia Biotechnoly SA, the percentage of ownership of Innate Pharma SA changed from 49.62% to 33.26%.

The organization chart of the Company and its subsidiaries and holdings as at December 31, 2013 is as follows:



The Executive Board approved these consolidated financial statements on February 10, 2014. They will be submitted for approval at the General Meeting of shareholder scheduled on March 27, 2014.

2) Accounting policies

a) Basis of preparation

The annual consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as at December 31, 2013. The IFRS standards as adopted by the European Union could be found on the internet website of the European Commission (http://ec.europa.eu/internal_market/accounting/ias_fr.htm#adopted-commission).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of marketable securities available for sale.

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, the 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.

Conversion of foreign subsidiaries' accounts:

The US subsidiary's accounts are converted based on the historical foreign exchange method. This conversion is as follows:

- Monetary items are converted based on the foreign exchange rate at accounting closing date ; and

- Revenue and expenses are converted based on an average exchange rate for the accounting period. The Company has used an annual average, which represents an acceptable estimation of the exchange applicable for each transaction when it takes place. Foreign exchange gains and losses resulting from this conversion are accounted in other comprehensive income as foreign exchange variations.

b) Accounting methods

The Company adopted the following new standards and interpretations at January 1, 2013. None of these amendments and interpretations has had an impact on the financial statements of the Company at December 31, 2013.

- Amendment to IAS 1, Presentation of items of Other Comprehensive Income, mandatory for annual periods beginning on or after July 1, 2012;
- IFRS 13, Fair value measurement;
- Amendment to IFRS 1, First-time adoption of International Financial Reporting Standards regarding severe hyperinflation and removal of fixed dates for the first-time adopters, mandatory for annual periods beginning on or after January 1, 2013;
- Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards regarding Governement loans
- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine;
- Amendment to IFRS 7, Offsetting financial assets and financial liabilities;
- Amendment to IAS 12 Recovery of underlying assets; and
- Amendment to IAS 19, Employee benefits.

The following new standards, amendments to existing standards and interpretations have been published but are not applicable in 2013, and have not been early adopted by the Company:

- IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and IFRS 12 Disclosure of interests in other entities, mandatory for annual periods beginning on or after January 1, 2014;
- Amendment to IAS 27, Separate financial statements, mandatory for annual periods beginning on or after January 1, 2014;
- Amendment to IAS 28, Investments in associates and joint ventures, mandatory for annual periods beginning on or after January 1, 2014;
- Amendment to IAS 32, Recovery of underlying assets, mandatory for annual periods beginning on or after January 1, 2014;
- IFRS 9, Financial instruments (no mandatory date yet) mandatory for annual periods beginning on or after January 1, 2015.

c) Mandatory change in accounting method

None for 2013.

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 8 components (foundations, structure…) which are depreciated over different lenghts according to the anticipated useful life of these elements.

Depreciation periods are as follows:

Buildings	20 years
Installations and improvements on buildings	5 to 40 years
Technical installations and equipment	8 years
Equipment and office furniture	5 years
Computers and IT equipment	3 years

The depreciation period of the technical installations and equipment was increased from 5 years to 8 years during the fiscal year 2012, which is more consistent with the useful life of this kind of assets.

e) Intangible assets

An intangible asset is recognized when and only when:

- it is probable 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.

Taking into account the uncertainty in successfully completing the research in progress as well as the uncertainty on the future availability of technical, financial and human resources necessary to complete the development phases of its drug candidates, R&D expenses of the Company do not comply with IAS 38.57 criterias and are therefore recognized as expenses on the period they are engaged.

f) Trade receivables

Trade receivables are initially recognized for their fair value. A provision for imperment may be booked according to the risk of non receoverabilty.

g) Cash and cash equivalents

Cash equivalents are short term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise the cash that is held at the bank and the petty cash as well as marketable securities and the short fixed-term 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 balance sheet, bank overdrafts are included in borrowings under financial debts.

h) Current financial instruments

The Company classifies investments as current financial instruments into one of the following categories: “held for trading” investments, “held to maturity” investments and “securities available for sale”.

Securities that the Company purchases with the main goal of generating a profit from short-term fluctuations in price are classified as cash and cash equivalents and are treated as “held for trading” investments. During this period, the Company has not purchased any securities of this type.

Fixed-maturity investments that management intends and is able to hold to maturity are treated as “held to maturity” investments. During this period, the Company has not purchased any securities of this type.

“Securities available for sale” are those that are not held to maturity or held for trading. Investments with unfixed maturities or original maturities of more than three months, which could easily be sold in order to fulfill cash requirements or in response to changes in interest rates, are classified as "available-for-sale financial assets". The Company’s current financial instruments comprise shares of mutual funds. The performance objective of these investments is to over-perform the EONIA index rate (rate of remuneration for interbank deposits in the Euro zone). Shares in mutual funds are considered as “securities available-for-sale”. These securities are valued at fair value, and changes in fair value are accounted for in the shareholders equity.

For those securities listed on active trading markets, the fair value is determined using quoted bid prices. Gains and losses on securities available for sale are recognized directly in equity as other comprehensive income, until the securities are sold, collected, or otherwise disposed of, or until they are determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in net income for the period. The Company analyses the potential losses in value in order to determine whether these losses are significant or durable.

Held to maturity investments are valued at the amortized cost using the effective interest rate method.

Management determines the appropriate classification for the relevant investments at purchase date and reviews this classification on a regular basis in accordance with the strict conditions in IAS 39.

i) Income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Main temporary differences are generally associated with the depreciation of property and equipment, provisions for pension benefits and tax losses carried forward. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Due to the Company’s present stage of development, which does not allow it to establish reliable estimations concerning future income, the Company has not accounted for net deferred tax assets.

j) Research tax credit

Research tax credit is provided by the French government to give incentives to companies to perform technical and scientific research. Companies that can justify that these expenses meet the required criteria (research expenses generated in France, or since January 1, 2005, in the European Union, or in another State having signed the agreement on the European Economic Area and a tax agreement with France containing an administrative assistance clause) 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. As the Company does not pay tax, it only records the benefit of these grants as other income when all qualifying research has been performed.

The Company has benefited from a research tax credit since its first fiscal year. As at December 31, 2013 and in accordance with the French revised finance law for 2011 allowing for the immediate refund of the research tax credit, research tax credit receivable for 2013 was presented in current receivables by the Company.

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.

k) Other types of government assistance

The Company benefits from several government grants, in the form of either outright grants or conditional grants. Further details relating to these grants are provided in Note 16.

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.

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.

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 of the period in which it becomes receivable.

Government grants to subsidize capital expenditures are presented in the balance sheet 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.

l) Employee benefits other than share-based compensation

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 to the benefit offor executives only. This plan was extended to the non-exeucutive employees from January 1, 2014. This other Defined Contribution Plan is financed through a contribution that corresponds to 2.0% of the annual employee’s wage, with the Company paying 1.2% and the employee paying 0.8%.For the Defined Benefit Plan, the costs of the obligations are estimated using the “projected unit credit” method. According toUnder 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 were valued using the actual present value of estimated future payments, adopting the rate of interest of long-term bonds in the private sector ("Euro zone AA rated corporate bonds + 10 years"). Actuarial differences are recognized in the period in which they occur in the income statement. The Company’s commitments under Defined Benefit Plans are not covered by any appropriate 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 were incurred.

m) 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.

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.

n) Trade payables

Trade payables are classified as current liabilities. They are initially recognized for their fair value. According to the delay between the recognition and the payment, the value of these liabilities is generally equal to the nominal value.

o) 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. 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 virtually certain.

p) Revenue recognition

To date, the Company's revenue results primarily from payments generated by development and license agreements signed with pharmaceutical companies (Note 15). These contracts generally provide for components such as upfront payments, milestone payments upon reaching certain predetermined development objectives, or technology access fee, research and development funding, as well as payment of royalties on future sales of products.

Technology access fees are recognized as income when the Company has no remaining obligations to perform after signing the contract and when the amounts received cannot be reimbursed and do not carry any commitments to future development. In all other cases, these are initially deferred under deferred income and recognized in the income statement over the period of the Company's continuing involvement under the research agreement, the estimate of which is revised periodically. Milestone payments are recognized in revenue after final acceptance of the completion of the relevant development objectives by the other contracting party. Research and development funding is initially deferred under deferred income and recognized in the income statement over the period of the Company's continuing involvement under the research agreement, the estimate of which is revised periodically.

The Company records a provision for impairment in cases where the recoverability of the invoiced amounts appears to be uncertain.

q) Share-based compensation

The Company has issued various share-based compensation instruments since its inception. Under IFRS 2, the impact of share-based compensation granted to employees and other individuals in remuneration of services has been recognized on the income statement since 2004.For share-based compensation granted to employees, the Company uses the Black-Scholes option pricing model to determine the fair value of the stock-options. 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 is determined using the value of the share at the time of their distribution.

In calculating the fair value of share-based compensation, the Company also considers the vesting period mechanism and, the staff turnover weighted average probability. as well as the probability of a future listing on a public stock-market at the time of issuance of the said options, as described in Note 20. The fair value of the share-based compensation is recognized as expense over the period in which the rights are acquired. Other assumptions used are also detailed in Note 20.

r) 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 under review, this line item notably includes the potential gains and losses on available-for-sale securities until the date of their disposal, foreign exchange variations and the changes of actuarial assumptions relating to the defined benefit obligaions.

s) Segment information

The Company considers that it operates within a single aggregated segment: research and development of pharmaceutical products with the goal ofa view to their future marketing. All research and development 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.

t) Capital

Common shares are classified in shareholders' equity. Costs associated with the issuance of new shares are directly accounted for in shareholders' equity in diminution ofless gross proceeds of capital increases.

The Company's own shares bought in the context of a brokering/liquidity contract come in diminution of the are presented as a reduction in shareholders' equity up until their cancellation, their reissuance or their disposal.

u) Critical accounting estimates and assumptions

The Company subcontracts an major part of its research and development activities to external partners. This expense is recorded based on the completion stage of each project. The degree of completion is determined based on information provided by the external partners, and then corroborated via internal analyses. The determination of this degree of completion is dependent on estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the current context. These estimates and judgments are mainly as follows:

Accounting for collaboration and licensing agreements

When the Company is committed to perform research and development after the signing of an agreement, revenue is deferred on the basis of the estimated duration of its involvement. The determination of this duration depends on estimates. The durations are regularly updated to take into account the progress of developments and the remaining services to be rendered.

Valuation of stock-options, warrants and free shares

The fair valuation of stock-options and free shares granted to employees or to service providers is carried out on the basis of actuarial models. These models require the Company to consider certain assumptions in the calculation, including the anticipated volatility of the share price and the rate of staff turnover.

Valuation of provision for risks

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.

Fair value of financial assets

Estimation of fair value of current financial instruments at closing balance sheet date relies on market data provided by banks.

v) Consolidation using the equity method

Following the disposal operation of a 50% stake in of its subsidiary Innate Pharma Services, which has been jointly controlled since this date, the Company applies the consolidationhas consolidated this entity using the equity method. According toUnder this method, the participationinvestment of the Company is booked at cost, adjusted by the cumulative impact of the post operation variances and reduced by the amount of the dividends distributed. The net book value of Platine Pharma Services is presented in the balance sheet under the line "Associates and joint-ventures". When the fair-valuerecoverable amount of the participationsinvestments accounted for according tousing the equity method (estimated using a discounted cash-flows method) is lower than their net book value of these participations, an impairment loss is recorded depreciation is booked.The share of the Company in the profits or losses of Platine Pharma Services is presented below the "Operational result".

In 2012, following a capital increase of Platine Pharma Services SAS, the percentage of ownership changed from 50% to 49,62%. Consequently, a gain on dilution was recognized (4 thousand euros).

In 2013, following the acquisition of an equity interest in entry of Platine Pharma Services SAS by Indicia Biotechnology SA in the capital of Platine Pharma Services SAS, the percentage of ownership of Innate Pharma SA changed from 49.62% to 33.26%. Consequently, a gain on dilution was recognized (179 thousands of euros).

3) Management of financial risks and fair value

Financial risks

The Company's investment strategy for its cash consists in taking no risk on the capital and to try to over-perform certain benchmark monetary rates such as the EONIA rate (rate of remuneration for interbank deposits in the Euro zone).

The Company’s main financial instruments include financial assets, cash and marketable securities. The objective in the management of these instruments, set by the Executive Board and validated by the Audit Committee and the Supervisory Board, is to ensure the financing of the Company’s operations. The Company’s policy is therefore not to invest in speculative financial instruments. The Company does not make direct use of derivative financial instruments.

The main risks to which the Company is exposed include foreign exchange risk, liquidity risk, interest and credit risks.

Foreign exchange risks: the Company has little exposure to foreign exchange risks with regards to the conversion of the US dollar into euros. Over the last financial years, revenue have been paid in euros and most of expenses have been invoiced in euros. This situation could however change if the Company expands its business in the United States, the world’s largest anti-cancer therapy market. In addition, if the Company succeeds in marketing products in the United States, part of its revenue will be in U.S. dollars. The Company has not entered into any hedging arrangements to protect its business against exchange rate fluctuations.

Liquidity risk: historically, the Company has financed its growth by ways ofthrough share capital increases (see Note 14). The Company has arranged a lease-financing for its new headquarters and main laboratories in Marseilles. To date, the Company is not exposed to cash flow risks resulting from the implementation of early bank loan reimbursementsrepayments. In terms of investing its cash flow, the Company can benefit from certain guarantees in capital and performance. These guarantees are generally associated with liquidity constraints that require the Company to remain invested up to a certain term in order to benefit from the latter.

Interest rate: the Company’s exposure to interest rate variations mainly relates to two items in the balance sheet: cash and cash equivalents and current financial instruments. These are the Company’s main tangible assets to date. As further detailed in Note 5, these assets include money market mutual funds, i.e. marketable securities that are similar to variable rate instruments. Interest rate variations have a direct impact on the Company’s cash flow and current financial instruments and, therefore, on its interest revenue. The Company's cash management strategy favors risk-free capital investments.

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 endeding December 31, 2012 and 2013 (in millions of euros):

	At December 31,	
	2013	**2012**
Average balance of cash, cash equivalents and current financial instruments	**36.7**	**39.6**
Interest income with 50 base points	0.2	0.2
Interest expense with 50 base points	(0.2)	(0.2)

Credit risk: based on the experience of the Company, the payment of certain public research financing is subject to a credit risk. The credit risk related to the cash and cash equivalents and to current financial instruments is not significant with regards togiven the credit rating of the financial institutions with which the Company works with.

Fair value

The fair value of financial instruments traded in active trading markets such as securities available for sale, is based on the listed market prices at the balance sheet date. The listed price used for financial assets held by the Company is the current bid price at valuation date.

The nominal value, minus less provisions for depreciationimpairment, of receivables and short-term debt is assumed to be close to the fair value of these items.

4) Placement of new shares

No such operation occurred during the year ended December 31, 2012.The Group carried on iIn November 2013 the Group carried out a private placement subscribed entirely by US-based specialist investors (please see Note 14 for more details).

5) Cash, cash equivalents and current financial instruments

Cash and cash equivalents

At December 31, 2013, cash and cash equivalents are composed of current accounts and fixed term accounts.

	At December 31,	
	2013	**2012**
Current accounts	25,293	8,463
Fixed term accounts	13,067	22,121
Cash and cash equivalents	**38,360**	**30,584**

Fixed terms accounts owned by the Company respect the criteria to be classified as cash equivalents: the cash under these supportsheld in such accounts is indeed available on a day to day basis, the capital is free of risk and easily convertible into a well -known amounts of cash.

Current financial instruments

During the year, the Company subscribed some shares of a “fonds commun de placement”. Valuation of these shares at December 31, 2013 amounts to 2,989 thousand s of euros (2,032 thousand s of euros at December 31, 2012). Amounts invested on this support These invested amounts are available on a day to day basis and easily convertible in a well -known amounts of cash. However, the capital is not free of risk.

6) Current receivables

Current receivables are analyzed as follows (in thousand euros):

	At December 31,	
	2013	**2012**
Research Tax Credit	4,167	3,771
Trade account receivables	1,993	2,632
Prepaid expenses	761	1,083
VAT refund	491	512
Brokering/liquidity contract – cash	302	151
Prepayments made to suppliers	179	68
Other receivables	77	35
Grants	32	128
Current receivables and prepayments	**8,002**	**8,381**

The net book value of the current receivables is considered to be a reasonable approximation of their estimated fair value. 'Trade account receivables' relate to Bristol-Myers Squibb and mainly correspond to external costs incurred for the completion of ongoing trials, for which the Company is responsible.

7) Intangibles and tangibles assets

The Company's assets can be broken down as follows (in thousand euros):

	Buildings (1)	Laboratory equipment and other tangible assets	Property, plant and equipment and other tangible assets in progress	Total property and equipment
Year ended December 31, 2012				
Net opening balance	**5,541**	**898**	**3**	**6,442**
Reclassification	-	3	(3)	-
Acquisitions	13	982	230	1,225
Disposals	-	(3)	-	(3)
Depreciation	(380)	(459)	-	(839)
Net closing balance	**5,174**	**1,421**	**230**	**6,824**
Year ended December 31, 2013				
Net opening balance	**5,174**	**1,421**	**230**	**6,824**
Reclassification	-	229	(229)	-
Acquisitions	-	404	29	433
Disposals	-	(120)	-	(120)
Depreciation	(380)	(500)	-	(880)
Net closing balance	**4,794**	**1,434**	**30**	**6,258**

(1) Gross value of the land is 772 thousand euros. It is not depreciated.

The table above includes assets acquired through finance-leases. The table below summarizes the impact of these assets on property and equipment except for the assets acquired in the context of the acquisition of the Company's new headquarters and main laboratories in 2008 (in thousand euros):

	At December 31,	
	2013	**2012**
Cost of land and building	6,633	6,633
Cumulated depreciation	(1,889)	(1,516)
Net book value of land and building	**4,744**	**5,117**
Cost of the equipment	1,417	1,417
Cumulated depreciation	(1,394)	(1,263)
Net book value of the equipment	**23**	**154**

8) Associates and joint ventures

The Company has a joint control with Transgene SA over Platine Pharma Services. The Group recognizes its participation into the company Platine Pharma Services SAS using the equity method.

	Shares	Current account	Total
At December 31, 2010	**-**	**-**	**-**
Fair value of the shares at March 30, 2011	654	-	654
Cash advances	-	262	262
Share of loss for the fiscal year 2011	(225)	-	(225)
At December 31, 2011	**429**	**262**	**692**
Cash advances	-	156	156
Share of loss for the fiscal year 2012	(371)	-	(371)
At December 31, 2012	**58**	**418**	**475**
Capital increase by debt offset	339	(339)	-
Cash advances	-	120	120
Net gain on dilution	179	-	179
Debt write-off	-	(79)	(79)
Share of loss for the fiscal year 2013	(424)	-	(424)
At December 31, 2013	**152**	**120**	**272**

In 2013, following the acquisition of an equity interest in entry of Platine Pharma Services SAS by Indicia Biotechnology SA, the percentage of ownership of Innate Pharma SA changed from 49.62% to 33.26%. Consequently, a gain on dilution was recognized (179 thousand euros).

	As at December 31,	
	2013	**2012**
Total assets	1,909	1 357
Total liabilities	(1,851)	(1,621)
Share of net assets	**19**	**(131)**
Operational revenue	1,588	1,700
Net results	(926)	(747)
Share of net results	**(424)**	**(371)**

An impairment test has been performed in January 2014 to compare the net book value of the shares and the current account of Platine Pharma Services to their recoverabley value. The recoverabley value has been determined on the basis of a letter of intent addressed to the present shareholders of Platine Pharma Services by an entity which aims at entering into the capital of to acquire an equity interest in the company.

9) Trade payables

This line item is analyzed as follows (in thousands of euros):

	At December 31,	
	2013	**2012**
Suppliers	5,141	4,670
Tax and social liabilities	2,092	1,711
Other payables (grants)	173	142
Prepaid income	1,259	7,663
Trade payables	**8,665**	**14,186**

The book value of trade payables is considered to be a reasonable approximation of their fair value.

Prepaid income at December 31, 2013 represents the part of the up-front payment received from Bristol-Myers Squibb which will be recognized in 2014.

10) Financial liabilities

This line item was broken down per maturity and is analyzed as follows (in thousands of euros):

	At December 31,	
Total - Current financial liabilities	**2013**	**2012**
Oséo ADI — 02/15/2002 (Grant 1)	119	426
Oséo ADI — 02/15/2002 (“Conseil Général”) (Grant 2)	12	37
Oséo EUREKA — 12/03/2003 (Grant 3)	-	126
Lease finance obligations – Real estate transaction	434	416
Lease finance obligations – Other	48	144
Others (Eurotransbio, Vivabio)	-	30
Total - Current financial liabilities	**613**	**1,178**

	At December 31,	
Total – Non current financial liabilities	**2013**	**2012**
Oséo ADI — 02/15/2002 (Grant 1)	-	119
Oséo ADI — 02/15/2002 (“Conseil Général”) (Grant 2)	-	12
BPI PTZI IPH41	1,500	-
Lease finance obligations – Real estate transaction	2,706	3,148
Lease finance obligations – Other	-	48
Total – Non current financial liabilities	**4,206**	**3,327**
Total financial liabilities	**4,819**	**4,505**

Financings from Oséo accounted recorded as financial liabilities are grants that are reimbursable repayable in the event of the success of the project in question. They do not bear any interest. Since the technical success of programs pertaining to these financings was acknowledged by Oséo, the Company must reimburse them and, as such, they are accounted for as borrowings.

In 2013, the Company was granted an interest-free loan for innovation (PTZI) relating to the program IPH41 for an amount of 1,500 thousand euros.Lease-finance obligations relate primarily to (i) the real estate transaction in relation to the acquisition by the Company of its new headquarters and main laboratories, as well as (ii) laboratory equipment, office furniture and computer equipment.

In the above table, financial liabilities relating to the lease-financing for the real estate transaction in relation to the acquisition by the Company of its new headquarters and main laboratories are net of the cash collateral paid to SOGEBAILSogebail.

Repayment schedule

The table below shows the schedule for repayment of financial liabilities (principal only):

Repayment schedule	**2014**	**2015**	**2016**	**2017**	**2018 and following**	**Total**
Oséo ADI - 02/15/2002 (Grant 1)	119	-	-	-	-	**119**
Oséo ADI - 02/15/2002 (Conseil Général)	12	-	-	-	-	**12**
BPI PTZI IPH41	-	-	300	300	900	**1,500**
Lease finance obligations – Real estate	557	582	609	636	1,676	**4,060**
Lease finance obligations – Other	48	-	-	-	-	**48**
Down-payment	(123)	(130)	(137)	(144)	(386)	**(920)**
Total	**613**	**452**	**772**	**792**	**2,190**	**4,819**

The table below shows the schedule for the contractual flow (being principal and interest payments):

Repayment schedule	**2014**	**2015**	**2016**	**2017**	**2018 and following**	**Total**
Oséo ADI - 02/15/2002 (Grant 1)	119	-	-	-	-	**119**
Oséo ADI - 02/15/2002 (Conseil Général)	12	-	-	-	-	**12**
BPI PTZI IPH41	-	-	300	300	900	**1,500**
Lease finance obligations – Real estate	721	721	721	721	1,759	**4,644**
Lease finance obligations – Other	48	-	-	-	-	**48**
Down-payment	(167)	(167)	(167)	(167)	(492)	**(1,161)**
Total	**733**	**554**	**854**	**854**	**2,167**	**5,162**

Detail of Oséo borrowings

In thousands of euros	**Oséo ADI(Grant 1)**	**Oséo ADI(Grant 2)**	**Oséo EUREKA (Grant 3)**	**Total**
Total amount:	2,223	198	745	6,066
Received amount:	2,223	198	671	4,292
Reimbursed amount:	2,104	186	671	3,572
Net book value at December 31, 2012	**119**	**12**	**-**	**131**

Oséo ADI – 02/15/2002 (Grant 1): The financing of an innovation scheme entitled: “Development of anti-tumoral treatments and cellular therapy methods using the non conventional lymphoid immunity".

Oséo ADI – 02/15/2002 (Grant 2): Complementary grant by Oséo on funds made available to the agency by the Bouches-du-Rhône Department, for the financing of an innovation scheme entitled: “Development of anti-tumoral treatments and cellular therapy methods using the non conventional lymphoid immunity".

Lease-finance obligations

The present value of obligations relating to finance-lease agreements (minimum lease payments) is as shown in the table below (in thousands of euros):

	At December 31,	
	2013	**2012**
Maturity of up to 1 year	605	676
Maturity of between 2 and 5 years	2,493	2,433
Maturity greater than 5 years	1,011	1,676
Nominal value of lease finance obligations	**4,109**	**4,791**
Future interest expenses on lease finance obligations	(920)	(1,038)
Present value of lease finance obligations	**3,188**	**3,747**

The present value of lease finance obligations can be further analyzed as follows:

	At December 31,	
	2013	**2012**
Maturity of up to 1 year	482	559
Maturity of between 1 and 5 years	1,929	1,898
Maturity greater than 5 years	777	1,290
Present value of lease finance obligations	**3,188**	**3,747**

Fair value of financial liabilities

The fair value of financial liabilities, calculated on the basis of discounted future cash flow at Euribor 3-month plus a bank margin ("spread") of 200 base points, was 4,400 thousand euros and 4,697 thousand euros at December 31, 2012 and 2013, respectively.

11) Provisions

No provision is booked in the consolidated balance sheet as at December 31, 2012 and 2013.

12) Defined benefit obligations

Defined benefit obligations are related to retirement costs.

The main actuarial assumptions used to evaluate retirement benefits are the following:

	At December 31,	
	2013	**2012**
Economic assumptions		
Discount rate (iBoxx Corporate AA)	3.20%	3.00%
Annual rate of increase in wages	3.00%	3.00%
Demographical assumptions		
Type of retirement	at the initiative of the employee	at the initiative of the employee
Rate of tax and social charges	45%	45%
Age at retirement		
- Executives	64 years	64 years
- Non-executives	62 years	62 years
Mortality table	INSEE TD/TV 2009-2011	INSEE TD/TV 2008-2010
Annual mobility	All personnel	All personnel
16-24 years	15%	15%
25-29 years	12%	12%
30-34 years	9%	9%
34-39 years	6%	6%
40-44 years	3%	3%
45-49 years	1%	1%
+50 years	0%	0%

Amounts recognized in the balance sheet are determined as follows (in thousands of euros):

	At December 31,	
	2013	**2012**
Discounted value of the funded obligations	-	-
Fair value of assets in the plan	-	-
Discounted value of the unfunded obligations	789	643
Unrecognized actuarial losses	-	-
Cost of unrecognized past services	-	-
Provision recognized in the balance sheet	**789**	**643**

The table below shows the amounts recognized in the income statement (in thousands of euros):

	At December 31,	
	2013	**2012**
Cost of services rendered	83	54
Net actuarial loss recognized during the period	19	18
Financial cost	-	-
Total	**102**	**72**

In accordance with IAS19 revised, the impact of the change in the actuarial assumptions was booked for the fiscal year 2013 in the other comprehensive income for an amount of 44 thousand of euros (190 thousand euros in 2012).

The total amount expensed for contributions under Defined Contribution Plans amounted to 471 thousand euros in the year 2013 (compared to 416 thousand euros for the year 2012).

13) Other non current liabilities

The other non current liabilities are composed of the part of the up front payment received from Bristol-Myers Squibb which will be recognized into theas revenue profit and loss during thein the years 2015 and following onwards (see Nnotes 9 and 15).

14) Share capital

As at December 31, 2012 and 2013 the breakdown of share capital can be analyzed as follows (number of shares with a par value of 0.05 euro; in thousands of shares):

	At December 31,	
	2013	**2012**
Common shares, opening	37,936	36,687
Issuance of new shares following the exercise of stock-options, warrants or acquisition of free shares	200	249
Issuance of new shares following a capital increase on capital markets	7,600	-
Common shares, closing	**45,736**	**37,936**

Details of changes in share capital over the periods presented are further analyzed below:

On March 12, 2007, subsequent to the exercise of various company founders warrants in January and February 2007, the Executive Board recognized a capital increase of 6,425 euros (128,500 new shares), bringing the share capital to 1,255,564.20 euros.

On June 1, 2007, subsequent to the exercise of various company founders warrants in April and May 2007, the Executive Board recognized a capital increase of 2,710 euros (54,200 new shares), bringing the share capital to 1,258,274.20 euros.

On January 22, 2008, subsequent to the exercise of options in July and December 2007, the Executive Board recognized a capital increase of 238.75 euros (4,775 new shares), bringing the share capital to 1,258,512.95 euros on December 31, 2007.

On April 30, 2008, subsequent to the acquisition of free shares distributed in 2006, the Executive Board minuted a capital increase of 37,100 euros (742,000 new shares), bringing the share capital to 1,295,612.95 euros on December 31, 2008.

On December 23, 2009, following a capital increase authorized by resolutions 18 and 19 voted in the General Meeting of shareholders dated June 23, 2009, the Executive Board minuted a capital increase of 536,226.75 euros (10,724,535 new shares), increasing the share capital to 1,831,839.70 euros. The gross proceeds of the capital increase were 24.3 million euros. The net proceeds were 23.1 million euros.

On March 26, 2010, following the definitive acquisition of free shares distributed in 2008, the Executive Board minuted a capital increase of 52,157 euros (1,043,140 new shares), increasing the share capital to 1,883,996.70 euros.

On May 5, 2010, following the definitive acquisition of free shares distributed in 2008, the Executive Board minuted a capital increase of 343 euros (6,860 new shares), increasing the share capital to 1,884,339.70 euros.

On July 3, 2012, subsequent to the acquisition of free shares distributed in 2008, the Executive Board minuted a capital increase of 12,455 euros (249,100 new shares), bringing the share capital to 1,896,794.70 euros at July 1st, 2012.

On May 24, 2013, subsequent to the exercise of the overall BSA 2007,the Executive Board minuted a capital increase of 9,999.9 euros (199,998 new shares), bringing the share capital to 1,906,794.6 euros at May 17, 2013. The exercise price received by the Company was recorded as share capital to 10 thousand euros and an issue premium for 394 thousand euros.

On November 25, 2013, subsequent to an operation as a "private placement" as described in Article L. 411-2 II of the French Monetary and Financial Code, in accordance with the use of delegations granted by the 20th Resolution as voted by the shareholders on June 28, 2013, the Executive Board minuted a capital increase of 380,000 euros(7,600,000.00 new shares), bringing the share capital to 2,286,794.6 euros. The gross proceeds of the capital increase were 20.3 million euros and the net proceeds were 18.9 million euros. This has let to an increasing of the issue premium of 18,554 thousand euros

Operations on warrants ("BSA"), company founders' warrants ("BSPCE") and stock-options during the periods presented were as follows:

	BSPCE	BSA	Stock-options	BSAAR
Opening balance – September 23, 1999	**—**	**—**	**—**	**—**
Issued warrants and options – April 28, 2000	18,750	—	—	—
Balance as at December 31, 2000	**18,750**	**—**	**—**	**—**
Issued warrants and options – December 22, 2001	—	15,500	—	—
Balance as at December 31, 2001	**18,750**	**15,500**	**—**	**—**
Issued warrants and options – May 15, 2002	12,750	—	—	—
Balance as at December 31, 2002	**31,500**	**15,500**	**—**	**—**
Issued warrants and options – July 3, 2003	—	3,000	28,500	—
Cancelled warrants and options - 2003	(1,500)	—	—	**—**
Balance as at December 31, 2003	**30,000**	**18,500**	**28,500**	—
Cancelled warrants and options - 2004	(250)	—	(5,250)	**—**
Exercised warrants and options - 2004	(18,750)	—	—	—
Balance as at December 31, 2004	**11,000**	**18,500**	**23,250**	**—**
Issued options – June 13, 2005	—	—	25,000	—
Balance as at December 31, 2005	**11,000**	**18,500**	**48,250**	**—**
Cancelled warrants and options - 2006	—	—	(4,050)	—
Exercised warrants and options - 2006	(1,865)	(15,500)	(150)	**—**
Balance as at December 31, 2006	**9,135**	**3,000**	**44,050**	—
Cancelled warrants and options - 2007	—	—	(121.25)	**—**
Exercised warrants and options - 2007	(9,135)	—	(238.75)	—
Balance as at December 31, 2007	—	**3,000**	**43,690**	**—**
Cancelled warrants and options - 2008	—	(3,000)	(400)	—
Issued warrants and options – March 28, 2008	—	199,998	—	**—**
Balance as at December 31, 2008	—	**199,998**	**43,290**	—
Cancelled warrants and options - 2009	—	—	(2,300)	**—**
Issued warrants and options – January 19, 2009	—	35,000	—	—
Balance as at December 31, 2009	—	**234,998**	**40,990**	**—**
Cancelled warrants and options - 2010	—	—	(14,200)	—
Issued warrants and options – June 18, 2010	—	—	—	100,000

	BSPCE	BSA	Stock-options	BSAAR
Balance as at December 31, 2010	—	**234,998**	**26,790**	**100,000**
Cancelled warrants and options - 2011	—	—	(1,100)	—
Issued warrants– July 29, 2011	—	325,000	—	—
Issued warrants– Sept. 9, 2011	—	—	—	650,000
Balance as at December 31, 2011	—	**559,998**	**25,690**	**750,000**
Cancelled warrants and options - 2012				
Exercised warrants and options - 2012				
Balance as at December 31, 2012	—	**559,998**	**25,690**	**750,000**
Cancelled warrants and options - 2013	—		12,690[1]	
Exercised warrants and options - 2013	—	199,998	(500)[2]	(17,250)[2]
BSAAR attributed on May 27, 2013	—			146,050
BSA attributed on July 17, 2013	—	237,500		
BSA attributed on September 18, 2013	—	500		
Balance as at December 31, 2013	—	**647,500**	**12,500**	**878,800**

[1] Stock-options 2003 expired on June 30, 201
[2] Stock-options and BSAAR exercised on December 2013 will be minuted by the Executive Board on February 10, 2014

Each stock-option issued gives the right to subscribe to twenty new common shares, taking into account the twenty for one share split on March 29, 2006. As at December 31, 2013, the 12,500 stock-options outstanding gave rights to subscribe to 250,000 new common shares with a nominal value of 0.05 euros per share.

The circulating BSA as at December 31, 2013, gave right to subscribe to 647,500 new common share with a nominal value of 0.05 euros per share.

As at December 31, 2013, the circulating BSAAR gave right to subscribe to 878,800 new common shares with a nominal value of 0.05 euros per share.

As at December 31, 2013, the circulating BSA, BSAAR and stock-options gave right to subscribe to 1,776,300 new common shares with a nominal value of 0.05 euros per share representing 3.88% of the capital.

As of July 1, 2003, the General Meeting of shareholders authorized the issuance of 3,000 BSA_{2003} and 28,500 $Stock\text{-}Options_{2003}$. The BSA_{2003} were allocated to a current member of the Company's Supervisory Board and the $Stock\text{-}Options_{2003}$ were allocated to employees by the "Comité de Direction" on July 1, 2003. Following the expiration of the exercise period of the BSA_{2003} on July 1, 2008, the latter were cancelled. Following the expiry of exercise period of the Stock-options 2003, on June 30th, 2013, 12,690 $Stock\text{-}Options_{2003}$ representing 253,800 common shares were cancelled.

On July 22, 2004, the General Meeting of shareholders authorized the issuance of 25,000 $Stock\text{-}Options_{2004}$. The $Stock\text{-}Options_{2004}$ were allocated to employees by the "Comité de Direction" on June 30, 2005. Following the exercise of some 500 $Stock\text{-}Options_{2004}$, 12,500 $Stock\text{-}Options_{2004}$ remained as at December 31, 2013, which can be exercised and represent 250,000 common shares.

On June 26, 2007, the General Meeting of shareholders authorized the issuance of 200,000 new warrants giving right to subscribe to 200,000 new common shares ("BSA_{2007}"). 199,998 of these BSA_{2007} were allocated to independent members of the Supervisory Board and to members of the Scientific Advisory Board by the Executive Board on March 25, 2008. all these warrants were exercised by their beneficiaries and that was minuted by the Executive Board of May 24, 2013.

On June 27, 2008, the General Meeting of shareholders authorized the issuance of 240,000 new warrants giving right to subscribe to 240,000 new common shares ("BSA_{2008}"). 35,000 of these BSA_{2008} were allocated to an independent member of the Supervisory Board by the Executive Board on January 19, 2009.

On June 23, 2009, the General Meeting of shareholders authorized the issuance of 100,000 redeemable share subscription and/or acquisition warrants giving right to subscribe to 100,000 new common shares ("BSAARs"). All of these BSAARs were allocated by the Executive Board on June 18, 2010. The BSAARs give right to the subscription of 100,000 common shares at the price of 2.34 euros per share. Following the exercise of some BSAAR, it remained as at December 31, 2013, 85,000 BSAAR exercisable representing 85,000 common shares.

On June 29, 2011, the General Meeting of shareholders authorized the issuance of 350,000 new subscription warrants giving right to subscribe to 350,000 new common share. 325,000 warrants including 100,000 BSA 2011-1 and 225,000 BSA 2011-2 were allocated to independent members of the Supervisory Board, to members of the Scientific Advisory Board and to consultants, by the Executive Board on July 29, 2011.

On June 29, 2011, the General Meeting of shareholders authorized the issuance of 1,000,000 redeemable share subscription and/or acquisition warrants giving right to subscribe to 1,000,000 new common shares ("BSAARs"). On January 11, 2012 the Executive Board minuted the subscription of 650,000 redeemeable warrants, which may give rise to the issue of 650,000 new shares.

On June 28, 2012, the General Meeting of shareholders authorized the issuance of 200,000 redeemable share subscription and/or acquisition warrants ("BSAAR 2012") giving right to subscribe to 200,000 new common shares.
On July 3rd, 2013, the Executive Board minuted the subscription of 146,050 BSAAR 2012, which may give rise to the issue of 146,050 new common shares. The subscription price received by the Company was recorded as an issue premium for 16 thousand euros.
On December 31, 2013 following the exercise of some BSAAR 2012, it remained 143,800 BSAAR 2012 exercisable representing a total of 143,800 common shares.
On June 28, 2013, the General Meeting of shareholders authorized the issuance of 300,000 warrants (BSA) giving right to subscribe to 300,000 new shares.
The Executive board of July 17, 2013, after authorization by the Supervisory board, allocated 237,500 BSA ("BSA 2013") to a new independent Supervisory board member, to consultants and member of the Scientific advisory board. It remained 62,500 BSA not allocated on the 300,000 warrants authorized by the General Meeting of shareholders.

The Executive Board of September 18, 2013 upon authorization of Supervisory board, allocated 50,000 BSA ("BSA 2013-1") to a consultant of the Company. The subscription price received by the Company was recorded as an issue premium respectively for 2 thousand and 1 thousand euros.

Free shares

On March 29, 2006, the General Meeting of shareholders authorized the issuance of 800,000 free shares (the "Free $Shares_{2006}$"). 751,000 of these Free $Shares_{2006}$ were granted to employees by the Executive Board on April 24, 2006. The Free $Shares_{2006}$ were fully vested on April 24, 2008. Following the resignation of some employees during the vesting period, and in accordance with the free share plan, some of the Free $Shares_{2006}$ were cancelled and 742,000 new common shares were issued at the end of the vesting period. A corresponding capital increase was minuted by the Executive Board on April 30, 2008.

On June 27, 2007, the General Meeting of shareholders authorized the issuance of 1,300,000 free shares (the "Free $Shares_{2007}$"). 1,050,690 of these Free $Shares_{2007}$ were granted to employees by the Executive Board on March 25, 2008. Following the resignation of some employees, 6,800 Free $Shares_{2007}$ were reverted back into the plan in April. 6,860 Free $Shares_{2007}$ were granted to employees by the Executive Board on April 30, 2008. Following the resignation of an employee, 750 Free $Shares_{2007}$ expired. On March 26, 2010, the Executive Board minuted the acquisition of 1,043,140 Free $Shares_{2007}$ out of the 1,050,690 of these Free $Shares_{2007.}$ A corresponding capital increase was minuted by the Executive Board the same day. On May 5, 2010, the Executive Board minuted the definitive acquisition of 6,680 Free Shares on the 1,300,000 authorized Free Shares. A corresponding capital increase was minuted by the Executive Board on May 5, 2010.

On June 26, 2008, 249,250 Free $Shares_{2007}$ not yet allocated were cancelled by the General Meeting of shareholders, which in turn decide to authorize the issuance of 250,000 Free $Shares_{2008.}$ 249,100 of these Free $Shares_{2008}$ were allocated to employees by the Executive Board on July 1, 2008. On July 3, 2012 the Executive Board minuted the acquisition of 249,100 Free $Shares_{2008}$ and the corresponding capital increase. From December 31, 2013, there is no more Free Shares to be distributed or to be definitively acquired.

Movements on free shares can be further analyzed as follows:

Number of shares	**Free shares 2006**	**Free shares 2007**	**Free shares 2008**	**Total**
Authorization of issuing free shares	800,000	1,300,000	250,000	
Free shares distributed	751,000	-	-	751,000
Free shares expired	-	-	-	-
Free shares definitely acquired	-	-	-	-
Balance as at December 31, 2007	**751,000**	**-**	**-**	**751,000**
Free shares distributed	-	1,050,690	249,100	1,299,790
Free shares reverted to the plan following the departure of employees	-	(6,800)	-	(6,800)
Free shares reallocated	-	6,860	-	6,860
Free shares expired	(9,000)	(750)	-	(9,750)
Free shares definitely acquired	(742,000)	-	-	(742,000)
Balance as at December 31, 2008	**-**	**1,050,000**	**249,100**	**1,299,100**
Free shares expired	-	-	-	-
Free shares definitely acquired	-	-	-	-
Balance as at December 31, 2009	**-**	**1,050,000**	**249,100**	**1,299,100**
Free shares expired	-	-	-	-
Free shares definitely acquired	-	(1,050,000)	-	(1,050,000)
Balance as at December 31, 2010	**-**	**-**	**249,100**	**249,100**
Free shares expired	-	-	-	-
Free shares definitely acquired	-	-	-	-
Balance as at December 31, 2011	**-**	**-**	**249,100**	**249,100**
Free shares expired	-	-	-	-
Free shares definitely acquired	-	-	(249 100)	(249 100)
Balance as at December 31, 2012	**-**	**-**	**-**	**-**

Holding by the Company of its own shares

From September 21, 2009 and for tacitly renewable twelve-month duration, the Company has mandated Natixis Securities to manage this brokering/liquidity contract. The Company has invested 300 thousand euros in the contract. As at August 31, 2012, the Company terminated the contract with Natixis and entered into a liquidity contract with Gilbert Dupond. The shares and the cash were transferred from the previous to the new contract (51,099 shares and 219,813.87 euros). As at December 31, 2013, the Company held 31,724 of its own shares (86,829 as at December 31, 2012) for a total amount of 157 thousand euros (188 thousand euros as at December 31, 2012). The balance of the liquidity contract at the same date was 302 thousands of euros (151 thousands of euros as at December 31, 2012).

15) Revenue from collaboration and licensing agreements

Turnover of the Company for the yearThe Company's turnover in 2013 is mainly composed of revenue from collaboration and licensing agreements signed with Bristol-Myers Squibb and is composed of the following elements:

- An upfront payment received in July 2011 following the agreement for an amount of 24.9 million of euros (35.3 million of dollars). The non-refundable and non-creditable amount of the upfrontthis payment was recognized in turnover during the expected period of duration of the clinical program in courseprogress at the date of the contract. Following the reduction of this period, the recognition schedule of the upfront payment has beenwas revised during the last quarter of 2013. Consequently, an amount of 3.4 millions of euros, whose recognition was scheduled forinitially scheduled to be recognized in 2014, has been recognized was finally recognized in 2013;

- Pass-through costs invoiced to Bristolm-Myers Squibb relating to the costs needed for the achievementcompletion of theongoing trials in coursefor which the Company is responsible for achievement.

Turnover of the Company for the year 2012 is composed of revenue from collaboration and licensing agreements signed with Bristol-Myers Squibb and is composed of the following elements:

- An upfront payment received in July 2011 following the agreement for an amount of 24.9 million of euros (35.3 million of dollars). The non-refundable and non-creditable amount of the upfront was recognized in turnover during the expected period of duration of the clinical program in course at the date of the contract. At December 31, 2012, the whole amount is non-refundable and non-creditable.

- Pass-through costs invoiced to Bristom-Myers Squibb relating to the costs needed for the achievement of the trials in course the Company is responsible for achievement.

16) Government grants

The Company receives grants from the European Commission and French government and state organizations in several different forms:

- Conditional grants;
- 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 thousands of euros):

	Year ended December 31,	
	2013	**2012**
Research tax credit	4,182	3,522
Platine grant (FUI / Lyon Biopôle)	-	380
Others	-	3
Government financing for research expenditures	**4,182**	**3,905**

The following table shows the impact of the research tax credit on the Income Statement of the Company over the last three fiscal years (in thousands of euros):

	Year ended December 31,	
	2013	**2012**
Research Tax Credit 2011	-	24
Research Tax Credit 2012	75	3,772
Research Tax Credit 2013	4,107	-
Adjustment following tax audit	-	(274)
Research tax credit	**4,182**	**3,522**

17) Intellectual property expenses

Intellectual property expenses respectively amounts to 309 and 275 thousant euros for the fiscal years ended December 31, 2013 and 2012.

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 depending on contractual conditions but which is generally the same as the life of the underlying intellectual property. The Company pays the past and/ or present expenses related to the intellectual property and also costs related to access to technology, milestone payments when they are achieved and in the case of marketing of the products/technologies covered by the intellectual property, royalties on sales.
- 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 depending on 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.

18) Purchases and external expenses

Cost of supplies and consumable materials consist mainly of thein cost of procurement of the Company's drug substance and/or drug product that is manufactured by third-parties.Other purchases and external expenses are analyzed as follows (in thousands of euros):

	Year ended December 31,	
	2013	**2012**
Subcontracting (1)	(5,817)	(5,309)
Leasing and maintenance	(854)	(703)
Travel expenses and congress attendance	(794)	(731)
Non-scientific advisory and consulting (2)	(694)	(815)
Scientific advisory and consulting (3)	(454)	(383)
Marketing, communication and public relations	(283)	(406)
Attendance fees	(150)	(129)
Insurance	(91)	(107)
Telecommunications and postal services	(76)	(74)
Bank charges	(17)	(14)
Others, net	11	30
Other purchases and external expenses	**(9,219)**	**(8,640)**

(1) The Company subcontracts a significant part of its pre-clinical (pharmaceutical development, tolerance studies and other model experiments, etc.) and clinical operations (coordination of trials, hospital costs, etc.) to third parties. Associated cCosts associated are recorded in subcontracting.
(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.
(3) Scientific advisory and consulting expenses are in relationrelate to consulting services performed by third parties to support the research and development activities of the Company.

19) Employee benefits other than share-based compensation

The item line amounted to 6,946 and 6,385 thousand of euros for the years ended December 31, 2013 and 2012 respectively. The Company had 84 employees as at December 31, 2013, to be compared withcompared to 82 as at December 31, 2012.

The Company benefited from the "competitiveness and employment tax credit" (CICE) for an amount of 60 thousand euros. This tax credit will be mainly used to reinforce the research teams.

20) Share-based compensation

The share-based compensation expenses are broken down as follows (in thousand euros):

	Year ended December 31,	
	2013	**2012**
BSA 2013	207	-
BSA 2013-1	118	-
Share-based compensation	**325**	**-**

For calculation of the share-based compensation expenses, the main assumptions used in the Black-Scholes option pricing model were as follows:

	BSA 2013	**BSA 2013-1**
Beneficiaries	Consultants, Supervisory Board and Scienific Board members	Executive Board member
Subscription date	October 2013	December 2013
Authorized number	237,500	50,000
Subscribed number	237,500	50,000
Subscription price	0.01	0.01
Expiration date	July 2023	September 2023
Acquisition period	None	None
Underlying asset market price	2.45	4.19
Exercice price	2.36	2.36
Return on dividend	None	None
Volatility	31.83%	35.03%
Free risk interest	2.42%	2.33%
Expected maturity	5.5 years	5.5 years
Estimated fair value	0.87	2.36

21) Other income and expenses

Other income and expenses are analyzed as follows (in thousands of euros):

	Year ended December 31,	
	2013	**2012**
Taxes	(207)	(173)
Assets disposed of	(3)	(3)
Others	(102)	(73)
Other income and expenses, net	**(312)**	**(248)**

22) Financial income / (expense)

Financial income and (expense) can be analyzed as follows (in thousand euros) :

	Year ended December 31,	
	2013	**2012**
Gains on financial instruments	438	727
Foreign exchange gains	44	103
Other financial income	51	60
Produits financiers	**533**	**890**
Interest on borrowing and finance-leases	(194)	(225)
Foreign exchange losses	(90)	(96)
Other financial expenses	(103)	(12)
Charges financières	**(387)**	**(334)**
Résultat financier, net	**145**	**556**

The foreign exchange (loss) / gain represents the exchange difference on the US dollar bank account. The Company uses this bank account to pay its US dollar denominated invoices. The recorded gains and losses are unrealized differences.

23) Income Tax

Taking into account its stage of development, which prevents management from estimatingmaking sufficiently reliable financial forecast, the Group does not recognize deferred tax assets. Temporary differences mainly results from finance leases, provision for defined benefit obligation and carry over fiscal lossestax loss carryforwards. At December 31, 2013, the net amount of deferred tax liability excluding carry over fiscal lossestax loss carryforwards was 24 thousand euros (149 thousands euros of deferred tax asset as at December 31, 2012).

Taking into account the tax regulations, the Company has tax losses available tofor carry forward with no time limit in thefor a total amount of 127 million euros as at December 31, 2013 (118 million euros as at December 31, 2012).

24) Commitments

Commitments related to the scope of the Group

None.

Commitments related to the financing of the Company

- Obligations related to certain financial assets

The Company is engaged in various financial assets to manage its cash balance. These financial assets have different maturities, the longest one currently being 6 months at the date of signature.

Commitments related to the operational activities of the Company

- Obligations under the terms of in-licensing agreements

The in-licensing agreements signed by the Company (i) usually require the Company to bear all expenses relating to any acquirement, examination and extension procedures of patents, as well as to uphold and defend the patents and (ii) will require, according to certain milestones, the payment of lump sums and royalties on sales to the licensor. Obligations with figures pertaining to this are kept confidential for commercial reasons.

- Obligations under the terms of option agreements

Option agreements signed by the Company (i) usually require the Company to bear all expenses relating to any acquirement, examination and extension procedures of patents, as well as to uphold and defend the patents, (ii) require the Company to pay a lump sum of money as option payment and (iii) will require, if the Company decides to later opt-in, the payment to the licensor of lump sums (milestone payments) and royalties on sales.

- Obligations under the terms of joint-ownership of intellectual property rights

The Company signed certain agreements with different partners, which defined the rules of joint-ownership and the granting of rights regarding certain aspects of intellectual property. Under these contracts, the Company usually bears all expenses relating to any acquirement, examination and extension procedures of the patents and to any procedure required to uphold and defend the patents. These agreements also usually require, in exchange of a license over the share of rights owned by the co-owner, and according to certain milestones, the payment of lump sums and royalties on sales to the co-owner.

- Obligations under operating-lease agreement

The Company entered into a contract for leasing copier machines. The amounts are immaterial.

- Obligations under other agreements

As several significant functions in the Company are outsourced, the Compay mayit is in the ordinary course of business of the Company to sign short or mid-term sub-contracting or outsourcing agreements with various third parties, in France and abroad. Under these agreements, the Company faces various obligations linked to the ordinary course of its business.

25) Litigation and contingencies

On April 4, 2012, the company Platine Pharma Services SAS (see Note 8) received notification of a proposed adjustment following a tax audit. The adjustment amounts to 91 thousand euros. 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 Inante Pharma SA.

On June 27, 2013, the Company received a summons to appear before the conciliation board of the labor relations tribunal of Marseille (bureau de conciliation du Conseil de Prud'hommmes de Marseille). The hearing took place on October 3, 2013 and no agreement was reached. The case has been referred to the judgment board of the labor relations tribunal (bureau de jugement) and a hearing has been scheduled for May 6, 2014. The claim amounts to 91 thousand euros. Based on currently available information, the Company considers the risk as uncertain as at the end of December 2013. As a consequence, no provision was booked in the December 31, 2013 balance sheet.

26) Related party transactions

Members of the Executive Board and Executive Committee

During the period under review, the following compensations were expensed to the benefit ofgranted to the six members of the executive committee of the Company and were expensed during the period under review (in thousands of euros):

	Year ended December 31,	
	2013	**2012**
Salaries and other short-term employee benefits	856	760
Extra pension benefits	7	6
Advisory fees	500	401
Share-based compensation	249	-
Executive Committee members compensation	**1,612**	**1,167**

Ou of the six members of the Executive Committee, three of them are also members of the Executive Board.

Salaries and other short-term employee benefits correspond to amounts effectively paid during the calendar year to which they relate.

Calculation of the share-based compensation is detailed in Note 20.

Members of the Supervisory Board

The Company booked a provision of 150 thousand euros for attendance fees relating to the fiscal year ended December 31, 2013 which should be paid in 2014.

On October 6, 2008, the Company and Novo Nordisk A/S executed a new agreement under which the Company acquired Novo Nordisk A/S' rights to IPH2101, a drug candidate developed in the context of the collaboration between the parties, while Novo Nordisk A/S acquired the Company's rights to IPH2201, another collaborative drug candidate. Under the terms of the new agreement, Novo Nordisk A/S is eligible to milestone payments as well as royalties on future sales on IPH2101.

Subsidiaries

The business relationships between the Company and its subsidiary are governed by intra-group agreements, concluded at standard conditionson an arm's length basis.

Joint ventures

The Company entered into sub-contracting services towardswith Platine Pharma Services. The amount invoiced to Innate Pharma by Platine Pharma Services for the year 2013 is 760 thousand euros excluding VAT (1 020 thousand euros excluding VAT for the year 2012). According to the percentage of completion of the works, the amount recognized as expense in 2013 amounted to 771 thousand euros (951 thousand euros in 2012).

Miscellaneous

At December 31, 2013, the Company did not evidence any management and/or equity link between the major suppliers used in 2013 and the members of its Supervisory Board, its Executive Board or its Executive Committee.

27) Earnings per share

Basic

Basic earnings per share are calculated by dividing the net earnings attributable to equity holders of the Company by the weighted average number of common shares in issue during the period.

	Year ended December 31,	
	2013	**2012**
Net income (loss)	(2,892)	(3,199)
Weighted average number of common shares in circulation (in	38,703	37,802
Basic earnings per share (€ per share)	**(0.07)**	**(0.08)**

Diluted

Diluted earnings per share are calculated by adjusting the weighted number of common shares outstanding to assume conversion of all dilutive potential common shares. Because of the losses generated by the Company, at December 31, 2012 and 2013, warrants, stock-options and free shares allocated but not yet acquired do not have any dilutive impact.

	Year ended December 31,	
	2013	**2012**
Net income (loss)	(2,892)	(3,199)
Weighted average number of common shares in circulation (in	38,703	37,802
Adjustments for warrant and share options	-	-
Diluted earnings per share (€ per share)	**(0.07)**	**(0.08)**

28) Post balance sheet events

On February 5, 2014, Innate Pharma SA has acquired full development and commercialization rights to the anti-NKG2A antibody, a first-in-class immune checkpoint ready for Phase II development in oncology from Novo Nordisk A/S. Novo Nordisk A/S will receive 2 million euros and 600,000 shares for licencing NKG2A to Innate Pharma and be 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 shares is subject to approval by Innate's shareholders' at an extraordinary general meeting on March 27, 2014.

29) Income statement by function

The income statement by function is set out below (amounts in thousands of euros):

	Year ended December 31,	
	2013	**2012**
Revenue from collaboration and licensing agreements	12,469	10,377
Government financing for research expenditures	4,182	3,905
Revenue and other income	**16,652**	**14,282**
Research and development expenses	(15,131)	(13,417)
General and administrative expenses	(4,313)	(4,251)
Net operating expenses	**(19,444)**	**(17,668)**
Operating income (loss)	**(2,792)**	**(3,386)**
Financial income / (expense), net	146	556
Profit of dilution	179	-
Share of profit (loss) of associates and joint ventures	(424)	(371)
Net income (loss)	**(2,892)**	**(3,199)**

In accordance with IFRS 8 – Operating segments, the information presented above is based on the internal reporting presented to the Chief Operationg Decision Maker. Segments defined by the Company are General and Administrative (G&A) expenses and Research and Development (R&D) expenses. The core activity of the Company consists in managing a portfolio of drug candidates (identification and development of drug candidates) . Costs related to this activity are merged in the R&D sectorsegment. Costs of the support activities (finance, human resources, legal…) are merged in the G&A sectorsegment.

30) Fees paid to the legal auditors

The expense booked in 2013 regarding the fees of out legal auditorsstatutory auditor fees is 134 thousand euros.

20.2 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

This is a free translation into english of the statutory auditors' report on the consolidated financial statements issued in french and is provided solely for the convenience of english speaking users. The statutory auditors' report includes information specifically required by french law in such reports, whether modified or not. This information presented below is the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

To the shareholders,

In compliance with the assignment entrusted to us by the shareholders' general meeting, we hereby report to you, for the year ended December 31, 2013, on:

- the audit of the accompanying consolidated financial statements of Innate Pharma,;
- the justification of our assessments; and
- the specific verifications required by law.

These consolidated financial statements have been approved by the Executive Board. Our role is to express an opinion on these consolidated financial statements based on our audit

1. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2013 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.

2. Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

Accounting principles

Note 2e of the consolidated financial statements describes the accounting treatment applied to intangible assets and to research and development expenses incurred by the Company.
Note 2p sets out the accounting policy relating to revenue and notably revenue generated by licensing agreements and research and development activities.
In the context of our assessment of the accounting principles applied by the Company, we verified the appropriateness of the accounting methods described above and the information provided in the notes to the consolidated financial statements, and ensured that they were correctly applied.

Accounting estimates

Note 2u of the consolidated financial statements states that Management estimates the duration of the Company's involvement in future research and development commitments. Our work consisted of assessing the reasonableness of the assumptions on which estimates are based and the arithmetical accuracy of the underlying calculation used by the Company to determine the amount of revenue from licensing and collaboration agreements.
Note 2u of the consolidated financial statements states that Management estimates the progress of research and development when the related subcontracting expenses are recognized. Our work consisted of assessing the reasonableness of the assumptions on which estimates are based and the arithmetical accuracy of the underlying calculations performed by the Company to determine the percentage of completion to be applied to the total contract cost.
Note 2u of the consolidated financial statements states that Management estimates the fair value of share warrants and options as well as free shares granted to employees or third parties based on actuarial models which require the use of certain calculation assumptions. Our work consisted of assessing the reasonableness of the assumptions on which estimates are based and the arithmetical accuracy of the calculations performed by the Company.
These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3. Specific verifications and information

As required by law, we have also verified the information presented in the Group's management report in accordance with professional standards applicable in France.

We have no matters to report as to its fair presentation and consistency with the consolidated financial statements.

Marseille, March 5, 2014

The statutory auditors

Audit Conseil Expertise SA *Member of PKF International*	PricewaterhouseCoopers Audit
Nicolas Lehnertz	Vincent Thyssen

20.3 FINANCIAL STATEMENTS PREPARED UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN FRANCE AS AT DECEMBER 31, 2013

Balance Sheet
(in thousands of euros)

	Note	As at December 31, 2013	2012
Assets			
Non-current assets			
Intangible assets	3	82	47
Buildings	4	50	57
Property and equipment	4	1,084	1,032
Other tangible fixed assets	4	295	436
Financial assets	5	734	990
Total non-current assets		**2,246**	**2,563**
Current assets			
Trade accounts receivables	6	1,993	2,632
Other receivables	7	5,867	5,552
Marketable securities	8	2,989	2,032
Cash and cash equivalent	8	38,332	30,548
Total current assets		**49,180**	**40,764**
Adjustment accounts			
Prepaid expenses	9	767	1,423
Total adjustment accounts		**767**	**1,423**
Total assets		**52,192**	**44,750**

Balance Sheet
(in thousands of euros)

	Note	As at December 31 2013	2012
Liabilities			
Shareholders' equity			
Share capital	10	2,287	1,897
Share premium	10	121,654	102,687
Retained earnings		(81,163)	(77,458)
Net income (loss)		(3,253)	(3,705)
Tax regulated provisions	12	261	158
Total shareholders' equity		**39,787**	**23,579**
Provisions			
Provisions for contingencies and losses	12	-	-
Pensions and similar obligations	12	789	643
Total provisions		**789**	**643**
Liabilities			
Borrowings	13	1,630	749
Trade notes payable	14	5,138	4,667
Tax and social liabilities	15	2,092	1,681
Other liabilities		173	172
Deferred income	16	2,583	13,259
Total liabilities		**11,616**	**20,528**
Total liabilities		**52,192**	**44,750**

Income Statement
(In thousands of euros)

	Note	Year ended December 31, 2013	2012
Revenue	16	12,469	10,377
Operating grants	11	-	383
Reversal of provisions, transfer of charges	12	36	46
Other income		1	55
Total operating income		**12,506**	**10,861**
Purchases of raw materials and other supplies	17	(1,787)	(1,400)
Other purchases and external expenses	18	(10,311)	(9,793)
Taxes		(207)	(173)
Salaries	19	(4,644)	(4,228)
Social charges	19	(2,302)	(2,158)
Depreciation and amortization expense	20	(375)	(277)
Change in provisions for contingencies and liabilities	12	(146)	(262)
Other expenses		(150)	(147)
Total operating expenses		**(19,922)**	**(18,437)**
Operating income (loss)		**(7,416)**	**(7,576)**
Financial income / (expense), net	21	64	466
Result before tax and exceptional items		**(7,352)**	**(7,110)**
Exceptional income / (expense), net	22	(83)	(117)
Research tax credit	23	4,182	3,522
Net income (loss)		**(3,253)**	**(3,705)**

Statement of cash flows
(In thousands of euros)

		Year ended December 31	
	Note	**2013**	**2012**
Cash flow from operating activities			
Net income (loss)		(3,253)	(3,705)
Adjustments to reconcile net loss to net cash from operating activities:			
Depreciation and amortization on fixed assets	20	375	277
Increase / (reversal) of provision and excess of tax depreciation	12	250	790
Depreciation on financial non-current assets	5	421	-
Gain / (loss) on the disposal of assets		2	3
Changes in working capital		(8,813)	(8,209)
Debt write-off	5	79	-
Interests on assets and other financial assets		(558)	(814)
Net interests paid		(50)	(56)
Foreign exchange (gain) / loss on bank account denominated in USD		-	(7)
Net cash from / (used in) operating activities		**(11,547)**	**(11,722)**
Cash flow from investing activities			
Acquisition of fixed assets	3,4	(433)	(1,225)
Disposal of fixed assets		116	-
Increase in intercompany accounts		(120)	-
Variance of financial assets		(154)	(242)
Interests on assets and other financial assets		558	814
Net cash from / (used in) investing activities		**(33)**	**(653)**
Cash flow from financing activities			
Proceeds from the exercice / subscription of equity instruments	10	423	-
Net proceeds from issuance of share capital	10	18,934	-
Increase in financial liabilities	13	1,500	-
Repayment of financial liabilities	13	(619)	(1,669)
Net interests paid		50	56
Shares buy-back	5	31	-
Net cash from / (used in) financing activities		**20,319**	**(1,613)**
FX gain / (loss) on treasury		-	7
Variance of treasury		**8,740**	**(13,981)**
Opening treasury		32,580	46,561
Closing treasury		41,320	32,580
Including:			
Cash and cash equivalents		38,332	30,548
Marketable securities		2,989	2,032
Total		**41,320**	**3,580**

Statement of changes in Shareholders' Equity
(In thousands of euros)

	Number of shares	Share capital	Share premium	Retained earnings	Other reserves	Net loss	Tax regulated provisions	Total shareholders' equity
Balance as at December 31, 2011	**37,687**	**1,884**	**102,687**	**(69,076)**	**12**	**(8,382)**	**46**	**27,172**
Net loss appropriation 2011	-	-	-	(8,382)	-	8,382	-	-
Net loss 2012	-	-	-	-	-	(3,705)	-	(3 705)
Free shares	249	12	-	-	(12)	-	-	-
Excess of tax depreciation, net	-	-	-	-	-	-	112	112
Balance as at December 31, 2012	**37,936**	**1,897**	**102,687**	**(77,458)**	**-**	**(3,705)**	**158**	**23,579**
Net loss appropriation 2012	-	-	-	(3,705)	-	3,705	-	-
Net loss 2013	-	-	-	-	-	(3,253)	-	(3,253)
Directoire 24th May 2013 – Exercice BSA 2007	200	10	394	-	-	-	-	404
Directoire 27th May 2013 – Subscription BSAAR 2012	-	-	16	-	-	-	-	16
Directoire 17th July 2013 – Subscription BSA 2013	-	-	2	-	-	-	-	2
Directoire 18th September 2013 – Subscription BSA 2013-1	-	-	1	-	-	-	-	1
Directoire 20th November 2013 - Capital increase 2013	7,600	380	18,554	-	-	-	-	18,934
Excess of tax depreciation, net	-	-	-	-	-	-	103	103
Balance as at December 31, 2013	**45,736**	**2,287**	**121,687654**	**(81,163)**	**-**	**(3,253)**	**261**	**39,787**

Notes to the Financial Statements

1) Events with a financial impact in the year

The circumstances that affect the comparability of the amounts reported for the periods presented are essentially those described below.

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», the accounting decree of November 29, 1983 as well as the CRC regulations n° 2000-06, n° 2004-06 and n° 2002-10 relating to the 2005 revised French accounting framework (*Plan Comptable Général* or "PCG").

b) Changes in accounting principle and policies

No changes in accounting principles and policies were applied in the year ended December 31, 2013.

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 and improvements on buildings	10 years
Technical installations and equipment	8 years
Equipment and office furniture	5 years
Computer equipment	3 years

The useful life of the technical installations and equipment was increased from 5 to 8 years during fiscal year 2012, which is more consistent with the economic life of this tyupe of assets.

d2) Tax related depreciation

A tax depreciation is recorded for equipment used for research activities. For the acquisitions made between January 1, 2004 and December 31, 2013, the Company has opted for the application of the increased reducing balance coefficient.

In accordance with French accounting principles, the tax benefit calculated as the excess of the tax depreciation over the econom1ic 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
- 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 as of January 1, 2005, the research works isare accounted for as expenses whenexpensed 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 research and development 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

f) Financial assets

Financial assets are mainly composed of the shares in of the subsidiaries and the ownedtreasury shares.

Shares of the subsidiaries are valued at their acquisition cost. At year end, this value is compared to the fair value taking into account the share in equity corresponding to the participation investment and perspective of profitability outlook. An impairment loss depreciation is booked recorded when the fair value is lower than the acquisition cost. *g) Cash, cash equivalents and marketable securities*

Cash includes petty cash and any assets that, which by nature can be immediately converted into cash at their nominal value.

Marketable securities 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.

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.

Research tax credits are provided by the French government to encourage companies to perform technical and scientific research. Companies that can justify that these expenses meet the required criteria (research expenses generated in France, or since January 1, 2005, in the European Union, or in another State having signed the agreement on the European Economic Area and a tax agreement with France containing an administrative assistance clause) receive 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. It is reimbursed if not used at the end of this three-year period. The Company has benefited from a research tax credit since its first fiscal year.

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
- The grants will be received.

Government grants are usually comprised composed of a mandatory redeemable portion, presented in borrowings, and a portion redeemable in the case of technical or commercial success, presented in conditional grants. Conditional grants are presented under "Other equity" in the balance sheet.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. 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 research and development expenses, as well as the payment of royalties on future sales of products.

Technology access fees are recognized as income when the Company has no remaining obligations to perform after signing the contract. 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 research and development 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.

When the payments received are subject to a cancellation clause, the revenue is accounted for and a provision for risks is recorded for the same amount.

The Company records a provision for impairment in the case where the recoverability of the invoiced amounts appears uncertain.

Turnover is also composed of intra-group invoicing following various agreements ruling working relationships among the companies composing the group.

3) Intangible assets

Intangible assets can be analyzed as follows (in thousands of euros):

	Software	Patents	Goodwill	Total
Year ended December 31, 2013				
Net opening balance	**44**	-	**3**	**47**
Acquisitions	85	-	-	85
Disposals	(1)	-	-	(1)
Transfers	19	-	-	19
Amortization and impairment	(68)	-	-	(68)
Net closing balance	**79**	-	**3**	**82**

4) Buildings, property and equipment

Buildings, property and equipment can be broken down as follows (in thousands of euros):

	Buildings	Machinery and equipment	Other tangible assets	Total
Year ended December 31, 2013				
Net opening balance	**57**	**1,032**	**436**	**1,526**
Acquisitions	-	191	157	348
Disposals	-	(116)	(3)	(119)
Transfers	-	178	(197)	(19)
Depreciation	(7)	(201)	(99)	(307)
Net closing balance	**50**	**1,084**	**295**	**1,430**

5) Financial assets

	Investments	Amount owed to the subsidiary undertakings	Own shares	Other financial assets	Total
Year ended December 31, 2013					
Net opening balance	**233**	**418**	**188**	**151**	**990**
Acquisitions	339	120	-	153	612
Disposals	-	(339)	(31)	-	(370)
Debt write-off	-	(79)	-	-	(79)
Depreciations	(419)	(1)	-	-	(420)
Net closing balance	**153**	**120**	**157**	**304**	**734**

At December 31, 2013, financial assets are composed of the following elements: shares and relating debt of Platine Pharma Services (272 thousand euros), own shares (157 thousand euros) , cash on the current account of the liquidity contract (302 thousand euros) and deposits (3 thousand euros).

An impairment test was performed in January 2014 to compare the net book value of the shares and the current account of Platine Pharma Services to their recoverable value. The recoverable value has been determined on the basis of a letter of intent addressed to the present shareholders of Platine Pharma Services by an entity which aims to acquire an equity interest in the company. The impairment test resulted in an impairment charge amounting to 420 thousand euros being recorded to bring down the net book value of the shares and current account to a valuation of 272 thousand euros.

6) Trade accounts receivables

At December 31, 2013, the item line is only composed of receivables due from Bristol-Myers Squibb corresponding to the reinvoicing of the external costs for the licensed programs.

7) Other receivables

Other receivables are analyzed as follows (in thousands of euros):

	As at December 31,	
	2013	**2012**
Other receivables - short term	5,070	4,632
Other receivables - long term	797	920
Total	**5,867**	**5,552**

The components of the short-term receivables are analyzed as follows (in thousands of euros):

	As at December 31,	
	2013	**2012**
2013 Research tax credit	4,167	-
2012 Research tax credit	-	3,771
VAT refund	373	372
Deductible VAT	119	140
Grants	32	128
Down-payment to SOGEBAIL	123	118
Advances and down-payments to suppliers	179	68
Other receivables	77	35
Other receivables - short term	**5,070**	**4,632**

At the beginning of 2014, the Company has asked for immediate refund payment of its research tax credit balance receivable for 2013. It has therefore was been presented as under current receivables.The components of the other long-term receivables are analyzed as follows (in thousands of euros):

	As at December 31,	
	2013	**2012**
Down-payment to SOGEBAIL	797	920
Other receivables - long terms	**797**	**920**

8) Cash, cash equivalents and marketable securities

At December 31, 2013, the item line is composed of current accounts, remunerated interest-bearing accounts, fixed-term accounts and money market funds (“SICAV”) subscribed towards with several banks.

	As at December 31,	
	2013	**2012**
Current bank accounts	25,265	8,427
Fixed term accounts	13,066	22,121
Marketable securities	2,989	2,032
Total cash, cash equivalents and marketable securities	**41,320**	**32,580**

9) Prepaid expenses

Prepaid expenses can be analyzed as follows (in thousands of euros):

	As at December 31,	
	2013	**2012**
Prepaid research materials and consumables not yet used in research	538	1,097
Other prepaid expenses	229	326
Total prepaid expenses	**767**	**1,423**

10) Share capital

As at December 31, 2012 and 2013 the breakdown of share capital can be analyzed as follows (number of shares with a par value of 0.05 euro (in thousands of shares):

	At December 31,	
	2013	**2012**
Common shares, opening	45,736	37,936
Common shares, closing	**45,736**	**37,936**

Details of changes in share capital over the periods presented are further analyzed below:

On March 12, 2007, subsequent to the exercise of various company founders warrants in January and February 2007, the Executive Board recognized a capital increase of 6,425 euros (128,500 new shares), bringing the share capital to 1,255,564.20 euros.

On June 1, 2007, subsequent to the exercise of various company founders warrants in April and May 2007, the Executive Board recognized a capital increase of 2,710 euros (54,200 new shares), bringing the share capital to 1,258,274.20 euros.

On January 22, 2008, subsequent to the exercise of options in July and December 2007, the Executive Board recognized a capital increase of 238.75 euros (4,775 new shares), bringing the share capital to 1,258,512.95 euros at December 31, 2007.

On April 30, 2008, subsequent to the acquisition of free shares distributed in 2006, the Executive Board minuted a capital increase of 37,100 euros(742,000 new shares), bringing the share capital to 1,295,612.95 euros at December 31, 2008.

On December 23, 2009, following a capital increase authorized by resolutions 18 and 19 voted in the General Meeting of shareholders dated June 23, 2009, the Executive Board minuted a capital increase of 536,226.75 euros (10,724,535 new shares), increasing the share capital to 1,831,839.70 euros. The gross proceeds of the capital increase were 24.3 million euros. The net proceeds were 23.1 million euros.

On March 26, 2010, following the definitive acquisition of free shares distributed in 2008, the Executive Board minuted a capital increase of 52,157 euros (1,043,140 new shares), increasing the share capital to 1,883,996.70 euros.

On May 5, 2010, following the definitive acquisition of free shares distributed in 2008, the Executive Board minuted a capital increase of 343 euros (6,860 new shares), increasing the share capital to 1,884,339.70 euros.

On July 3, 2012, subsequent to the acquisition of free shares distributed in 2008, the Executive Board minuted a capital increase of 12,455 euros (249,100 new shares), bringing the share capital to 1,896,794.70 euros at July 1, 2012.

On May 24, 2013, subsequent to the exercise of the overall BSA 2007,the Executive Board minuted a capital increase of 9,999.9 euros (199,998 new shares), bringing the share capital to 1,906,794.6 euros at May 17, 2013. The exercise price received by the Company was recorded as share capital to 10 thousand euros and an issue premium for 394 thousand euros.

On November 25, 2013, subsequent to an operation as a "private placement" as described in Article L. 411-2 II of the French Monetary and Financial Code, in accordance with the use of delegations granted by the 20th Resolution as voted by the shareholders on June 28, 2013, the Executive Board minuted a capital increase of 380,000 euros (7,600,000.00 new shares), bringing the share capital to 2,286,794.6 euros. The gross proceeds of the capital increase were 20.3 million euros and the net proceeds were 18.9 million euros. This has let to an increasing of the issue premium of 18,554 thousand euros

Warrants and stock option plans

Operations on warrants ("BSA"), company founders' warrants ("BSPCE") and stock-options during the periods presented were as follows:

	BSPCE	BSA	Stock-options	BSAAR
Opening balance – September 23, 1999	**—**	**—**	**—**	**—**
Issued warrants and options – April 28, 2000	18,750	—	—	—
Balance as at December 31, 2000	**18,750**	**—**	**—**	**—**
Issued warrants and options – December 22, 2001	—	15,500	—	—
Balance as at December 31, 2001	**18,750**	**15,500**	**—**	**—**
Issued warrants and options – May 15, 2002	12,750	—	—	—
Balance as at December 31, 2002	**31,500**	**15,500**	**—**	**—**
Issued warrants and options – July 3, 2003	—	3,000	28,500	—
Cancelled warrants and options - 2003	(1,500)	—	—	**—**
Balance as at December 31, 2003	**30,000**	**18,500**	**28,500**	—
Cancelled warrants and options - 2004	(250)	—	(5,250)	**—**
Exercised warrants and options - 2004	(18,750)	—	—	—
Balance as at December 31, 2004	**11,000**	**18,500**	**23,250**	**—**
Issued options – June 13, 2005	—	—	25,000	—
Balance as at December 31, 2005	**11,000**	**18,500**	**48,250**	**—**
Cancelled warrants and options - 2006	—	—	(4,050)	—
Exercised warrants and options - 2006	(1,865)	(15,500)	(150)	**—**
Balance as at December 31, 2006	**9,135**	**3,000**	**44,050**	—
Cancelled warrants and options - 2007	—	—	(121.25)	**—**
Exercised warrants and options - 2007	(9,135)	—	(238.75)	—
Balance as at December 31, 2007	—	**3,000**	**43,690**	**—**
Cancelled warrants and options - 2008	—	(3,000)	(400)	—
Issued warrants and options – March 28, 2008	—	199,998	—	**—**
Balance as at December 31, 2008	—	**199,998**	**43,290**	—
Cancelled warrants and options - 2009	—	—	(2,300)	**—**
Issued warrants and options – January 19, 2009	—	35,000	—	—
Balance as at December 31, 2009	—	**234,998**	**40,990**	**—**
Cancelled warrants and options - 2010	—	—	(14,200)	—
Issued warrants and options – June 18, 2010	—	—	—	100,000
Balance as at December 31, 2010	—	**234,998**	**26,790**	**100,000**
Cancelled warrants and options - 2011	**—**	**—**	(1 100)	—
Issued warrants– July 29, 2011	—	325,000	—	—
Issued warrants– Sept. 9, 2011	—	**—**	—	650,000
Balance as at December 31, 2011	—	**559,998**	**25,690**	**750,000**
Cancelled warrants and options -2012	**-**	**-**	**-**	**-**
Issued warrants and options -2012	**-**	**-**	**-**	**-**
Solde au 31 décembre 2012		**559 998**	**25,690**	**750,000**
Cancelled warrants and options - 2013	—		12,690[1]	
Exercised warrants and options - 2013	—	199,998	(500)[2]	(17,250)[2]
BSAAR attributed on May 27, 2013	—			146,050
BSA attributed on July 17, 2013	—	237,500		
BSA attributed on September 18, 2013	—	500		
Balance as at December 31, 2013	**—**	**647,500**	**12,500**	**878,800**

[1] Stock-options 2003 expired on June 30, 201

[2] Stock-options and BSAAR exercised on December 2013 will be minuted by the Executive Board on February 10, 2014

Each stock-option issued gives the right to subscribe to twenty new common shares, taking into account the twenty for one share split on March 29, 2006. As at December 31, 2013, the 12,500 stock-options outstanding gave rights to subscribe to 250,000 new common shares with a nominal value of 0.05 euros per share.

The circulating BSA as at December 31, 2013, gave right to subscribe to 647,500 new common share with a nominal value of 0.05 euros per share.

As at December 31, 2013, the circulating BSAAR gave right to subscribe to 878,800 new common shares with a nominal value of 0.05 euros per share.

As at December 31, 2013, the circulating BSA, BSAAR and stock-options gave right to subscribe to 1,776,300 new common shares with a nominal value of 0.05 euros per share representing 3,88% of the capital.

As of July 1, 2003, the General Meeting of shareholders authorized the issuance of 3,000 BSA_{2003} and 28,500 $Stock\text{-}Options_{2003}$. The BSA_{2003} were allocated to a current member of the Company's Supervisory Board and the $Stock\text{-}Options_{2003}$ were allocated to employees by the "Comité de Direction" on July 1, 2003. Following the expiration of the exercise period of the BSA_{2003} on July 1, 2008, the latter were cancelled. Following the expiry of exercise period of the Stock-options 2003, on June 30, 2013, 12,690 $Stock\text{-}Options_{2003}$ representing 253,800 common shares were cancelled.

On July 22, 2004, the General Meeting of shareholders authorized the issuance of 25,000 $Stock\text{-}Options_{2004}$. The $Stock\text{-}Options_{2004}$ were allocated to employees by the "Comité de Direction" on June 30, 2005. Following the the exercise of some 500 $Stock\text{-}Options_{2004}$, 12,500 $Stock\text{-}Options_{2004}$ remained as at December 31, 2013, which can be exercised and represent 250,000 common shares.

On June 26, 2007, the General Meeting of shareholders authorized the issuance of 200,000 new warrants giving right to subscribe to 200,000 new common shares ("BSA_{2007}"). 199,998 of these BSA_{2007} were allocated to independent members of the Supervisory Board and to members of the Scientific Advisory Board by the Executive Board on March 25, 2008. All These warrants were exercised by their beneficiaries and that was minuted by the Executive Board of May 24, 2013.

On June 27, 2008, the General Meeting of shareholders authorized the issuance of 240,000 new warrants giving right to subscribe to 240,000 new common shares ("BSA_{2008}"). 35,000 of these BSA_{2008} were allocated to an independent member of the Supervisory Board by the Executive Board on January 19, 2009.

On June 23, 2009, the General Meeting of shareholders authorized the issuance of 100,000 redeemable share subscription and/or acquisition warrants giving right to subscribe to 100,000 new common shares ("BSAARs"). All of these BSAARs were allocated by the Executive Board on June 18, 2010. The BSAARs give right to the subscription of 100,000 common shares at the price of 2.34 euros per share. Following the exercise of some BSAAR, it remained as at December 31, 2013, 85,000 BSAAR exercisable representing 85,000 common shares.

On June 29, 2011, the General Meeting of shareholders authorized the issuance of 350,000 new subscription warrants giving right to subscribe to 350,000 new common share. 325,000 warrants including 100,000 BSA 2011-1 and 225,000 BSA 2011-2 were allocated to independent members of the Supervisory Board, to members of the Scientific Advisory Board and to consultants, by the Executive Board on July 29, 2011.

On June 29, 2011, the General Meeting of shareholders authorized the issuance of 1,000,000 redeemable share subscription and/or acquisition warrants giving right to subscribe to 1,000,000 new common shares ("BSAARs"). On January 11, 2012 the Executive Board minuted the subscription of 650,000 redeemeable warrants, which may give rise to the issue of 650,000 new shares.

On June 28, 2012, the General Meeting of shareholders authorized the issuance of 200,000 redeemable share subscription and/or acquisition warrants ("BSAAR 2012") giving right to subscribe to 200,000 new common shares.
On July 3, 2013, the Executive Board minuted the subscription of 146,050 BSAAR 2012, which may give rise to the issue of 146,050 new common shares. The subscription price received by the Company was recorded as an issue premium for 16 thousand euros.
On December 31, 2013 following the exercise of some BSAAR 2012, it remained 143,800 BSAAR 2012 exercisable representing a total of 143,800 common shares.
On June 28, 2013, the General Meeting of shareholders authorized the issuance of 300,000 warrants (BSA) giving right to subscribe to 300,000 new shares.

The Executive board of July 17, 2013, after authorization by the Supervisory board, allocated 237,500 BSA ("BSA 2013") to a new independent Supervisory board member, to consultants and member of the Scientific advisory board. It remained 62,500 BSA not allocated on the 300,000 warrants authorized by the General Meeting of shareholders.

The Executive Board of September 18, 2013 upon authorization of Supervisory board, allocated 50,000 BSA ("BSA 2013-1") to a consultant of the Company. The subscription price received by the Company was recorded as an issue premium respectively for 2 thousand and 1 thousand euros.

Free shares

On March 29, 2006, the General Meeting of shareholders authorized the issuance of 800,000 free shares (the "Free $Shares_{2006}$"). 751,000 of these Free $Shares_{2006}$ were granted to employees by the Executive Board on April 24, 2006. The Free $Shares_{2006}$ were fully vested on April 24, 2008. Following the resignation of some employees during the vesting period, and in accordance with the free share plan, some of the Free $Shares_{2006}$ were cancelled and 742,000 new common shares were issued at the end of the vesting period. A corresponding capital increase was minuted by the Executive Board on April 30, 2008.

On June 26, 2007, the General Meeting of shareholders authorized the issuance of 1,300,000 free shares (the "Free $Shares_{2007}$"). 1,050,690 of these Free $Shares_{2007}$ were granted to employees by the Executive Board on March 25, 2008. Following the resignation of some employees, 6,800 Free $Shares_{2007}$ were reverted back into the plan in April. 6,860 Free $Shares_{2007}$ were granted to employees by the Executive Board on April 30, 2008. Following the resignation of an employee, 750 Free $Shares_{2007}$ expired. On March 26, 2010, the Executive Board minuted the acquisition of 1,043,140 Free $Shares_{2007}$ out of the 1,050,690 of these Free $Shares_{2007.}$ A corresponding capital increase was minuted by the Executive Board the same day. On May 5, 2010, the Executive Board minuted the definitive acquisition of 6,680 Free Shares on the 1,300,000 authorized Free Shares. A corresponding capital increase was minuted by the Executive Board on May 5, 2010.

On June 26, 2008, 249,250 Free $Shares_{2007}$ not yet allocated were cancelled by the General Meeting of shareholders, which in turn decide to authorize the issuance of 250,000 Free $Shares_{2008.}$ 249,100 of these Free $Shares_{2008}$ were allocated to employees by the Executive Board on July 1, 2008. On July 3rd, 2012, subsequent to the acquisition of free shares distributed in 2008, the Executive Board minuted a capital increase of 12,455 euros (249,100 new shares), and the corresponding capital increase. From December 31, 2013, there is no more Free Shares to be distributed or to be definitively acquired.

Movements on free shares can be further analyzed as follows:

Number of shares	**Free shares 2006**	**Free shares 2007**	**Free shares 2008**	**Total**
Authorization of issuing free shares	800,000	1,300,000	250,000	
Free shares distributed	751,000	-	-	-
Free shares expired	-	-	-	-
Free shares definitely acquired	-	-	-	-
Balance as at December 31, 2007	**751,000**	**-**	**-**	**751,000**
Free shares distributed	-	1,050,690	249,100	1,299,790
Free shares reverted to the plan following the departure of employees	-	(6,800)	-	(6,800)
Free shares reallocated	-	6,860	-	6,860
Free shares expired	(9,000)	(750)	-	(9,750)
Free shares definitely acquired	(742,000)	-	-	(742,000)
Balance as at December 31, 2008	**-**	**1,050,000**	**249,100**	**1,299,100**
Free shares expired	-	-	-	-
Free shares definitely acquired	-	-	-	-
Balance as at December 31, 2009	**-**	**1,050,000**	**249,100**	**1,299,100**
Free shares expired	-	-	-	-
Free shares definitely acquired	-	(1,050,000)	-	(1,050,000)
Balance as at December 31, 2010	**-**	**-**	**249,100**	**249,100**

Free shares expired	-	-	-	-
Free shares definitely acquired	-	-	-	-
Balance as at December 31, 2011	**-**	**-**	**249,100**	**249,100**
Free shares expired	-	-	-	-
Free shares definitely acquired	-	-	(249,100)	(249 ,100)
Balance as at December 31, 2012	-	-	-	-

11) Conditional grants, grants and government financing

The Company receives grants from the European Commission, French government and other state organizations in several different forms:

- Conditional grants;
- Investment and operating grants; and
- Research tax credits.

Conditional grants

Conditional grants and loans from state organizations are composed of several contracts and various additional clauses that the Company signed with BPI France (ex-Oséo).

Since Oséo enacted the completion of the programs pertaining to the ADI and EUREKA conditional grants in 2006, all of these grants were booked as borrowings at December 31, 2006 (see Note 13).

Grants from local government organizations

Since the Company was first created and due to the innovative nature of its operations, it has received several grants and grants from the government or state organizations intended to finance its operations or the recruitment of certain employees.

Contrary to conditional grants:

- the Company has the assurance of conforming to the conditions attached to the grants, and
- the Company is not required to repay these grants.

These grants were booked in the period that the corresponding expenses were incurred.

Research tax credits

Research tax credits are described in Note 23.

12) Provisions

Provisions and the variation in provisions can be analyzed as follows (in thousands of euros):

Tax regulated provisions	**Balance as at January 1, 2013**	**Increase**	**Reversal used**	**Reversal unused**	**Balance as at December 31, 2013**
Excess of tax depreciation	158	121	(18)	-	261
Total	**158**	**121**	**(18)**	-	**261**

Provisions for contingencies and losses	**Balance as at January 1, 2013**	**Increase**	**Reversal used**	**Reversal unused**	**Balance as at December 31, 2013**
Provision for contingencies and losses	-	-	-	-	-
Pensions and similar obligations	643	146	-	-	789
Total	**643**	**146**	**-**	**-**	**789**

Provision for depreciation	Balance as at January 1, 2013	Increase	Reversal used	Reversal unused	Balance as at December 31, 2013
Depreciaton of financial assets	1,269	420	(1)	-	1,689
Impairment on leasehold improvements	-	-	-	-	-
Total	**1,269**	**420**	**(1)**	**-**	**1,689**
Grand Total	**2,070**	**687**	**(19)**	**-**	**2,739**
Increases and reversals presented within:					
Operating results		146	-	-	
Financing result		420	(1)		
Exceptional result		121	(18)	-	

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 d2.

Provision for other liabilities and charges
There is no provision for risks other liabilities and charges at December 31, 2013.

Pensions and similar obligations

The lump sump indemnities paid to employees upon retirement are the only defined benefit obligation of the Company. The corresponding obligations are recorded as provisions.

The main actuarial assumptions used to evaluate retirement obligations are the following:

	At December 31, 2013	2012
Economic assumptions		
Discount rate (iBoxx Corporate AA)	3.20%	3.00%
Annual rate of increase in wages	3.00%	3.00%
Demographical assumptions		
Type of retirement	at the initiative of the employee	at the initiative of the employee
Rate of tax and social charges	45%	45%
Age at retirement		
- Executives	64 years	64 years
- Non-executives	62 years	62 years
Mortality table	INSEE TD/TV 2009-2011	INSEE TD/TV 2008-2010
Annual mobility	All personnel	All personnel
16-24 years	15%	15%
25-29 years	12%	12%
30-34 years	9%	9%
34-39 years	6%	6%
40-44 years	3%	3%
45-49 years	1%	1%
+50 years	0%	0%

	At December 31,	
	2013	**2012**
Economic assumptions		
Discount rate (iBoxx Corporate AA)	3.20%	3.00%
Annual rate of increase in wages	3.00%	3.00%
Demographical assumptions		
Type of retirement	at the initiative of the employee	at the initiative of the employee
Rate of tax and social charges	45%	45%
Age at retirement		
- Executives	64 years	64 years
- Non-executives	62 years	62 years
Mortality table	INSEE TD/TV 2009-2011	INSEE TD/TV 2008-2010
Annual mobility	All personnel	All personnel
16-24 years	15%	15%
25-29 years	12%	12%
30-34 years	9%	9%
34-39 years	6%	6%
40-44 years	3%	3%
45-49 years	1%	1%
+50 years	0%	0%

Amounts recognized in the balance sheet are determined in the following manner:

	As at December 31,	
	2013	**2012**
Discounted value of the funded obligation	-	-
Fair value of assets in the plan	-	-
Discounted value of the unfunded obligations	789	643
Unrecognized actuarial losses	-	-
Cost of unrecognized past services	-	-
Provision in the balance sheet	**789**	**643**

The table below shows the amounts recognized in the income statement:

	As at December 31,	
	2013	**2012**
Cost of services rendered	83	54
Net actuarial loss recognized during the period	19	18
Finance cost	44	190
Total	**146**	**262**

13) Borrowings

This line item was broken down per maturity and is analyzed as follows (in thousands of euros):

	As at December 31,	
	2013	**2012**
Eurotransbio	-	30
Oséo ADI — 02/15/2002 (Grant 1)	119	426
Oséo ADI — 02/15/2002 (“Conseil Général”) (Grant 2)	12	38
Oséo EUREKA — 12/03/2003 (Grant 3)	-	125
Total – current	**131**	**619**
Oséo ADI — 02/15/2002 (Grant 1)	-	118
Oséo ADI — 02/15/2002 (“Conseil Général”) (Grant 2)	-	12
BPI PTZI IPH41	1,500	-
Total - non current	**1,500**	**130**
Total borrowings	**1,630**	**749**

The amounts due to Oséo represent the unconditionally repayable portion of the innovation grants as detailed in Note 11.

In 2013, the Company was granted a free interest loan for innovation (PTZI) relating to the program IPH41 for an amount of 1,500 thousand euros.

14) Trade notes payable

This line item was broken down as follows (in thousands of euros):

	As at December 31,	
	2013	**2012**
Trade payables	1,107	1,310
Accruals	4,031	3,357
Trade notes payable	**5,138**	**4,667**

15) Tax and social liabilities

Tax and social liabilities were brokenbreak down as follows (in thousands of euros):

	As at December 31,	
	2013	**2012**
Social liabilities	1,968	1,544
Tax liabilities	124	137
Tax and social liabilities	**2,092**	**1,681**

16) Revenue and deferred income

Revenue come from the agreements with Bristol-Myers Squibb and are composed of:

- An up-front payment of 24.9 million million of euros (35.3 million of dollars), fully cashed-in in July 2011. The non refundable and non creditable amount of this payment is recognized in the profit & lossin turnover during the expected period of duration of the clinical program in course progress at the date of the contract. At December 31, 2012, the whole amount is non-refundable and non-creditableFollowing the reduction of this period, the schedule of recognition schedule was amended during the last quarter of 2013. Consequently, an amount of 3.4 million euros, initially scheduled to be recognized in 2014, has been recognized in 2013;
- Re-invoicing of external costs incurred for the completion of ongoing trials, for which the Company is responsible.

17) 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 research and development activities.

18) Other purchases and external expenses

Other purchases and external expenses are analyzed as follows (in thousands of euros):

	Year ended December 31,	
	2013	**2012**
Subcontracting (1)	(5,817)	(5,308)
Leasing, maintenance and utility (2)	(1,725)	(1,641)
Travel expenses and congress attendance	(794)	(731)
Non-scientific advisory and consulting (3)	(686)	(807)
Scientific advisory and consulting (5)	(454)	(383)
Intellectual property expenses (4)	(309)	(275)
Marketing, communication and public relations (6)	(287)	(406)
Insurance	(91)	(107)
Telecommunications and postal services	(76)	(74)
Bank charges	(17)	(14)
Others	(55)	(46)
Other purchases and external expenses	**(10,311)**	**(9,793)**

(1) Sub-contracting expenses include discovery research costs (financing research conducted externally, particularly academic research, antibody humanization technologies, manufacturing process development, etc.), pre-clinical development (pilot manufacturing, tolerance and pharmacology studies, etc.) and clinical costs (clinical trial management, etc.) outsourced to third parties. The increase in 2013 compared to 2012 is mainly explained by the rise of the sub-contracting costs relating to the pre-clinical programs.

(2) The Company rents its premises (through lease-financing agreements - see Note 24) and uses third parties for procurement of utilities as well as for maintenance of its laboratory and office premises. The Company also rents some of its computer equipment

(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.

(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 are in relationrelate 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.

As at December 31, 2012 and 2013 under the line item "Others, net" were mostly mainly consisted of expenses in relation to training of the staffrelating to staff training.

19) Personnel costs

The item line respectively amounts to 6,946 and 6,386 thousands of euros for the fiscal years ended December 31, 2013 and 2012. The Company had 84 employees as at December 31, 2013, versus 82 at December, 31, 2012.

The Company benefited from the "competitiveness and employment tax credit" (CICE) for an amount of 60 thousand euros. This tax credit will be mainly used to reinforce the research teams.

20) Depreciation expense and impairment of fixed assets

The depreciation expense and impairment loss on fixed assets can be analyzed as follows (in thousands of euros):

	Year ended December 31,	
	2013	**2012**
Depreciation and amortization	(375)	(277)
Provision for impairment	-	-
Depreciation expense and impairment of fixed assets	**(375)**	**(277)**

21) Financial incomes / (expense)

The financial income and expense can be analyzed as follows (in thousands of euros):

	Year ended December 31,	
	2013	**2012**
Gain on financial assets	438	727
Foreign exchange gains / (losses)	(46)	7
Financial expense on brokering/liquidity contract	120	87
Other financial income / (expenses)	(28)	66
Depreciation of shares in affiliates and related loans	(420)	(422)
Financial income / (expense), net	**64**	**466**

The foreign exchange (loss) / gain represent the exchange difference on the US dollar bank account. The Company uses this bank account to pay its US dollar denominated invoices. The gain and loss booked are unrealized.

22) Exceptional income and expense, net

The exceptional income and expense are analyzed as follows (in thousands of euros):

	Year ended December 31,	
	2013	**2012**
Exceptional income		
Selling price of assets sold	124	-
Reversal of excess of tax depreciation	18	16
Other exceptional income	26	-

Exceptional expenses		
Net book value of fixed assets disposed of	(128)	(3)
Excess of tax depreciation	(121)	(128)
Other exceptional expenses	(2)	(2)
Exceptional income / (expense), net	**(83)**	**(117)**

23) Income tax

Tax losses carried forward

Taking into account the tax regulations in force, the Company has tax losses to be carrieds forward with no time limit in thefore a total amount of 127 million euros as at December 31, 2013 (118 millions of euros as at December 31, 2012).

Research tax credit

The Company benefits from the provisions of Articles 244 quarter B and 49 septies of the Tax Code relating to research tax credit. In accordance with the principle described in Note 2 h, 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 thousands of euros):

	Year ended December 31,	
	2013	**2012**
2011 Research tax credit	-	24
2012 Research tax credit	75	3,772
2013 Research tax credit	4,107	-
Adjustment following tax audit	-	(274)
Research tax credit	**4,182**	**3,522**

24) Commitments

Commitment regarding the scope of the Group

None

Commitments regarding the financing of the Company

- Obligations under certain financial assets

The Company has contracted various financial assets to manage its cash balance. These financial assets have different maturities, with a maximum of six months on the date of signature. The sums invested in these assets are immediately available (daily liquidity), for the major part, they are not subject to any risk of change in value (capital guarantee) and they can easily be converted into a known amount of cash. Only the money market funds (SICAV) held for an amount of 2,989 thousand euros are subject to a risk of change in value (see Note 8).

- Obligations under finance-lease agreement

The Company has ongoing contracts with Sogebail, a subsidiary of Société Générale, to lease the acquisition and the renovation of its headquarters and main laboratories. Duration of this contract is 12 years and the global amount is 6,551 thousand euros. The amount of the future payments at December 31, 2013 is 3,483 thousand euros. The table below does not include these future payments (in thousands of euros):

Categories	**Land**	**Bulidings**	**Total**
Original value	***1,560***	***4,991***	***6,551***
Amortizations:			
- previous years	190	1,319	1,509
- amortization of the year	42	330	371
Total	***232***	***1,649***	***1,880***
Payments			
- previous years	790	2,183	2,973
- 2013	173	548	721
Total	***963***	***2,731***	***3,695***
Payments:			
- less than one year	173	548	721
- between one and five years	693	2,192	2,885
- more than give years	249	788	1,038
Total	***1,116***	***3,528***	***4,644***
Residual value:			
- less than one year	-	-	-
- between one and five years	-	-	-
- more than give years	-	-	-
Total	**-**	**-**	**-**

The Company also contracted with Sogelease, several contracts for the financing of laboratories and administrative material. Future payments related to these contracts are 48 thousand euros at December 31, 2013.

Commitments regarding operational activities of the Company

- Obligations under the terms of in-licensing agreements

The in-licensing agreements signed by the Company (i) usually require the Company to bear all expenses relating to any filing, examination and extension procedures of patents, as well as the expenses related to their protection and (ii) will require, according to certain milestones, the payment of lump sums and royalties on sales to the licensor.

- Obligations under the terms of option agreements

Option agreements signed by the Company (i) usually require the Company to bear all expenses relating to any filing, examination and extension procedures of patents, as well as the expenses related to their protection, (ii) require the Company to pay a lump sum of money in exchange of the option and (iii) will require, if the Company decides to later opt-in, the payment of lump sums (milestone payments) and royalties on sales to the licensor.

- Obligations under the terms of joint-ownership of intellectual property rights

The Company signed certain agreements with different partners, which defined the rules of joint-ownership and the granting of rights regarding certain aspects of intellectual property. Under these contracts, the Company usually bears all expenses relating to any filing, examination and extension procedures of patents, as well as the expenses related to their protection. These agreements also usually require, in exchange of a license over the share of rights owned by the co-owner, and according to certain milestones, the payment of lump sums and royalties on sales to the co-owner.

- Obligation related to operational leases

The Company contracted entered into an agreement with BNP Paribas Leasing Solutions for the financing of a part of its IT material. Amounts of the future payments regarding these materials amounted to 89 thousand euros at December 31, 2013.

- Obligations under other agreements

As several significant functions in the Company are outsourced, it isthe Company may in the ordinary course of business of the Company to sign short or mid-term sub-contracting or outsourcing agreements with various third parties, in France and abroad. Under these agreements, the Company faces various obligations related to the ordinary course of its business.

25) Litigation

On April 4, 2012, Platine Pharma Services SAS (see Note 8) received notification of a proposed adjustment following a tax audit. The adjustment amounts to 91 thousand euros. 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 Inante Pharma SA.

On June 27, 2013, the Company received a summons to appear before the conciliation board of the labor relations tribunal of Marseille (bureau de conciliation du Conseil de Prud'hommmes de Marseille). The hearing took place on October 3, 2013 and no agreement was reached. The case has been referred to the judgment board of the labor relations tribunal (bureau de jugement) and a hearing has been scheduled for May 6, 2014. The claim amounts to 91 thousand euros. Based on currently available information, the Company considers the risk as uncertain as at the end of December 2013. As a consequence, no provision was booked in the December 31, 2013 balance sheet.

26) Individual training right (DIF)

The cumulated amount of hours acquired by the employees at December 31, 2013 is 7,618 hours.

27) Post balance sheet events

On February 5, 2014, Innate Pharma SA has acquired full development and commercialization rights to the anti-NKG2A antibody, a first-in-class immune checkpoint ready for Phase II development in oncology from Novo Nordisk A/S. Novo Nordisk A/S will receive 2 million euros and 600,000 shares for licencing NKG2A to Innate Pharma and be 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 shares is subject to approval by Innate's shareholders' at an extraordinary general meeting on March 27, 2014.

20.4 STATUTORY AUDITORS' REPORTS FOR THE STATUTORY FINANCIAL STATEMENTS PREPARED UNDER FRENCH GAAP FOR THE YEAR ENDED DECEMBER 31, 2013

This is a free translation into english of the statutory auditors' report on the financial statements issued in french and is provided solely for the convenience of english speaking users. The statutory auditors' report includes information specifically required by french law in such reports, whether modified or not. This information presented below is the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

Statutory auditors' report on the financial statements

To the shareholders,

In compliance with the assignment entrusted to us by the shareholders' general meeting, we hereby report to you, for the year ended December 31, 2013, on:

- the audit of the accompanying financial statements of Innate Pharma;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Executive Board. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the annual financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the annual financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2013 and of the results of its operations for the year then ended in accordance with French accounting principles.

2. Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

Accounting principles

Notes 2e and 2e1 of the annual financial statements describe the accounting treatment applied to intangible assets and to research and development expenses incurred by the Company.

Note 2c of the annual financial statements describes the accounting treatment applied to products used in the research and development activity.

Note 2k sets out the accounting policy relating to revenue and notably to revenue generated by licensing agreements and research and development activities.

In the context of our assessment of the accounting principles applied by the Company, we verified the appropriateness of the accounting methods described above and the information provided in the notes to the annual financial statements, and ensured that they were correctly applied.

Accounting estimates

Note 2k of the annual financial statements states that Management estimates the duration of the Company's involvement in future research and development commitments. Our work consisted of assessing the reasonableness of the assumptions on which estimates are based and on the arithmetical accuracy of the underlying calculation used by the Company to determine the amount of revenue from licensing and collaboration agreements.

Note 2e1 of the annual financial statements states that Management estimates the progress of research and development when the related subcontracting expenses are recognized. Our work consisted of assessing the reasonableness of the assumptions on which estimates are based and the arithmetical accuracy of the underlying calculations performed by the Company to determine the percentage of completion to be applied to the total contract cost.

These assessments were made as part of our audit of the annual financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3. Specific verifications and information

We have also performed the specific verifications required by law, in accordance with professional standards applicable in France.

We have no matters to report as to the fair presentation and consistency with the annual financial statements of the information given in the management report of the Executive Board, and in the documents addressed to the shareholders with respect to the financial position and the annual financial statements.

With regard to the information provided in accordance with the requirements of article L.225-102-1 of the French Commercial Code, relating to the 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 the companies that control or are controlled by your Company. Based on this work, we attest to the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information relating to the identity of holders of share capital or voting rights, and to reciprocal shareholding, has been properly disclosed in the management report.

Marseille, March 5, 2014

The statutory auditors

Audit Conseil Expertise SA *Member of PKF International*	PricewaterhouseCoopers Audit
Nicolas Lehnertz	Vincent Thyssen

20.5 STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS FOR THE PERIOD ENDED DECEMBER 31, 2013

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

AUDIT CONSEIL EXPERTISE, SA
Member of PKF International
17, Boulevard Augustin Cieussa
13007 Marseille

PRICEWATERHOUSECOOPERS AUDIT
63 rue de Villiers
92208 Neuilly-sur-Seine

Statutory auditors' special report on regulated agreements for the year ended December 31,2013

(General meeting to approve the financial statements for the year ended 31 December 2013)

To the shareholders,

In our capacity as statutory auditors of your Company, we hereby report to you on regulated agreements and commitments with related parties.

The terms of our engagement do not require us to identify other such agreements and commitments, if any, but rather to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention, without expressing an opinion on their usefulness and appropriateness. It is your responsibility, in accordance with article R.225-58 of the French Commercial Code, to assess the interest of these agreements and commitments with a view to approving them.

Furthermore, it is our responsibility to report to you the information set out in article R. 225-58 of the French Commercial Code relating to the execution of agreements and commitments with related parties, in effect during the year, already approved by the general meeting.

We conducted our procedures in accordance with professional standards applicable in France; those standards require that we perform the necessary procedures to verify that the information provided to us is consistent with the documentation from which it has been extracted.

AGREEMENTS AND COMMITMENTS SUBJECT TO GENERAL MEETING APPROVAL

Agreements and commitments approved during the year

In accordance with article L. 225-88 of the French Commercial Code, the following agreements, previously authorized by the Supervisory Board of your Company, have been brought to our attention.

Agreements with shareholders

Name	**Novo Nordisk**
Position	**Shareholder**
Nature	**Licence agreement**
Terms and related amounts	On December 9, 2013, Novo Nordisk A/S and Innate Pharma signed a license agreement, under the terms of which Novo Nordisk Health Care AG grants Innate Pharma a co-exclusive license on protein engineering patents.

Agreements with shareholders

Name	**Catherine Moukheibir**
Position	**Member of the Executive Board**
Nature	**Consulting contract**
Terms and related amounts	A contract dated April 18, 2011 was signed with Catherine Moukheibir, coming into force from March 1, 2011, to act in the capacity of ‘‘Senior Advisor, Finance ’’. Amendment n°1 was made to this contract on April 30, 2011. The contract has been renewed for a period of 2 years from March 4, 2013. Under this agreement, the Company paid a sum of 267,500 Euros in remuneration for services performed in between January 1, 2013 and December 31, 2013.

AGREEMENTS AND COMMITMENTS APPROVED IN PREVIOUS YEARS

Agreements and commitments approved in previous years with continuing effect during the year

In accordance with article R.225-57 of the French Commercial Code, we have been informed that the following agreements and commitments, approved by the general meeting in previous years, continued during the year.

Agreements with shareholders

Name	**Novo Nordisk**
Position	**Shareholder**
Nature	**Collaboration agreement**
Terms and related amounts	On December 16, 2010, Novo Nordisk A/S and Innate Pharma signed amendment n°4 to their collaboration agreement, modifying the field of their respective developments, with no financial impact. Amendment n°5 was also signed on January 5, 2011 between the parties to update the list of patents. Amendment n°6 was signed on July 5, 2011 to align certain terms of the contract with the BMS agreement signed by the Company on July 6, 2011. This agreement continued in 2012 and 2013 without modification.

Agreements with management

Name	**Hervé Brailly**
Position	**Chairman of the Executive Board**
Nature	**Employment contract**
Terms and related amounts	Fixed monthly remuneration of 16,670 Euros for the twelve month period in 2013. Collective bonus of 10,002 Euros for 2013 as well as a supplementary 7,168 Euros of collective bonus for 2012. Received in 2013 an individual bonus of 53,833 Euros for 2012.

Name	**Hervé Brailly**
Position	**Chairman of the Executive Board**
Nature	**Retirement benefit plan article 83**
Terms and related amounts	‘‘Article 83 ’’ retirement benefit provided by France Vie at a rate of 2% of gross salary, 1.20% of which is borne by the Company. The amount incurred by the Company for 2013 is 2,242 Euros.

Name	**Hervé Brailly**
Position	**Chairman of the Executive Board**
Nature	**Social security guarantee agreement for Company management ('Convention Garantie Sociale des Chefs et Dirigeants d'Entreprise')**
Terms and related amounts	This agreement guarantees the payment of an indemnity in the case of unemployment (up to 70% of the last professional income declared to the tax authorities), to Company managers and officers who cannot benefit from ASSEDIC payments. This agreement was implemented from April 1, 2006 following the authorization of the Supervisory Board on September 23, 2005. The amount incurred by the Company for 2013 is 7,205 Euros.

Name	**Hervé Brailly**
Position	**Chairman of the Executive Board**
Nature	**Company car**
Terms and related amounts	Long-term company car leasing agreement in accordance with the terms agreed by the remuneration committee on January 19, 2007. The related costs for the Company for 2013 amounted to 2,055 Euros.

Name	**François Romagné**
Position	**Member of the Executive Board**
Nature	**Employment contract**
Terms and related amounts	Fixed monthly remuneration of 13,334 Euros for the twelve month period in 2013. Collective bonus of 8,000 Euros for 2013, as well as a supplementary 5,734 Euros of collective bonus for 2012. Received in 2013 an individual bonus of 26,067 Euros for 2012.

Name	**François Romagné**
Position	**Member of the Executive Board**
Nature	**Retirement benefit plan article 83**
Terms and related amounts	''Article 83'' retirement benefit provided by France Vie at a rate of 2% of gross salary, 1.20% of which is borne by the Company. The amount incurred by the Company for 2013 is 1,615 Euros.

Name	**François Romagné**
Position	**Member of the Executive Board**
Nature	**Company car**
Terms and related amounts	Long-term company car leasing agreement in accordance with the terms agreed by the remuneration committee on January 19, 2007. The related costs for the Company for 2013 amounted to 2,100 Euros.

Agreements with companies with management in common

Company name	**Inserm Transfert**
Status	**Limited liability company ('société anonyme') of which Hervé Brailly is a member of the Supervisory Board**
Nature	**Partnership Agreement**
Terms and related amounts	On December 17, 2010 Inserm Transfert and the Company signed a Partnership Agreement through which the Company and the CIML hoped to develop an antibody engineering technology which would be co-owned by the two parties. This agreement grants the Company an exclusive license to use the results. Amendment n°1 signed on June 28, 2011 and amendment n°2 signed on July 12, 2012 extended the project to June 15, 2013. Under this agreement, and amendments n°1 and n°2 to the agreement, the Company paid Inserm an amount of 236,666 Euros excluding tax in 2012. No payment was made in 2013.

Marseille, March 5, 2014

The statutory auditors

Audit Conseil Expertise SA *Member of PKF International*	PricewaterhouseCoopers Audit
Nicolas Lehnertz	Vincent Thyssen

20.6 DATE OF THE LATEST FINANCIAL INFORMATION

See Sections 20.1 and 20.3 of this Reference Document, and Appendix 4 pertaining to the information document specified in Article 222-7 of the AMF general regulations.

20.7 INTERIM FINANCIAL INFORMATION AND OTHER

None.

20.8 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.

20.9 JUDICIAL AND ARBITRATION PROCEDURES

A dispute, which arose in October 2009 between Innate Pharma and the German company Bioagency AG, was settled on December 9, 2011, by judgment of the Regional Court of Paris (Tribunal de Grande Instance de Paris), which declared the termination of the license contracts by Innate Pharma in 2010 and dismissed all of the requests made by BioAgency against Innate Pharma. This judgment has become final, BioAgency has paid the sum, which it was ordered to pay by the Regional Court of Paris.

Our subsidiary Platine Pharma Services (see Note 8) has received a re-assessment proposal following the audit of its accounts performed on April 4, 2012. The notified recovery amounts to 91 thousand euros. 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.

On January 31, 2013, Innate Pharma SA received an inspection notification from URSSAF. The inspection was performed in February 2013 and did not give rise to any comment.

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.

20.10 SIGNIFICANT CHANGES IN THE COMMERCIAL OR FINANCIAL SITUATION OF THE COMPANY

Since December 31, 2013 and up to the date of this Reference Document, there has been no significant change in the commercial or financial situation of the Company.

CHAPTER 21. ADDITIONAL INFORMATION

21.1 GENERAL INFORMATION ABOUT THE SHARE CAPITAL

21.1.1 Amount of share capital (Article 6 of the By-laws)

At the date of April 4, 2014, the share capital amounted to 2,335,764.60 euros. It is divided into 46,715,292 common shares with a par value of 0.05 euros. Shares in the Company are fully subscribed and paid in full.

The evolution of the share capital and of the number of shares outstanding fiscal yearis described in Section 20.3 of this Reference Document (table of change in shareholders equity) as well as in Note 14 (share capital) of the Consolidated Accounts.

21.1.2 Securities not representing capital

None.

21.1.3 Acquisition by the Company of its own shares

The General Meeting of shareholders held on June 28, 2013 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 10 euros per share and the maximum amount of funds to be invested in this program was capped at 10 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 28, 2013.

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 fiscal year ended December 31, 2013.

In 2013, this authorization has been used exclusively in the context of a brokering/liquidity contract purpose of which is to provide the appropriate liquidity of the Company' shares on the market.

From September 21, 2009 and for tacitly renewable twelve-month duration, the Company had mandated Natixis Securities to manage this brokering/liquidity contract. The Company had invested 300 thousand euros in the contract. On August 31, 2012, after market closed, the Company ended the liquidity contract and signed a new liquidity contract with Gilbert Dupont. For the implementation of this new liquidity contract, the previous liquidity contract assets were transfered to the new liquidity account (ie 51,099 shares of Innate Pharma and 219,813.87 euros in cash). As of December 31, 2013, the Company held 31,724 of its own shares under this liquidity contract, representing 0.069% of its capital. During fiscal year 2013, 3,102,117 shares were purchased and 3,157,222 shares were sold in relation to this contract. The average purchase rate was 2.8088 euros and the average sales rate was 2.8075 euros. The Company's own shares are recorded as a decrease of its own capital in the consolidated accounts.

21.1.4 Other securities giving access to the Company's capital

21.1.4.1 Warrants

The Company has issued 847,498 warrants (*Bons de Souscription d'Actions*, BSA) giving the right to subscribe to a total of 847,498 new shares with a par value of 0.05 euros each. As at April 4, 2014, 535,800 warrants of the 847,498 warrants remain outstanding, giving the right to subscribe to a total of 535,800 new shares with a par value of 0.05 euros each, representing approximately 1.15% of the capital based on the number of outstanding shares on April 4, 2014.

The table below shows the warrants outstanding as at April 4, 2014:

Date issued	Warrants authorized	Warrants issued	Beneficiaries	Warrants exercised	Warrants in circulation	Nb of shares to be issued with a par value of €0.05	Subscription price per share in €	Expiry date
March 25, 2008 (BSA_{2007})	200,000	199,998	Independent members of the Supervisory Board and members of the Scientific Advisory Board	0	199,998	199,998	€2.022	May 16, 2013
Jan. 19,2009 (BSA_{2008})	240,000	35,000	Philippe Pouletty	0	35,000	35,000	€1.467	Feb.28, 2019
Jul.29, 2011	350,000	325,000	Independent members of the Supervisory Board, consultants and members of the Scientific Advisory Board	0	325,000	325,000	€1.77	Jul.29, 2021
Jul.17, 2013	300,000	237,500	Independent members of the Supervisory Board, consultants and members of the Scientific Advisory Board	18,640	218,860	218,860	€2,36	Jul.17, 2023
Sept.18, 2013	-	50,000	Consultant	0	50,000	50,000	€2,35	Sept.18, 2023
Total :	**1,090,000**	**847,498**	**N/A**	**311,698**	**535,800**	**535,800**	**N/A**	**N/A**

21.1.4.2 **Stock-options**

As at March 7, 2014, the number of stock-options outstanding was 6,075 for options authorized by the General Meeting of shareholders held on July 22, 2004; if all these options were exercised they would result in the issue of 121,500 new shares with a par value of 0.05 euros each; these options can be exercised at a price of 3.75 euros.

As at June 30, 2013, 12,690 for options authorized by the General Meeting of shareholders held on July 1, 2003 were outstanding if all these options were exercised they would result in the issue of 253,800 new shares with a par value of 0.05 euros each; all these options expired as at June 30, 213 and were cancelled.

2005 PLAN

Date of the General Meeting of shareholders	July 22, 2004
Date of the Executive Committee Meeting[1]	June 13, 2005
Number of options authorized	25,000
Number of options assigned	25,000
Number of lapsed options[4]	12,000
Number of shares that can be issued for each option	20[2]
Number of shares that can be subscribed per fiscal year in the options assigned to:	
— Company officers	100,000
— Including Hervé Brailly	60,000
— Top ten employee beneficiaries who are not officers, including:	140,000
Starting date for exercising the option[3]	Jun. 13, 2006
Ending date for exercising options	Jun. 12, 2015
Subscription price per share	€3.75
Number of shares subscribed on March 7, 2014	138,500
Remaining shares that could be subscribed at March 7, 2014	121,500

1 The Executive Committee was the management body, when the Company was a Société par Actions Simplifiée, prior to the conversion into a Société Anonyme on June 13, 2005. The Executive Committee met on June 13, 2005, just before the General Meeting of shareholders held on the same day and which decided on the conversion.

2 After the 20-for-1 stock split approved at the General Meeting of shareholders on March 29, 2006.

3 Under the 2005 plan, all beneficiaries are allowed to exercise 1/4 of the total number shares they hold one year after the date they are distributed, 1/50th per full month completed for 36 months one year after that date, and the remaining options to be exercised four years after that date.

4 Options that lapsed following the departure of employees.

21.1.4.3 **Distribution of free shares**

As decided by the Executive Board in 2008, and under the terms of the authorization given by the General Meeting of shareholders held on June 26, 2007 and June 27, 2008, the Company distributed 1,299,100 free shares with a par value of 0.05 euro, in accordance with articles L.225-197-1 and following of the French Code of Commerce:

Issue Date	Number of free shares authorized for distribution	Number of free shares distributed	Number of shares still to be distributed	Fair value at distribution	Beneficiaries	Final Acquisition Date
Mar. 25, 2008	1,300,000	1,050,690	249,310	€1.88	Employees (incl. Executive Board members)[1]	Mar. 25, 2010
Free shares canceled following employee departures		(6,800)	256,110			
Apr. 30, 2008	256,110	6,860	249,250	€2.58	Employees	Apr. 30, 2010
Free shares canceled following employee departures		(750)	250,000			
Remaining free shares canceled following a decision of the General Meeting of shareholders of June 27, 2008		(250,000)	0			
Jul. 1, 2008	250,000	249,100	900	€2.07	Employees	Jul. 1, 2010
Cancellation of Free Shares following expiration of the proxy granted by EGM of June 27, 2008			(900)			
Total:	**N/A**	**1,299,100**	**N/A**	**N/A**	**N/A**	**N/A**

[1] The issues of securities giving access to the share capital to executive directors are summarized in Section 17.2 of this Reference Document.

In accordance with legal provisions, the Free Shares 2007 were fully vested to their Beneficiaries two years after they were distributed. In addition, after full vesting of the shares subject to a two-year vesting period, these shares must be kept for two years in accordance with the legally required minimum holding period.

On March 26, 2010, the Executive Board minuted the final vesting of 1,043,140 free shares distributed on March 25, 2008.

On May 5, 2010, the Executive Board minuted the final vesting of 6,860 free shares distributed on April 30, 2008.

On July 3, 2012 the Executive Board minuted the final vesting of 249,100 free shares distributed on July 1, 2008.

At the date of registration of the reference document, there are no longer free shares not definitively acquired.

21.1.4.4 **Distribution of redeemable share subscription and/or acquisition warrants (*Bons de Souscription/d'Acquisition d'Actions Remboursables*, « BSAAR »)**

The Executive Board of the Company, acting under the delegation of the General Meeting of shareholders held on June 23, 2009, decided on June 18, 2010 to propose 100,000 BSAAR to certain employees and company officers. On July 15, 2010, the Executive Board minuted the subscription of all 100,000 BSAAR proposed to Beneficiaries by the Executive Board on June 18, 2010. As at March 7th 2014, 62,000 BSAAR remain exercisable and could result in the issue of 62,000 new shares at a subscription price of 2.34 euros per share.

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 at March 7, 2014, the Executive Board of the Company minuted the subscription of 85,000 BSAAR 2011. As at April 4, 2014, 565,000 BSAAR 2011 remain exercisable and could result in the issue of 565,000 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, which may give rise to the issue of 146,050 new common shares.

As at February 10, 2014, the Executive Board of the Company minuted the subscription of 2, 250 BSAAR 2012, then on March 7 , 2014 the Executive Board of the Company minuted the subscription of 3,450 BSAAR 2012 finally on March 26 , 2014 the Executive Board of the Company minuted the subscription of 500.00 BSAAR 2012 .

As at March 26, 2014 139,850 BSAAR 2012 remain exercisable and could result in the issue of 139,850 new shares at a subscription price of 2.04 euros.

21.1.4.5 **Fully diluted capital**

The number of shares that could be issued from outstanding warrants (535,800 giving the right to subscribe to 535,800 shares), outstanding stock-options (121,500 giving the right to subscribe to 121,500 shares) and outstanding repayable warrants (766,850 giving the right to subscribe to 766,850 shares) totaled 1,424,150, representing approximately 2.95% of the Company's share capital based on the existing number of shares on a fully diluted basis (i.e. 48,139,442).

The following table shows all the stock-option, company founder warrants and warrants issued as well as the free shares distributed and repayable warrants subscribed at the date of this Reference Document.

	Stock-options				**Warrants**			**Repayable warrants**			
Date of the General Meeting	07/01/03	07/22/04	06/26/07	27/06/08	06/29/11	06/29/11	06/28/13	06/28/13	06/23/09	06/29/11	06/28/12
Date of the Executive Board deciding on the allocation of instruments	07/01/03	06/13/05	03/25/08	01/19/09	07/29/11	07/29/11	07/17/13	09/18/13	06/18/10	09/09/11	05/27/13
Number of options/warrants/ shares authorized	28,500	25,000	200,000	240,000	100,000	225,000	300,000	300,000	100,000	1,000,000	200,000
Number of options assigned/warrants issued/shares distributed	28,500	25,000	199,998	35,000	100,000	225,000	237,500	50,000	100,000	650,000	146,050
Starting date for exercising options/warrants	07/01/04[4]	06/13/06[5]	05/16/09	02/28/10	07/29/11	07/29/11	07/17/13	06/18/13	07/15/10	09/09/11	05/27/13
Ending date for exercising options	06/30/13	06/12/15	05/16/13	02/28/19	07/29/21	07/29/21	07/17/23	09/18/23	07/15/15	09/09/21	05/27/23
Subscription price per share	€ 2.975	€ 3.750	€2.022	€1.467	€1.77	€1.77	€2.36	€2.35	€2.34	€2.04	€2.04
Number of executive directors concerned [(2)]	0	2	2	1	1	4	2	1	2	2	0
Number of shares that could be subscribed by exercising the distributed options, warrants issued (par value €0.05)	570,000	500,000	199,998	35,000	100,000	225,000	237,500	50,000	100,000	650,000	146,050

Number of shares subscribed at March 26,2014	388,75	-	199,998	-	70,000	23,060	18,640	0	38,000	85,000-	6,200
Number of lapsed or cancelled options or warrants	**253,800**	-	2	-	-	-			-	-	
Remaining shares that could be subscribed	**0**	**121,500**	**0**	**35,000**	**30,000**	**201,940**	**218,860**	**50,000**	**62,000**	**565,000**	**139,850**

(*) The figures and information per security have been restated to show the 15-1 stock split approved by the Extraordinary General Meeting of shareholders held on December 22, 2001, and the 20-1 stock split approved by the Extraordinary General Meeting of shareholders of March 29, 2006.
(1) For issues prior to June 13, 2005, the date on which the Company was converted into a société anonyme, the competent body for exercising this delegated power was the Executive Committee.
(2) Members of the Executive Board or Supervisory Board as shown in Sections 14.1.1 and 14.1.2 of this Reference Document.
(3) Options cancelled following the departure of employees before they could be exercised.
(4) Under the 2003 plan, all beneficiaries are allowed to exercise 1/4 of the total number of shares they hold one year after the date they are assigned, 1/50th per full month completed for 36 months one year after that date, and the remaining options to be exercised four years after that date.
(5) Under the 2005 plan, all beneficiaries are allowed to exercise 1/4 of the total number of shares they hold one year after the date they are assigned, 1/50th per full month completed for 36 months one year after that date, and the remaining options to be exercised four years after that date.

21.1.5 Share capital authorized but unissued

The Extraordinary General Meeting of March 27, 2014 voted in favor of all financial authorizations granted to the Executive Board as presented in the following table:

Delegations of authority granted to the Executive board by the General Meeting 2014	**Maximum par value of the capital increase**	**Duration of delegation**	**Use during the 2014 fiscal year**	**Methods for determining the issue price**
Issuance of ordinary Company shares and/or of securities giving access to the share capital of the Company reserved to Novo Nordisk A/S in connection with the acquisition of the rights on anti-NKG2A.	30,000 euros[3]	14 months[1]	30,000 euros[2]	8,33⅓ euros[5]
Issuance of ordinary Company shares and/or of securities giving access to the share capital of the Company, with shareholders' preferential subscription rights In accordance with Articles L. 225-129 à L. 225-129-6, L. 228-91 et seq. of the French Commercial Code (except for preferred shares and and/or of securities giving access to the preferred share capital)	571,700 euros[3]	14 months[1]	-	-
Issuance of ordinary Company shares and/or of securities giving access to the share capital of the Company, without shareholders' preferential subscription rights in accordance with Articles L. 225-129 to L. 225-129-6, L. 225-135, L. 225-136, L. 228-91 et seq. of the French Commercial Code (except for preferred shares and and/or of securities giving access to the preferred share capital)	571,700 euros[3]	14 months[1]	-	The issuance price will be at least equal to the weighted average of the price of the share during the last three stock market trading days preceding the date on which the issuance price is set, minus as the case may be a maximum discount of 5% of this amount

Increase of Company share capital in benefit of industrial or commercial companies in the pharmaceutical/biotechnology sector or to collective savings fund managers of French or foreign law investing in the pharmaceutical/biotech sector, likely to invest in a private placement in accordance with Articles L. 225-129 à L. 225-129-6, L. 225-135, L. 225-138, L. 228-91 et seq. of the French Commercial Code.	571,700 euros(3)	14 months(1)		The issuance price will be at least equal to the volume-weighted average of the closing prices of the share during the last five stock market trading days preceding the date upon which the issuance price is set, minus as the case may be a maximum discount of 15%
Issuance of ordinary shares and/or securities giving access to the share capital of the Company, as compensation for contributions in kind comprised of equity securities or securities giving access to the share capital in accordance with Articles L. 225-129 to L. 225-129-6, L. 225-147 and L. 228- 91 et seq. of the French Commercial Code.	10 % of the Company share capital (3)	14 months(1)	-	-
Issuance of ordinary shares and/or securities giving access to the share capital of the Company, in the event of a public exchange offer initiated by the Company capital in accordance with Articles L. 225-129 to L. 225-129-6, L. 225-148 and L. 228- 91 et seq. of the French Commercial Code.	571,700 euros(3)	14 months(1)	-	-
Issuance of autonomous share subscription warrants reserved for any natural person or legal entity that is a member of the Supervisory Board or a consultant of the Company in accordance with Articles L. 225-129 to L. 225-129-6 and L. 225-138 and L. 228-91 et seq. of the French Commercial Code.	7,500 euros(3)	18 months(4)	-	The 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 share subscription warrants
Issuance of ordinary share and/or securities giving access to the share capital ordinary shares and/or securities giving access to the share capital of the Company for the benefit of the members of a company savings plan	571,700euros (3)	14 months(1)	-	-

(1) Starting from the date of the General Meeting of shareholders held on March 27, 2014, i.e. until May 27, 2015.
(2) Use by the Executive Board of March 27, 2014, following the vote by the General Shareholders Meeting held the same day.
(3) This amount is to be counted within the overall cap of 664,200 euros stipulated by the 25th resolution of the General Assembly held on March 27, 2014, this overall cap does not take account of adjustments liable to be made in accordance with applicable legislative and regulatory provisions or contractual terms setting out other cases of adjustment to preserve the rights of the holders of securities or other rights giving access to the share capital.
(4) Starting from the date of the General Meeting of shareholders held on March 27, 2014, i.e. until September 27, 2015.
(5) The issuance price corresponds to the volume-weighted average of the closing prices of the share during the last twenty stock market trading days preceding the date upon which the issuance price is set the date of signature of the License agreement on Anti-NKG2A entered into Novo Nordisk A/S and the Company on February 5, 2014

21.1.6 **Obligations to buy and sell**

None.

21.1.7 **Changes in capital as of the date of this Reference Document**

The table below shows changes in the Company's share capital since 2004:

Final date of the transaction	Transaction	Shareholders	Number o shares issue	Par value c shares issue	Unitary valu of the shares issued	Nominal amoun of the capital increase	Total share premium	Successive amounts of capital	Successive cumulative number of shar composing the share capital	Par value shares issued
03/20/04 and 03/23/04	Capital increase (exercise of founder warrants - GM dated 02/28/00)	Company officers and employees Including: - Hervé Brailly: - François Romagné	18,750	€1	€1	€18,750	€0	€545,034	545,034	€1
03/29/04	Capital increase (issuance of preferred shares)	Industrial partner (Novo Nordisk A/S)	66,667	€1	€75*	€66,667	€4,933,358	€611,701	611,701	€1
07/22/04	Capital increase (issuance of preferred shares)	Funds or venture capital companies or financial partners	133,333	€1	€75*	€133,333	€9,866,642	€745,034	745,034	€1
03/29/06	Share split (20 new shares for 1 existing one)		—	—		—	—	€745,034	14,900,680	€0.05
04/14/06	Capital Increase (issuance of preferred shares)	Industrial partner (Novo Nordisk)	2,247,200	€0.05	€4.45**	€112,360	€9,887,680	€857,394	17,147,880	€0.05
08/29/06***	Capital increase (exercise of BSA)	Financial partner	76,200	€0.05	€2.975	€3,810	€222,885	€861,204	17,224,080	€0.05
10/17/06***	Capital increase (exercise of warrants)	Company officer	40,000	€0.05	€1.525	€2,000	€59,000	€863,204	17,264,080	€0.05
11/03/06	Capital Increase (issue of common shares)	Institutional and public investors	5,542,168	€0.05	€4.50	€277,108.40	€24,662,647.6	€1,140,312.40	22,806,248	€0.05
11/03/06	Capital Increase (issue of common shares)	Industrial partner (Novo Nordisk A/S)	1,111,111	€0.05	€4.50	€55,555.55	€4,944,443.95	€1,195,867.95	23,917,359	€0.05
11/03/06	Capital Increase (issue of common shares)	Institutional and public investors	831,325	€0.05	€4.50	€41,566.25	€3,699,396.25	€1,237,434.20	24,748,684	€0.05

01/15/07***	Capital increase (warrants and stock-options)	Employees and consultants	234,100	€0.05	Miscella-neous	€11,705.00	€456,638.49	€1,249,139.20	24,982,784	€0.05
03/12/07***	Capital increase (exercise of warrants)	Employees and consultants	128,500	€0.05	Miscella-neous	€6,425.00	€189,471.98	€1,255,564.20	25,111,284	€0.05
06/01/07***	Capital increase (exercise of warrants)	Employees	54,200	€0.05	Miscella-neous	€2,710.00	€79,917.36	€1,258,274.20	25,165,484	€0.05
01/22/08***	Capital increase (exercise of stock-options)	Employees	4,775	€0.05	Miscella-neous	€238.75	€13,966.88	€1,258,512.95	25,170,259	€0.05
04/30/08***	Capital increase (final acquisition of free shares)	Employees and managers	742,000	€0.05	€2.51	€37,100.00	-	€1,295,612.95	25,912,259	€0.05
01/08/10***	Capital Increase (issuance of common shares)	Institutional investors	9,843,478	€0.05	€2.27	€492,173.90	€22,344,695.06	€1,787,786.85	35,755,737	€0.05
01/08/10***	Capital Increase (issuance of common shares)	Strategic investors (Novo Nordisk A/S)	881,057	€0.05	€2.27	€44,052.85,	€1,999,999.39	€1,831,839.70	36,636,794	€0.05
03/26/10	Capital increase (final acquisition of free shares)	Employees and executive managers	1,043,140	€0.05		€52 157		€1,883,996.70	37,679,934	€0.05
04/30/10	Capital increase (final acquisition of free shares)	Employees	6,860	€0.05		€343.00		€1,884,339.70	37,686,794	€0.05
07/03/12***	(final acquisition of free shares)	Employees and executive managers	249,100	€0.05		€12,455		€1,896,794,70	37,935,894	€0.05
05/24/13	Capital increase exercise of warrants	Company officers	199,998	€0.05	€2.022	€9,999	€394,396.06	€1,906,794.60	38,135, 892	€0.05
11/25/13	Capital increase-Private placement	Institutional	7,600,000	€0.05	€2.67	€380,000	€19,912,000	€2,286,794.60	45,735,892	€0.05
02/10/14	Capital increase – exercise of stock-options and warrants	Employees and executive managers	51,250	€0.05	Miscella-neous	€2,562.5	€156,167.50	€2,289,357.10	45,787,142	€0.05

03/07/14	Capital increase – exercise of stock-options and warrants	Employees and executive managers	315,950	€0.05	Miscellaneous	€15,797.50	€804,645.50	€2,305,154.60	46,103,092	€0.05
03/26/14	Capital increase – exercise of warrants	Employee and Consultant	12,200	€0.05	Miscellaneous	€610.00	€23,266.60	€2,305,764.60	46,115,292	€0.05
03/27/14	Capital increase reserved to Novo Nordisk A/S		600,000	€0,05	€8,33[1/3]	€30,000	€4,970,000	2,335,764.60	46,715,292	€0.05

* corresponds to a value of 3.75 euros for a par value of 0.05 euro.
** corresponds to a value of 89 euros for a par value of 1 euro.
*** capital increase minuted by the Executive Board

21.1.8 **Pledges**

21.1.8.1 **Pledges of Company shares**

None.

21.1.8.2 **Pledges of Company assets**

The Company leases its headquarters and main laboratories in Marseilles through a lease-finance agreement arranged by SOGEBAIL (see Section 10.1.2 of this Reference Document).

21.2 ARTICLES OF INCORPORATION AND BY-LAWS

21.2.1 **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.

21.2.2 **Executive Board, Supervisory Board and General Management Bodies (Articles 14 to 24 of the By-laws)**

21.2.2.1 **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 appointments 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 an appointment concurrently with an appointment 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 appointment 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.

21.2.2.2 **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 appointments 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' shares for the entire term of the appointment.

The age limit for being a member of the Supervisory Board and the limitations on holding such an appointment concurrently with an appointment 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.

In a report to the General Meeting of shareholders attached to the Executive Board's Management Report, the Chairman of the Supervisory Board reports on the conditions for preparing and organizing the work of the Supervisory Board as well as the internal control procedures set up by the Company (See APPENDIX 5 -of this Reference Document).

Meetings and powers of the Supervisory Board

The Supervisory Board meets as often as the interests of the Company require but 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.

21.2.2.3 **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.

21.2.3 **Rights and obligations attached to shares (Article 12 of the By-laws)**

Each Company share gives the right to a share of the profits and assets in proportion to the amount of capital it represents. It also gives the right to vote and be represented in the General Meeting of shareholders under the conditions set forth by the law and the By-laws.

The Company has not issued any shares giving holders privileged rights compared to those attached to other shares.

The By-laws do not contain any provision restricting the rights attached to shares.

21.2.4 **Rights and obligations attached to shares and the associated changes (articles 7 and 12 of the by-laws)**

Any change to the capital or the rights attached to the shares is subject to legal provisions, as the Company's by-laws do not set forth any particular requirements.

21.2.5 **General Meeting of shareholders (Articles 26 to 34 of the By-laws)**

21.2.5.1 **Calling meetings and conditions for admission (Articles 27 to 30 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.[2].

In the twenty-one 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 three 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 three days before the date of the General Meeting of shareholders.

21.2.5.2 **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.

21.2.5.3 **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.

21.2.5.4 **Double voting rights**

None.

21.2.5.5 **Limitation on voting rights**

None.

21.2.5.6 **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.

21.2.6 **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.

CHAPTER 22. MAJOR CONTRACTS

The collaboration agreement with Novo Nordisk A/S and Bristol-Myers Squibb are described in Sections 4.5.8.1.1 and 4.5.8.1.2 AND 4.5.8.1 of this Reference Document.

CHAPTER 23. INFORMATION FROM THIRD PARTIES, DECLARATIONS BY EXPERTS AND STATEMENT OF OWNERSHIP

None.

CHAPTER 24. DOCUMENTS ACCESSIBLE TO THE PUBLIC

The corporate documents (By-laws, minutes of General Meeting of shareholders and other documents) and, if applicable, reports, letters, evaluations and declarations produced by an expert at the request of the Company, and its historical financial information may be found at the Company's headquarters and a hard copy may be obtained.

In application of Article 28 of regulation no. 809/2004 from the European Commission, the following information is included by way of reference in this Reference Document:

- Consolidated Accounts and Annual Accounts for the fiscal year ended December 31, 2012 with corresponding reports from the Statutory Auditors, including in Sections 20.1, 20.2, 20.3 and 20.4 of the Reference Document D.13-0142 registered with the AMF on March 18, 2013.

- Consolidated Accounts and Annual Accounts for the fiscal year ended December 31, 2011 with corresponding reports from the Statutory Auditors, including in Sections 20.1, 20.2, 20.3 and 20.4 of the Reference Document D.11-0429 registered with the AMF on April 26, 2012.

-

- Sections 9 (Management discussions and analysis of the financial situation) and 10 (Information on the Company's capital, cash and cash equivalents and sources of financing) of the Reference Document D.11-0429 registered with the AMF on March 18, 2013.

All historical financial information is available in the "investors" section of the Company's website (www.innate-pharma.com).

The Company may be contacted at the Investors' Department:
117 avenue de Luminy
13009 Marseille
Tel.: (+33) 4 30303030
e-mail: investors@innate-pharma.com

CHAPTER 25. INFORMATION ON HOLDINGS

As at December 31, 2013, Innate Pharma SA owned 100% of the shares of Innate Pharma, Inc., a US based company incepted in 2008 and whose purpose is to represent the Company in its business and corporate development activities in the USA. Innate Pharma, Inc. is dormant from January 1, 2011.

As of the same date, Innate Pharma SA owns 33.26% of the shares of Platine Pharma Services SAS, a company performing immuno-monitoring activities for the biopharmaceutical industry.

APPENDICES

APPENDIX 1 - REPORT BY THE CHAIRMAN OF THE SUPERVISORY BOARD ON THE COMPOSITION OF THE SUPERVISORY BOARD AND ON COMPLIANCE WITH THE PRINCIPLE OF BALANCED REPRESENTATION OF MEN AND WOMEN, PREPARATION AND ORGANIZATION OF THE SUPERVISORY BOARD AS WELL AS ON INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES ESTABLISHED BY THE COMPANY FOR FISCAL YEAR 2013

FEBRUARY 10, 2014

Introduction

Pursuant to the provisions of Article L. 225-68 of the Code of Commerce, the chairman of the Supervisory Board hereby reports to you on the composition of the Supervisory Board and the application of the principle of balanced representation of women and men on the Supervisory Board, on the conditions for preparation and organization of the work of the Supervisory Board as well as on internal control and risk management procedures established by Innate Pharma ("Innate Pharma" or "the Company") and its subsidiaries (together "the Group") for the financial year ended on December 31, 2013.

This present report was written in accordance with the guidelines for implementing risk management and internal control mechanisms for small and mid-cap companies, published by the French Authority of Financial Markets ("AMF") on July 22nd, 2010. These guidelines are a revised and updated edition of the 2007 reference framework for small and mid-cap companies published by the AMF in 2008.

This report takes into account the AMF's recommendation n°2012-02 on corporate governance and executive compensation refering to the AFEP/MEDEF Code, published on February 9, 2012 in the format of a presentation of consolidated recommendations contained in its annual reports and updated on December 4, 2013.

This report takes into account the AMF's recommendation n°2013-17 on Chairmen's reports on internal control and risk management procedures, published on November 4, 2013 in the format of consolidated recommendations contained in its annual reports on corporate governance and internal control.

This report was prepared on the basis of the summary of the Company's operations in 2013. The draft report was submitted for discussion to the Executive Board. A final draft was presented and discussed during the Audit committee meeting on February 10, 2014.

In accordance with article L. 225-68 of the Code of Commerce, this report was approved by the Supervisory Board during its meeting on February 10, 2014.

The Statutory Auditors will issue a report, appended to their report on the annual accounts, which contains their observations on this report with respect to internal control procedures and risk management relating to the presentation of accounting and financial information.

CHAPTER 1 CORPORATE GOVERNANCE: COMPOSITION, APPLICATION OF THE PRINCIPLE OF A BALANCED REPRESENTATION OF WOMEN AND MEN, PREPARATION AND ORGANIZATION OF THE WORK OF THE SUPERVISORY BOARD DURING THE 2013 FISCAL YEAR

Innate Pharma is a French *Société Anonyme* organized with an Executive Board and a Supervisory Board. As such, it is subject to the terms of Articles L. 225-57 to L. 225-93 of the Code of Commerce and related regulatory provisions.

The Company complies with the AFEP/MEDEF consolidated corporate governance recommendations for publicly listed companies updated in June 2013 ("AFEP/MEDEF recommendations") which can be consulted on the site www.medef.com, and applies the principles set out therein. In accordance with the recommendations included in this code, the reasons for not applying certain principles are explained in this report.

1.1 ORGANIZATION AND OPERATION OF THE SUPERVISORY BOARD

1.1.1 COMPOSITION OF THE SUPERVISORY BOARD

Since September 30, 2012, date of the resignation of Alta Biopharma Partners LLP, the Supervisory Board comprised five members. The General Meeting of shareholders has appointed a sixth member, Mr. Michael A. Caligiuri, in replacement of Alta Biopharma Partners LLP. Professor Caligiuri, american citizen, is a doctor, Chairman and CEO of James Cancer Hospital and Director of the Ohio State University Comprehensive Cancer Center. In this respect, he brings a unique experience to the Company. At the date of this report four 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 article L. 225-69 of the French Commercial Code.

In accordance with the AFEP/MEDEF recommendations, the Charter of the Supervisory Board, as modified on June 28, 2012, states that a member of the Supervisory Board is an independent member when:

- "He or she is not involved in any relationship with the Company, its group or its management, which could compromise his or her judgment[3], and

[3] AFEP/MEDEF recommendation, article 9.1, page 7.

- He or she does not represent a shareholder who holds more than 10% of the voting rights of the Company[4].

The exact criteria specified by the Company for determining the independence of a Member of the Supervisory Board are given in article 2.2 of the Charter.

At the date of this report, the only non-independent members of the Supervisory Board are Novo Nordisk A/S and Mr. Patrick Langlois.

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 an independent member.

Any board mandate held by the members of the Supervisory Board in other companies (such as described in Reference Document) is independent of their mandate with the Company. Members of the Supervisory Board of Innate Pharma SA have no such mandate in the affiliates of the Company.

The Members of the Supervisory Board have been renewed, or nominated, at the General Meeting of shareholders of June 28, 2013 for two years and their mandate will expire at the General Meeting of shareholders held in 2015 called to vote on the accounts for the fiscal year ended on December 31, 2014.

The current members of the Supervisory Board are as follows:

NAME	FUNCTION AND STATUS	NATIONALITY	Age
Gilles Brisson	Chairman of the Supervisory Board Independent member	French	age 62
Irina Staatz-Granzer	Independent member Vice-Chairman of the Supervisory Board	German	age 53
Patrick Langlois	Non-independent member	French	age 68
Philippe Pouletty	Independent member	French	age 55
Novo Nordisk A/S	Non-independent member Represented by Per Falk	Swedish	age 52
Michael A. Caligiuri	Independent member	American	age 58

More information on the members of the Supervisory Board, including the duration of their mandate and the list of the other mandates and positions held in other companies during the last five years will be given in the Reference Document.

Members of the Supervisory Board are globally recognized experts in the Company's business.

With Ms Staatz-Granzer the Supervisory board comprises one women on six members. Due to Alta Partners I, LP resignation, the board does not comply anymore with the article 5-II of the French Act No. 2011-103 dated January 27, 2011. This act specifies that the Supervisory Board of the Company must include at least 20% female members after the first General Meeting of shareholders held in 2014. The Supervisory board will consider the means to remedy before the term of the mandates of the members of the Supervisory Board, before the Annual General Meeting held in 2015 and approving the financial statements for the 2014 fiscal year.
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 appointment. These appointments 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.

[4] AFEP/MEDEF recommendation, article 9.5, page 9.

On the date this present report, three persons had an observer mandate with the Company:

- Mr. Bernard Malissen. Mr. Malissen, immunologist, accompanied the Company since its foundation. He is the Chairman of the Company's Scientific Advisory Board since 2000.

- Bpifrance Participations, represented by Mr. Olivier Martinez. Bpifrance Participations is shareholder of the Company.

- O.G.BB.A. van HerkB.V., represented by Mr. Dharminder Chahal. O.G.B.B.A. van Herk B.V. is shareholder of the Company.

1.1.2 CHARTER OF THE SUPERVISORY BOARD

On March 15, 2007, the Supervisory Board first approved its Charter dealing notably with the way it works and the organization and missions of its committees. The Charter, which was last modified on June 28, 2012, will be annexed to the Reference Document.

1.1.3 MISSIONS OF THE SUPERVISORY BOARD

The main missions of the Supervisory Board are as follows:

- Discussion of strategic orientations,
- Appointment of the members of the Executive Board,
- 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, and
- Approval of the present annual report from the Chairman of the Supervisory Board regarding the conditions of the composition, preparation and organization of the Supervisory Board, as well as the internal control and risk management procedures.

1.1.4 MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board meets as often as necessary and at least once per quarter. Meetings are called by its Chairman, in accordance with article 19 of the Company by-laws. In 2013, the Supervisory Board met seven times with an average attendance rate of 92%.

In the course of the 2013 financial year, the main topics addressed by the Supervisory Board were the monitoring of the implementation of the partnership agreement with Bristol-Myers Squibb (BMS), particularly with regard to clinical trials started with the drug candidate IPH2102 the preclinical development of other drug candidates, the discussion of the strategy of the Company (following a meeting with management) and the definition of the strategic plan in the medium term, “business development” activities, monitoring activities of financial communication and investor relations.

For the preparation of the Supervisory Board meetings, the members are sent, in the days preceding the meeting, a detailed agenda together with the Executive Board’s report on activity since the previous meeting, plus any other document that may be necessary or useful for consultation or decision-making purposes during the Supervisory Board meeting.

After the Supervisory Board meetings, the minutes are drafted by a secretary appointed during the Supervisory Board meeting. These draft minutes are sent to the members along with the agenda and documentation for the next meeting. They are approved and signed, if necessary after correction by the members.

1.1.5 EVALUATION OF THE SUPERVISORY BOARD’S WORK

In accordance with the AFEP/MEDEF recommendations, a periodic evaluation of the Supervisory Board’s works is conducted through a self-evaluation based on a questionnaire drawn up by the Company. The Board members have conducted a self-evaluation in 2012. No self-assessment has been carried out since that date. The decision and the terms of a forthcoming self-assessment in 2014 will be discuss, if appropriate, by the Supervisory Board.

1.2 EXECUTIVE BOARD AND EXECUTIVE COMMITTEE ORGANIZATION AND OPERATION

The Executive Board of Innate Pharma is composed of three members appointed for a renewable term of three years. In 2013, the members of the Executive Board were:

- Hervé Brailly, Chairman of the Executive Board,
- François Romagné,
- Catherine Moukheibir.

At the end of the Supervisory Board of December 12, 2013, François Romagné resigned from the Executive Board. He will be replaced as of January 1, 2014 by Mr. Nicolai Wagtmann.

In 2013, the Executive Board met fourteen times with an average attendance rate of 80.7%. Since the beginning of 2014, the Executive Board has met once with an average attendance rate of 0.66%.

The Executive Board is responsible for the management of the Company that it represents. It defines the Company's development strategy and implements its commercial and financial choices in relation to the operational personnel. It submits its progress to the Supervisory Board on a quarterly basis.

It 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 Company By-laws do not mentioned 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.

The Executive Board is particularly competent for determining, implementing and controlling the Company's strategy, for nominating key personnel, as well as for the external communication and general policy of the company.

The members of the Executive Board are appointed, in accordance with the law, by the Supervisory Board. In compliance with the By-laws of the Company, they may also be revoked individually by the Supervisory Board.

The Company's Executive Committee is composed of six 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 subjects regarding the management of the Company, and in particular its exposure to risks and accounting and budgeting monitoring.

In 2013, the members of the Executive Committee were:

- Hervé Brailly,
- François Romagné, until December 12, 2013
- Catherine Moukheibir,
- Marcel Rozencweig,
- Jérôme Tiollier,
- Yannis Morel,
- Nicolai Wagtmann, from September 18, 2013.

A more detailed description of the responsibilities and composition of the Executive Board and the Executive Committee will be given in the Reference Document.

There are no family ties between the members of the Executive Board and the Executive Committee, either between themselves or with any member of the Supervisory Board, the Audit, Compensation and nomination or the Transactions committees, or the Scientific Advisory Board.

1.3 ORGANIZATION AND OPERATION OF THE GOVERNANCE COMMITTEES OF THE SUPERVISORY BOARD

These committees are as follows:

- An Audit committee, currently composed of, at the date of this present report, Patrick Langlois, Chairman of the Committee, Gilles Brisson and Mrs Irina Staatz-Granzer. Mr. Brisson and Mrs. Staatz-Granzer are both independent members of the Supervisory Board.

  Mr Brisson, an independent member of the Supervisory Board, is the committee member "with special financial or accounting skills" as stipulated by Article L. 823-19 of the Code of Commerce and the report of the work group on audit committees (AMF recommendation dated July 22, 2010), due to his experience in the pharmaceutical industry and the senior management positions he has held at Rhône-Poulenc and Aventis.

  The Charter of the Supervisory board sets the rules relating to the composition, the organization and the role of the Audit committee.
  The Audit committee meets 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 main missions of the Audit committee are the following of the legal control of the half-year and annual accounts, internal control practices, risk analysis, the review of the Statutory Auditors' conclusions, the choice of Statutory Auditors (at the end of their term), their fees, and a review of their independence. The Committee reviews and approves the report from the Chairman of the Supervisory Board on the internal control. The question of internal control is a recurrent item in the agenda of the Audit committee.
  The Audit committee reports to the next Supervisory board and, depending on the case, minutes, signed by one of its members, 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. A more specific description of the powers of this Committee, together with details of its membership, may be found in the Reference document and in the charter of the Supervisory board. In 2013, the Audit committee met three times with an average rate of attendance of 89%.
- A Compensation and nomination committee, at the date of the present report currently composed of Mr. Brisson (Chairman of the Supervisory board), Mr. Langlois and Mr. Pouletty. Mr. Brisson and Mr. Pouletty are independent members of the Supervisory Board.

  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 and/or free shares.
  The Compensation and nomination committee meets as often as required and at least once a year. The committee report to the next Supervisory board and, depending on the case, minutes of its meetings are sent to the members of the Supervisory Board following the meeting of the Compensation and nomination committee. A more specific description of the powers of this Committee, together with details of its membership, may be found in the Reference Document.
  In 2013, the Compensation and nomination committee has met five times with an attendance of 100%.
- A Transactions committee, created in 2007, at the date of the present report currently composed of Mr. Brisson and Ms. Staatz-Granzer, independent members of the Supervisory Board and the company Novo Nordisk A/S, represented by Mr. Per Falk.

  The primary responsibility of the Transactions committee is to examine, with the Company and its investments bankers or consultants, the business and corporate development opportunities that the Company could be considering (these strategic opportunities may include the acquisition of rights on products or the acquisition of other companies as well as out-licensing opportunities). The committee report to the next Supervisory board and, depending on the case, minutes of its meetings are sent to the members of the Supervisory Board.
  In 2013, the Transactions committee did not met.

- The Company get also a Scientific Advisory Board, composed of four consultants in 2013, which all work outside of the Company. The Scientific Advisory Board is not a committee of the Supervisory board as provided in Article R225-29 of the French « *Code de commerce* ».

  The Scientific Advisory Board analyzes the research and development work in progress at the Company plus any significant expansion project in its scientific field or in a related field. The Chairman of the Scientific committee is an observer at Supervisory Board meetings. He intervenes during the Supervisory Board meeting, particularly in order to comment the work of the Scientific Advisory Board, and, depending on the case, minutes sent to the Supervisory board. A more specific description of the powers of this Scientific Advisory Board, together with details of its membership, may be found in the Reference Document.
  In 2013, the Scientific Advisory Board met twice with an average rate of attendance of 87%.

2 COMPENSATION OF SUPERVISORY BOARD MEMBERS AND COMPANY OFFICERS

Full information relating to the principles and rules set by the Supervisory board to determine the remuneration and other perks granted to Supervisory board members appears in chapter 15 of the Reference Document.

2.1 SUPERVISORY BOARD

Attendance fees

Since 2007, the Company pays attendance fees to independent members of the Supervisory Board. Attendance fees include a fixed and a variable part, the latter being based on actual participation in meetings of the Supervisory Board and its committees. It has nevertheless been decided that attendance fees would also be paid to Mr. Langlois.

The rules of distribution were discussed in the Compensation and nomination committee and then approved by the Supervisory Board meeting on December 11, 2007. In addition to a fixed annual amount common to all the beneficiaries, each member is eligible for payments depending on his attendance to meetings of the Supervisory Board and of the committees (see Section 1.3 of this report). The variable part depending on the attendance to meetings of the Supervisory boards or Committees predominates over the annual lump sum.

The envelope of attendance fees voted at the General Meeting of shareholders on June 28, 2013 was 150,000 euros.
The table below provides the amounts granted to each of the independent members of the Supervisory Board for the years 2012 and 2013:

En euros	**Attendance fees 2012**	**Attendance fees 2013**
Gilles Brisson	41,000	44,250
Philippe Pouletty	31,500	27,000
Irina Staatz-Granzer	19,500	26,000
Patrick Langlois	37,000	40,000
Michael Caligiuri*	N/A*	12,750
Total	**129,000**	**150,000**

* Appointed on June 28, 2013

Warrants

Warrants are distributed to independent Supervisory Board members on a regular basis.

The table below summarizes the distribution of warrants to independent members of the Supervisory Board, where each warrant entitles the holder to subscribe one new share:

	Number of warrants		
Date of the General Meeting	**Jun. 27, 2008**	**Jun. 29, 2011**	**Jun. 28, 2013**
Date of the Executive Board meeting	**Jan. 19, 2009**	**Jul. 29, 2011**	**Jul. 17, 2013**
Gilles Brisson, Chairman of the Supervisory Board, independent member	-	25,000	-
Frank Morich, independent member of the Supervisory Board	-	-	-
Philippe Pouletty, independent member of the Supervisory Board	35,000	12,500	-
Irina Staatz-Granzer, Vice-chairman of the Supervisory Board, independent member	-	25,000	-
Michael A. Caligiuri	-	-	25,000

To distribute these warrants, the recommendation of the Compensation and nomination committee is notably based on market practices, as known and detailed by the members of the Compensation and nomination committee, as well as on external information collected by the Company and made available to the Compensation and nominations committee, including a comparison with public companies of the biotechnology industry in France and Switzerland.

2.2 EXECUTIVE BOARD

The remuneration of the members of the Executive Board and the Executive Committee is set by the Supervisory Board, following the recommendation of the Compensation and nomination committee.

The remunerations and any benefits in kind of the members of the Executive Board and the Executive Committee are detailed in the Reference Document. The fixed part of the remuneration is separate from the variable part, whose mechanisms are explained in that document. In order to set the remuneration and any benefits in kind of the members of the Executive Board and the Executive Committee, the Supervisory Board, assisted for this purpose by the Compensation and nomination committee, take into account the performance of the Company as a whole, the collective and individual performances of the executives and the current practices in companies of comparable size and maturity in the biotechnology sector, in France and abroad.

Regarding Article 22 of the AFEP/MEDEF recommendations, relating to employment contract for the Chairman of the Executive Board, this recommendation only applies to mandates given after October 6, 2008 or at the time of the renewal of these mandates when the initial mandate was given before this date, and is at the appreciation of the Supervisory Board. Mr. Hervé Brailly, Chairman of the Executive Board, was first appointed on June 13, 2005 for a six-year tenure. His mandate comes for renewal at the General Meeting of shareholders that will approve the accounts for the fiscal year ended December 31, 2010. On June 29, 2011, the Supervisory Board renewed the mandate of Mr Brailly and authorized him to hold concurrently his employment contract and his mandate as Chairman of the Executive Board. Mr Brailly's position as Chairman of the Executive Board is not remunerated, as for other members of the Executive Board.

The Company does not provide contractual indemnities ("golden parachutes") for Executive Board members.

3 PARTICIPATION OF SHAREHOLDERS AT GENERAL MEETINGS

The last annual General Meeting of shareholders was held on June 28, 2013 at the Company's head office, in accordance with articles 26 to 34 of the Company by-laws. Shareholders present or represented composed 55.91% 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.

All resolutions which were recommended to be adopted by the Executive Board, were adopted, each with a significant majority.

4 ARTICLE L.225-100-3 OF THE FRENCH CODE OF COMMERCE

The information stipulated by article L.225-100-3 of the French Code of Commerce is set out in the Company's Reference Document.

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

AFEP MEDEF Code	Non compliance	Explanations
The code recommends that the Supervisory board achieves and maintains a percentage of at least 20% of women after the first AGM in 2014.	The Supervisory Board consists of six members, one female.	With the Alta Partners' resignation in end of 2012 which was represented by a woman, the 20% threshold is no longer met. The Board will consider the means to remedy before the term of the mandates of the members of the Supervisory Board, before the Annual General Meeting held in 2015 and approving the financial statements for the 2014 fiscal year.
The Code recommends that all members of the audit committee must get financial and accounting expertise (§ 16.1).	The Rules of Procedure of the Supervisory Board, in accordance with Article L.823-19 of the Commercial Code, provides that the obligation for a member of the audit committee at least 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. Brisson, Langlois and Jorgensen have, in terms of their career, the skills required.
The code recommends the renewal of members of the Supervisory Board for each. (§ 14).	. 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 (§17.2.2).	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.
When an officer is a corporate officer of the company, it is advisable to terminate his employment contract which binds the Company (§ 22).	The CEO combines an employment contract with a mandate.	The Supervisory Board during the renewal of Mr. Brailly on June 29, 2011, authorized Mr. Brailly to hold his employment contract and its mandate provided that Mr Brailly receives no compensation under this mandate, as other members of the Executive Board.

CHAPTER 2 INTERNAL CONTROL PROCEDURES

The internal control mechanism set up by the Company based on the recommendations set out in “risk management and internal control reference framework: implementation guidelines for small and mid-cap companies”, updated and published by the French financial markets authority (AMF) on July 22, 2010.

The mechanism applies to the parent company Innate Pharma and its subsidiary Innate Pharma Inc., fully owned,. Internal control procedures specific to each subsidiary could be put in place in the future, based on their specific operations and risks.

2.1 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 personnel.
It comprises a range of resources, behaviors, processes and actions adapted to the specificities of the Company and contributes to the control of its activities, the efficiency of its operations and the efficient use of its resources. It must also take appropriately into account the significant risks, whether operational, financial or conformity risks.

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

- It complies with the applicable laws and regulations
- It is applying instructions and strategic orientations such as determined by the management
- Its internal processes work well, notably those related to the protection of its assets
- Its financial information is reliable.

The mechanism contributes to the prevention and control of the risk that the Company will not achieve the objectives that it has set itself. The purpose of controlling risks related to the Company's operations and to accounting and financial information is aimed at (i) providing managers with tools necessary for managing the business, (ii) providing shareholders and the public with reliable accounting and financial information and (iii) enabling the Company to comply with the applicable laws and regulations.

The Company’s internal control process is nevertheless essentially based on human means. Thus, while it may give a reasonable assurance, it cannot provide an absolute guarantee that the risks the Company is facing are fully controlled.

2.2 COMPANY POLICY WITH REGARD TO INTERNAL CONTROL

The internal control policy is determined based on the Company's objectives.

One of Innate Pharma's significant concerns is to ensure that its activities are controlled. The executive management has therefore backed the installation of an ISO 9001 certified quality system and extended its commitment by assessing and improving its internal control mechanism.

Because of its business model which relies on capital increases, and the nature of its activity, i.e. research and development of drug candidates in the immunotherapy field, the Company is very much exposed to various financial, legal, strategic and operational risks. Innate Pharma is therefore especially committed to identifying and controlling these risks and wants to be able to give its shareholders a relevant vision of its risk environment.

The Company sees its internal control mechanism as a process of continuous and progressive improvement with the objective of complying with the internal control recommendations published by the AMF.

In order to formalize the control process, an internal control manual has been drafted and is regularly updated. It defines the Company's policy regarding internal control, defines responsibilities as well as all the decisions contributing to the control of this activity and to internal control.

2.3 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 Transactions committee are the key tools the Supervisory Board has at its disposal for internal control tasks.

Members of the Executive Board, of the Executive Committee, the intermediate management and the personnel are the actors of the internal control process.

The process of identification and evaluation of the risks is monitored by the Manager, Quality system & metrology in collaboration with the Director, Administration & Finance, who 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. The implementation of the corrective actions aiming at reducing the risks is integrated into the Quality or Internal Control system according to the nature of the risks.

Interim evaluations can be done in case of a major change, with potential impact on the Company's risk profile.

2.4 DISTRIBUTION OF RELEVANT INFORMATION

2.4.1 External communication

As a listed company, the Company complies with strict rules relating to the distribution of information. A code of ethics stipulates that all staff have a duty of confidentiality with regard to certain information, and a code of stock market deontology defines the confidentiality and secrecy obligations relating to so-called privileged information. A list of "insiders" who are party to such privileged information has been drawn up.

Press announcements are released on a regular basis by the Company. They are drafted internally and subject to a reviewing process involving the Executive Board and the Supervisory Board for strategic and financial information. Press releases comprising half-year or full-year financial accounts are also reviewed and discussed by the Audit Committee.

The Reference Document provides the main financial information and notably a discussion on the Company's financial situation and results, the main risk factors, an overview of the activities as well as the governance rules. This document is updated on yearly basis.

Information about the Company can be accessed on its website www.innate-pharma.com.

2.4.2 Internal communication

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

Information regarding the Company's policy and objectives are discussed during annual "strategic goals" meetings with all employees. The Executive Committee members share information regarding the Company and their own field with their teams through various *ad hoc* forums.

As described above, the Executive Committee reviews on a monthly basis the strategic, budgeting and accounting information and reports to the Executive Board and the Supervisory Board.

For operational use, an Electronic Document Management (EDM) system is used to manage Quality system procedures and ensure that they are accessible. This documentary database is also used to ensure the traceability of research and development activities.

2.5 MAPPING AND ANALYSIS OF RISKS

The operational risks identified as of today are presented in Section 5 "Risk factors" of the Reference Document.
Risk mapping is one of the first and major steps for setting up and optimizing an internal control system. Indeed, identifying and evaluating the risks enables to identify actions to be defined for better risk control. These actions constitute the Company's internal control system.

The macro risk map has currently identified the following families of risks: financial, legal, operational, information system, human resources, strategic/partnership/commercial, environment/safety/facilities, fraud and communication. The risk mapping was updated in 2013 following a detailed review.

The 2014 internal audits program will be prepared accordingly to the conclusions of the previous review and will be presented during the first quarter of 2014 to the Executive Committee.

The residual risks are presented and discussed at the Audit Committee.

The main families of risks are the following:

- Operational risks, including risks related to product development;
- Financial risks, notably the inability to finance the Company's activity;
- Risks relating to communication, more precisely the communication of erroneous scientific and medical data;
- Environmental risks, especially fire resulting from the localization of the site.

The Company distinguishes three types of risks relating to accounting and financial information:

- 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 of financial information, with regards to the selection of indicators, the drafting of documents and the financial communication itself,
- Market-related risks linked to foreign exchange risks on operating expenses and to variations of interest rates concerning cash flow and financial instruments.

In order to complete the approach described above, which directly derives from the control actions already in place, the Company also relies on the work performed by its Statutory Auditors as well as on their recommendations, which are discussed each year with the Audit Committee and the Supervisory Board. The matrix of key controls, was reviewed and updated in December 2013. The results of this external evaluation by the Statutory Auditors are presented and discussed with the Audit committee and with the Supervisory Board.

2.6 CONTROL ENVIRONMENT

2.6.1 INTERNAL CONTROL PROCEDURES RELATING TO OPERATIONAL PROCESSES

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

The Quality system is one of the major 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:

- Strategic goals,
- Management of the quality system,
- Human resources: skills management,
- Research and development (pre-clinical and clinical),
- Pharmaceutical operations,
- Procurement,
- Animal facilities,
- Management of scientific equipment,
- Management of buildings and facilities,
- Information systems.

The organization of the quality system is the first element of the internal control over operational risks. 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).

2.6.2 INTERNAL CONTROL PROCEDURES RELATING TO ACCOUNTING AND FINANCIAL INFORMATION

Organisational factors participating to risks limitation:

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 ensures that there is an internal separation between the production and supervision of financial statements, and calls upon independent experts for the evaluation of accounting entries that are complex or require significant management estimates;

- The half-year and annual accounts are reviewed by an external chartered accountant prior to their presentation to the Statutory Auditors;
- Independent consultants are retained to calculate provisions for retirement compensation;
- Payroll management is subcontracted to the external chartered accountant;
- Responsibility for external financial communication is entrusted exclusively to the members of the Executive Board and to the Director of Investor Relations, a position created in 2007.

Since March 1, 2011, Catherine Moukheibir, member of the Executive Committee is in charge of the financial strategy of the Company within the frame of a consultancy contract. She is also member of the Executive board.

The Company has a regular dialogue with its Statutory Auditors, its Audit committee or with third-parties for the interpretation or adoption of new accounting standards be they French or IFRS adoption of new accounting as well as for measures related to internal control.

The book of accounting and financial procedures defines the accounting principles, responsibilities of the personnel of the accounting and finance department, as well as the main processes performed in the Company's operations.

2.6.3 INTERNAL CONTROL SYSTEM IN PLACE

Through the yearly update of risk mapping enabling risks and control actions to be reviewed and evaluate, 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.

In 2004, 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 in 2010 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 of patients included and the duration of the trial.

Time and activity management software was implemented in order to improve resource management and notably the identification of needs and the calculation of the allocation of resources per project. This software also contributes to improving the documentation relating to subsidies and research tax credit.

Risk matrices were formalized for the following accounting cycles of the Company: "Purchasing", "Payroll" and "Fixed Assets". These matrices identify, for each risk, the appropriate implemented risk control(s) covering this risk. In addition, in order to ensure the absence of conflicting functional responsibilities, a matrix of tasks across the organization has been set up. A matrix of controls on the closing process was also formalized.

2.7 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 twice 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 application of the procedures which have been set up, as well as internal control audits to ensure that the internal control mechanisms comply with regulations and with the Company's needs, and that controls are performed.

The Supervisory Board is informed regularly and as needed, by the Executive Board, of the processes related to risk management and internal control. The Audit Committee annually evaluates the efficiency of the risk management and internal control procedures set up by the Company. The conclusions of this evaluation are then reported to the Supervisory Board by the Chairman of the Audit Committee.

This report, which is drafted each year by the Chairman of the Supervisory Board, reports the conditions of the preparation and organization of the works of the Supervisory Board and of the internal control and risk management processes implemented by the Company.

2.8 SUMMARY OF ACTIONS TAKEN IN 2013

During the year 2013, the Company updated its accountancy software, and more specifically the unit relating to the payments. Indeed, from February 1st, 2014, wires and direct debits will be under SEPA (Single Euro Payment Area). The operations relating to this update are completed at 2013 end, the Company is therefore compliant with these new payment standards.

In 2012, following the recommendations presented by the Statutory Auditors, the Company carried out a counting of the laboratory equipment and the general facilities in order to check the accuracy of the fixed asset database. Such a counting has been performed in 2013 for the computer hardware and the intangible assets (mainly software licenses).

Finally, a procedure relating to the drafting and the review of the press releases was written. This procedure covers all the press releases (not the financial ones only).

2.9 OUTLOOK

After several years of process formalization, ongoing thought and actions are undertaken with a view to continuous improvement.

2.10 CONCLUSIONS ON THE INTERNAL CONTROL AND RISK MANAGEMENT PROCESSES

In the light of the arrangements presented in this report, the level of formalization of the internal control mechanism is deemed satisfactory.

The way the various management bodies are involved in internal control work provides an separation between the management activities of the Executive Board and the Executive Committee and the control functions of the Supervisory Board and its committees.

The quality system, the internal control system as well as the meetings of the Executive Board and of the Executive Committee enable the Company to monitor and control its risks appropriately.

The Company is committed to continuing the use of the risk analysis methodology and making it even more operational so that it can become a true management and decision support tool.

Innate Pharma also intends to continue to comply with market recommendations and to review market practices in order to maintain an appropriate standard in this area.

February 10, 2014

The Chairman of the Supervisory Board

APPENDIX 2 - STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE ON THE REPORT PREPARED BY THE CHAIRMAN OF THE SUPERVISORY BOARD OF INNATE PHARMA.

"This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France."

To the shareholders,

In our capacity as statutory auditors of Innate Pharma, and in accordance with article L.225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of the Company in accordance with article L.225-68 of the French Commercial Code for the year ended December 31, 2013.

It is the Chairman's responsibility to prepare, and submit to the Supervisory Board for approval, a report describing the internal control and risk management procedures implemented by the Company and providing the other information required by article L.225-68 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

- to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, and

- to attest that the report sets out the other information required by article L.225-68 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;

- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;

- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Supervisory Board's report, prepared in accordance with article L.225-68 of the French Commercial Code.

Other information

We attest that the Chairman's report sets out the other information required by article L.225-68 of the French Commercial Code.

Marseille, March 5, 2014

The statutory auditors

Audit Conseil Expertise SA *Member of PKF International*	PricewaterhouseCoopers Audit
Nicolas Lehnertz	Vincent Thyssen

APPENDIX 3 - EXTRACT OF MANAGEMENT REPORT – FINANCIAL STATEMENTS OF THE FISCAL YEAR ENDED ON DECEMBER 31, 2013

Results of the activity over the fiscal year ended on December 2013
Statutory financial statements

The statutory financial statements of the Company for the fiscal year ended on December 31, 2013 were prepared and presented in accordance with French accounting principles.

The main differences with the consolidated accounts result from the valorisation of the share based payments, which does not exist under the French accounting principles, the recognition of furniture and consumable used in the context of research activities (deferred under French accounting principles), the expenses relating to finance leases, which are considered as renting costs under the French accounting principles and the actuarial gains and losses relating to defined pension benefits. In addition, the consolidated accounts include the result and the activity of all the subsidiaries or associates and joint ventures.

The analysis of the accounting variances presented in paragraph 2.1 of this report can be used for the analysis of the statutory financial statements of the Company.

Under French accounting principles, the net loss for the fiscal year ended on December 31, 2013 is 3.3 million euros, versus a net loss of 3.7 million euros for the fiscal year ended on December 31, 2012.

The Company proposes to affect in the reserves the loss of 3.3 million euros for the fiscal year ended on December 31, 2013. After this operation, the account “Reserves” will represent a loss of 84.4 million of euros.

APPENDIX 4 - CHARTER OF THE SUPERVISORY BOARD

Innate Pharma S.A.

A *Société Anonyme* organized with an Executive Board and a Supervisory Board

with a share capital of 1,884,339.70 euros

composed by 37,686,794 shares with a par value of 0.05 euro each

Head Office: 117 Avenue de Luminy, 13009 Marseille

Marseille Commercial and Company Registry, No. 424 365 336

CHARTER
OF THE SUPERVISORY BOARD

Modified on June 28, 2012

Preamble

The Supervisory Board of Innate Pharma (the "**Company**"), in its meeting held on June 28, 2012, decided to adopt the following internal regulations (the "**Charter**").

The objectives of the Charter are principally to:

- determine the composition, organization, role and powers of the Supervisory Board, by restating and, when applicable, specifying applicable legal and regulatory provisions;

- optimize the effectiveness of the Supervisory Board meetings and deliberations and to serve as a reference for the periodical self-review conducted by the Supervisory Board;

- and generally, describe the permanent control of the Supervisory Board over the management of the Company by the Executive Board within the framework of the most recent rules that guarantee compliance with the fundamental principles of corporate governance.

Each member of the Board shall observe and comply with the Charter.

In the Charter, the expressions "Supervisory Board" or "Board" and "general shareholders' meeting" designate the Supervisory Board and the general shareholders' meeting of the Company, respectively.

The Charter is strictly internal to the Company and is not intended to replace the By-laws but to implement them from a practical point of view; therefore, such rules are not enforceable against third parties. The Charter shall be made available to the Company's shareholders.

I. COMPOSITION, ORGANISATION AND OPERATION OF THE SUPERVISORY BOARD

ARTICLE 1. COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board is made up of a minimum of three and a maximum of eighteen members, subject to the applicable legal provisions in the event of a merger.

The members of the Supervisory Board are appointed or renewed by the general shareholders' meeting, for two-year terms. There is no limit to the number of terms they can serve.

In the case of a vacancy as a result of the death or resignation of one or several members of the Supervisory Board, the Supervisory Board may, between general shareholders' meetings, make provisional appointments. These appointments are subject to ratification by the next general shareholders' meeting. The member of the Supervisory Board so appointed will remain in office only until the end of his or her predecessor's term.

The members of the Supervisory Board shall be chosen based on their expertise, their diverse experiences, their willingness to be included in the definition and implementation of the strategy of the Company and its subsidiaries, if applicable, and the contribution that they may be able to make to the Supervisory Board.

The Compensation and nomination committee initially reviews proposed appointments in accordance with Article 10 of the Charter.

The number of Supervisory Board members, based on natural persons and representatives of legal entities, who are over the age of 70 may not comprise more than one-third of the total number of Supervisory Board members in office.

The Supervisory Board also appoints a Secretary, who is not required to be a member, and determines the duration of the Secretary's term. The Secretary is replaced by a decision by the Supervisory Board.

Moreover, in accordance with Article 23 of the By-laws, the general shareholders' meeting may appoint, at its discretion, one or several observers, who may be individuals or legal entities and are not required to be shareholders, for a term that will expire during the general shareholders' meeting to approve the Company's financial statements for the period ended after the first anniversary of the their appointment. An appointment can be renewed indefinitely.

Observers that are legal entities are represented by their legal representatives or by any natural person duly authorized.

Observers are notified of and participate in, with a consultative voice, all Supervisory Board meetings under the same conditions applicable to Supervisory Board members. The observers benefit from the same information as the Supervisory Board members and have the same duties of confidentiality and discretion.

ARTICLE 2. INDEPENDENT MEMBERS OF THE SUPERVISORY BOARD

2.1 Number of independent members of the Supervisory Board

At least half of the members shall be designated as independent and shall be free from conflicts of interests with the Company in accordance with Article 2.2 of the Charter.

2.2 Definition and criteria of the independent members of the Supervisory Board

A member of the Supervisory Board is considered an independent member when:

- he or she has no relationship of any kind whatsoever with the Company, its group or its management that could compromise his or her freedom of judgment, and

- he or she does not represent a shareholder who holds more than 10% of the voting rights of the Company.

Therefore, an independent member must not:

- be a current employee or corporate officer[(1)] of the Company or, if applicable, of one of its subsidiaries; a current employee or director of a corporation or other entity, which, pursuant to Article L. 233-3 of the French Code of Commerce, controls the Company individually or in concert with other persons, or a current employee or director of an entity consolidated by the Company, or have held any of these positions within the past five years;

- be a corporate officer of a company in which the Company is, either directly or indirectly, a director, or in which an employee or a corporate officer of the Company either currently or within the past five years is a director;

- be a customer[(2)], supplier, investment banker or commercial banker:

    - that is significant to the Company or, if applicable, to one of its subsidiaries; or

    - for which the Company or one of its subsidiaries represent a significant part of its business;

- have any close family relationship to a corporate officer of the Company or, if applicable, of a subsidiary;

- have been an auditor of the Company or, if applicable, of one of its subsidiaries, or within the past five years;

- be a corporate officer of the company for more than twelve years;

- receive or have received a significant remuneration from the Company or from one of its subsidiaries, except for directors' fees, including participation in stock options plan or to any form of performance-limited remuneration scheme.

The Board may consider that a member of the Supervisory Board, even though he or she may meet the criteria above, does not qualify as independent based on his or her and the Company's particular situation in view of its shareholdings or of any other reason.

2.3 Qualification procedures for independent members of the Supervisory Board

The qualification as "independent" of the members of the Supervisory Board is discussed by the Compensation and nomination committee.

The Supervisory Board must inform the shareholders of its conclusions.

If the independence of a member of the Supervisory Board in relation to the Company is modified, he or she must inform the Chairman of the Supervisory Board immediately in writing so that the Chairman can inform the Supervisory Board and the shareholders.

ARTICLE 3. MEETINGS AND DECISIONS OF THE SUPERVISORY BOARD

3.1 Meetings of the Supervisory Board

The Supervisory Board meets as often as required in the best interest of the Company, and at least four times a year, at the Company's headquarters or in another location specified in the notice. The Supervisory Board hears the report of the Executive Board at least once per quarter.

Supervisory Board meetings are convened by the Chairman or Vice-Chairman of the Supervisory Board by any appropriate means, including by letter, e-mail, fax, or verbally, at least two days before the meeting, except for meetings convened in case of urgency. The agenda of the meeting, all documents (in particular, the drafts of deliberations) shall be enclosed with the notice and sent within the same timeframe.

---

1 In this Article 2.2, corporate officers refer to Chairman or members of the Executive Board of companies with a Supervisory Board and an Executive Board, and to the Chairman, executive officers and executive vice presidents of companies with a Board of Directors.

2 Or be directly or indirectly linked to a customer.

The Chairman of the Supervisory Board shall determine the agenda of the meetings of the Supervisory Board. If the Supervisory Board has not met for more than two months, a member of the Executive Board, or members constituting at least one-third of the Supervisory Board, may request that the Chairman convene a Supervisory Board meeting on a specific agenda. The Chairman shall convene a meeting within fifteen days of receiving such a request. In the absence of such convening by the Chairman, these persons may themselves convene a Supervisory Board meeting and set its agenda.

3.2 Representation

A member of the Supervisory Board may authorize another member of the Supervisory Board to represent him or her during a meeting. Such authorization shall be given by any appropriate written means that certifies without ambiguity the decision of the authorizing member. A member cannot represent more than one other member. The Supervisory Board is the sole judge of the validity of the authorization.

The provisions of the previous paragraph are applicable to permanent representatives of a legal entity.

3.3 Deliberations

The deliberations of the Supervisory Board are not valid unless at least half of its members are present. Decisions are made by a majority of the votes of the members present or represented, each member having one vote. The Chairman of the Supervisory Board presides over the meetings; however, should the Chairman be unable to attend, the Vice-Chairman shall fulfill these responsibilities in accordance with applicable law. In the event that there is no majority, the Chairman shall cast the deciding vote.

For the purpose of calculating quorum and the majority, members who participate in the Supervisory Board meeting by video-conference or other means of telecommunication permitting their identification and effective participation, are taken into account and considered present. These means shall allow all participants to hear each other and satisfy to technical conditions permitting the continuous and simultaneous broadcasting of deliberations. By "effective participation", it is understood that the technical means used shall permit, in real time, simultaneously and continuously, the transmission of the speech or visual image of the member of the Supervisory Board.

Notwithstanding the above, participation in a Supervisory Board meeting by videoconference or telecommunication is not permitted for the adoption of the resolutions of the Supervisory Board concerning the verification and control of annual accounts, and the establishment of the Supervisory Board report on the Executive's Board management report.

The Supervisory Board may authorize non-members to attend the meetings without having the right to vote.

The duration of the meeting should allow the Supervisory Board, to the best of its ability, to examine and discuss thoroughly the relevant subjects.

3.4 Record of Attendance

A record of attendance is signed by the members of the Supervisory Board participating in the meeting.

The Secretary will sign the record of attendance for those members of the Supervisory Board who attend the meeting by videoconference or telecommunication, as they will be unable to sign the record (for themselves and for those members whom they represent).

ARTICLE 4. MINUTES

The deliberations of the Supervisory Board are evidenced by the minutes of a meeting signed by the Chairman and at least one member. The minutes are then adopted at the following meeting. To this effect, each member may propose corrections to the minutes prior to their approval.

The minutes indicate the name of all of the members present, excused or absent, according to applicable law. They also include the presence or absence of persons invited to attend the Supervisory Board meeting and the presence of any other person who attended all or part of the meeting.

The minutes state the option for members to take part in the meetings by means of videoconference or telecommunication and the name of each member who participated in the meeting by those means. The minutes also state any technical incidents relating to means of video-conference or telecommunication that may have occurred during the meeting.

Copies or excerpts of the minutes can be validly certified by the Chairman of the Supervisory Board, the Vice-Chairman or a member of the Supervisory Board.

ARTICLE 5. COMPENSATION OF THE MEMBERS OF THE SUPERVISORY BOARD

5.1 Total amount decided by the general shareholders' meeting

Members shall receive an annual compensation for their services. The total amount of compensation is determined by the general shareholders' meeting and is applicable until a new decision is made in another meeting.

5.2 Allocation of the members' fee determined by the Supervisory Board

The amount of members' fees determined by the general Shareholder's meeting is allocated by the Supervisory Board upon a proposal by the Compensation and the Nominating Committee.

In addition, members may receive additional members' fees for their participation in one of the Committees described in Article 9 of the Charter.

Attendance is one of the criteria for the allocation of members' fees.

Any additional compensation that may be paid to members of the Supervisory Board as well as members of Committees is also based on attendance.

All members of the Supervisory Board shall be entitled to reimbursement, upon verification, of reasonable travel expenses and all other expenses incurred in attending meetings.

Members of different Committees who are simultaneously members of the Supervisory Board shall also be entitled to reimbursement or expenses incurred in attending meetings of the Supervisory Board.

In addition, the Supervisory Board determines, if applicable, the compensation of exterior members of Committees of the Supervisory Board. However, before any payment is made on behalf of the Company, an estimate of such compensation, and more generally, the contractual frameworks of these exterior members' participation, including those who are not compensated, shall be presented to the Supervisory Board who must approve it.

5.3 Compensation of the Chairman of the Supervisory Board

According to the applicable legal and statutory provisions, the Supervisory Board determines, after consulting the Compensation and nomination committee and upon its proposal, the compensation of the Chairman of the Supervisory Board.

5.4 Exceptional compensation of the members of the Supervisory Board

The Supervisory Board may also allocate exceptional compensation for special duties or mandates assigned to certain members according to Article 7.2 of the Charter. Such compensation is subject to the provisions of Article L. 225-86 of the French «Code of Commerce».

5.5 Number of shares to hold

All members of the Supervisory Board, natural persons, legal entities and permanent representatives of legal entities shall hold at least one share of the Company during his or her entire term. Such share(s) must be held in registered form.

II. COMPETENCE AND POWERS OF THE SUPERVISORY BOARD

ARTICLE 6. THE SUPERVISORY BOARD'S INFORMATION

At any time of year, the Supervisory Board shall conduct the controls and verifications it considers appropriate. The Chairman or the Vice-Chairman must provide each member with all of the documents and information required to carry out his or her duties.

At the time the meeting of the Supervisory Board is convened, members shall be provided with the information that is necessary to the examination of the points to be discussed by the Supervisory Board.

Similarly, the Chairman of each Committee shall provide to the Chairman of the Supervisory Board, prior to the meeting of the Supervisory Board, the report that may have been prepared by his or her respective Committee.

Within the context of its control over the management of the Executive Board and by any means, the Supervisory Board shall be informed of the financial, cash and liquidity situation of the Company, its commitments as well as of any significant event bearing on the Company.

More generally, the Chairman of the Executive Board shall communicate to the members of the Supervisory Board all significant information concerning the Company.

The Chairman of the Executive board shall communicate to the Supervisory Board the following information at least once a year:

- A report on the related party transactions entered into during the prior year, as required by Articles L. 225-86 *et seg*. of the French «Code of Commerce»;

- A report on its off-balance sheet commitments or, if applicable, those of its subsidiaries.

Specific information requests shall be addressed to the Chairman of the Executive Board, who shall respond to these requests in a timely manner.

All supplementary information requested by a member, as well as the Company's response, shall be made available to all members of the Supervisory Board in order to preserve the equality of information received.

In order to supplement the information provided, members may also meet with the Company's senior managers, outside the presence of the Executive Board members. In this case, the Executive Board must be informed in advance of such a meeting by the Supervisory Board.

ARTICLE 7. RESPONSIBILITIES AND POWERS OF THE SUPERVISORY BOARD

7.1 Definition of the responsibilities and powers of the Supervisory Board

In accordance with current and applicable law:

The Supervisory Board shall exercise the permanent control of the Company's management over the Executive Board.

At any time of the year, the Supervisory Board shall conduct the controls and verifications it considers appropriate, and shall be provided with all of the documents and information required to carry out its responsibilities.

The Executive Board shall present its report to the Supervisory Board on a quarterly basis.

Within three months from the end of the fiscal year, the Supervisory Board shall verify and approve the Executive Board's management report and annual financial accounts.

At the annual general meeting of shareholders, the Supervisory Board shall present its observations on the Executive Board's management report as well as on the annual financial accounts.

Furthermore, the Supervisory Board has specific responsibility for, notably:

- Authorization of "related-party transactions" as defined by applicable law;

- Cooptation of members of the Supervisory Board;

- Appointment of the members of the Executive Board;

- Determination of the Executive Board members' compensation as corporate officers of the Company, upon the proposal of the Compensation and nomination committee;

- Designation of the Chairman of the Executive Board;

- Allocation of representation power to one or several members of the Executive Board;

- Appointment of Committee members described in Article 9 of the Charter;

- Allocation of members' fees;

- Authorization of securities, sureties and warranties;

- Authorizations of divestitures of real estate or of the partial or complete divestiture of holdings in a legal entity or of the constitution of security interests;

- Transfer of the headquarters within the same department or an adjoining department subject to the decision by the general meeting of shareholders;

- Approval of the report of the Chairman of the Supervisory Board on the composition, the functioning of the Board and on internal controls.

7.2 Possibility to assign a specific task to a member of the Supervisory Board

When the Supervisory Board decides to assign a specific task to one or several members or to one or several third parties, the Supervisory Board shall determine the principal characteristics of the task being assigned. When the persons being assigned a specific task are members of the Supervisory Board, they do not take part in the vote.

On the basis of this deliberation, the Chairman of the Supervisory Board shall propose a draft task letter that:

- Defines the precise purpose of the task;

- Determines the nature of the report that shall be produced following completion of the task;

- Determines the length of the assignment;

- Determines, if applicable, the compensation due to the assignee, as well as the conditions of payment;

- Predetermines, if applicable, a ceiling on the amount of reimbursement paid to the assignee for reasonable travel and other expenses incurred in achievement of the task.

The Chairman of the Supervisory Board submits, in such case, the draft task letter for the review of the Compensation and nomination committee, as well as to other Committees, if applicable, and provides to the Chairmen of such Committees the signed task letter.

The Supervisory Board shall then reach a decision regarding the task letter, subject to the provisions of Article L. 225-86 of the French «Code of Commerce».

The Chairman of the Supervisory Board shall communicate the report produced following completion of the task.

ARTICLE 8. CHAIRMAN OF THE SUPERVISORY BOARD

The Chairman of the Supervisory Board shall organize and conduct the Supervisory Board's activities and provide a report on its activities to the general shareholders' meeting. He or she oversees the proper functioning of the Company's bodies and ensures, in particular, that the members are in a position to fulfill their their duties and responsibilities.

The Chairman of the Supervisory Board shall present the composition and functioning of the Board as well as the internal control procedures established by the Company in a report attached to the annual management report.

The Chairman is appointed for a time which cannot exceed that of his or her term as a member. He or she may be reelected.

The maximum age allowed for the Chairman of the Supervisory Board is 70.

If the Chairman exceeds this age limit, he or she is automatically considered to have resigned from his or her position. He or she will remain in office until the first meeting of the Supervisory Board following the date on which he or she exceeds his or her age limit.

In the case of temporary impediment or death of the Chairman of the Supervisory Board, the Supervisory Board shall designate a member of the Board to take on the responsibilities of the Chairman. In the case of temporary impediment, this designation is made for a limited time and is renewable. In the case of death, this designation is valid until the election of the new Chairman of the Supervisory Board.

III. COMMITTEES

ARTICLE 9. COMMITTEES – GENERAL PROVISIONS

The Supervisory Board may create, on an ad hoc or on a permanent basis, one or several specialized committees (the "Committee(s)") and shall define their composition, attributions and responsibilities and shall appoint the members of these committees. The Supervisory Board may not delegate powers to a Committee that are allocated to the Supervisory Board by law or in the Company's By-laws. These Committees serve a purely internal purpose for the Company and do not have any authority.

The current permanent Committees are the following:

- Compensation and nomination committee;
- Transactions committee; and
- Audit committee.

Moreover, the company has set up since 2000 a Scientific Advisory Board, comprised of external consultants.

Each Committee reports on its activities to the Supervisory Board.

The Committees have a strictly consultative role. The Supervisory Board autonomously reviews the conclusions presented by the Committees. Each Supervisory Board member may vote independently of the studies, investigations or reports of the Committees or of their eventual recommendations.

Each Committee shall be comprised of at least two members and at most five members. These members are appointed on a personal basis and may not be represented.

The Committees are exclusively comprised of Supervisory Board members.

The term of office of Committee members coincides with that of their term of office as Supervisory Board members. The term of office of a Committee member may be renewed at the same time as that of a Supervisory Board member.

The composition of these Committees may be modified at any time upon decision of the Supervisory Board.

Committee meetings are held at the Company's registered offices or any other location designated by the Chairman of the Committee. However, Committee meetings may be held, if necessary, by telecommunication or videoconference. A Committee meeting may be held only upon the participation of at least half of its members, including participation by telecommunication or videoconference (in compliance with the provisions of Article 3.3).

The Chairman of each Committee shall establish the agenda of each meeting and directs the deliberations.

The Chairman of each Committee shall designate a person within the Committee whose responsibility it is to prepare the minutes at the end of every meeting. These minutes are then presented to the Chairman of the Supervisory Board. The Company will maintain a record of these minutes.

The Chairman or a member of each Committee shall present, as the case may be, reports on their activities and recommendations of the Committee to the Supervisory Board.

The evaluation of each Committees' activities are exposed in the report of the Chairman of the Supervisory Board on the composition, the functioning of the Supervisory Board and on the procedures of internal controls.

The number of Committee meetings held during the fiscal year and the participation of Committee members at these meetings are indicated in the report of the Chairman of the Supervisory Board on the composition, the functioning of the Supervisory Board and the procedures of internal controls.

In each of their respective domains, the Committees transmit proposals, recommendations and opinions accordingly. In this respect, each Committee may perform a study or assign a study to external consultants in order to assist the deliberations of the Supervisory Board.

The Committees of the Supervisory Board may liaise, for the carrying out of their duties, with the main executives of the Company, after informing the Chairman of the Supervisory Board and subject to reporting to the Supervisory Board on such contacts.

The Committees of the Supervisory Board may also request external technical studies relating to matters within their competence, at the Company's expense, upon consent given by the Chairman of the Supervisory Board or the Supervisory Board itself and subject to reporting to the Supervisory Board on such requests.

Members of the Supervisory Board who are also Committee members shall receive additional members' fees granted by the Supervisory Board upon proposition of the Compensation and nomination committee.

ARTICLE 10. COMPENSATION AND NOMINATION COMMITTEE

10.1 Composition

The Compensation and nomination committee is comprised of members of the Supervisory Board. A majority of its members are independent Board members.

Members of the Compensation and nomination committee and its Chairman are designated by the Supervisory Board.

The Chairman of the Supervisory Board may be invited to attend Committee meetings regarding proposals of appointments to the Supervisory Board.

The Compensation and nomination committee reviews the Executive Board's evaluation of the Company's performance based on their defined objectives, meets independently from the Executive Board to evaluate the performances of the individual members and, after having conferred with them, makes recommendations to the Supervisory Board concerning their compensation.

The term of office of Compensation and nomination committee members is one year and is renewable.

10.2 Operations

Meeting attendance

In addition to its members, the Compensation and nomination committee may also invite anyone capable of assisting it in its opinions to its meetings.

Confidentiality

The information provided to the Compensation and nomination committee or to which it has access is confidential. The members of the Compensation and nomination committee must therefore adhere, with respect to any persons that are not members of the Supervisory Board, to the same strict confidentiality requirements that apply to members of the Supervisory Board. These requirements are also applicable to non-members invited to attend a Compensation and nomination committee meeting.

Frequency of meetings

The Compensation and nomination committee meets as often as it deems necessary and at least once a year upon convocation of its Chairman or the Chairman of the Supervisory Board.

10.3 Attributions

The Committee's main tasks are:

- Compensation of the Executive Board members: the Committee, in accordance with the criteria defined by the Executive Board taking into account the performance of the Company based on the defined objectives and the personal contributions of each of the Executive Board members in achieving these objectives, and also in consideration of the general compensation practices of comparable French and foreign companies, shall:

  · recommend to the Supervisory Board the annual level of fixed compensation of the Executives;

  · recommend the amount of the variable compensation based on the work performed;

  · examine other forms of compensation and benefits, including pensions and contingency funds;

- Submitting proposals concerning the total amount of members' fees, their allocation, the individual amounts of payments to be made to the Supervisory Board and of the Committees in consideration of their attendance and tasks performed within the Supervisory Board and the Committees;
- The general policy for allocating stock option or purchase plans or free shares and all other forms of share-based compensation proposed by the Executive Board ;
- Any share capital increases reserved for employees;
- Changes in the salaries of executives and certain key employees;
- The independence of each Supervisory Board member and the preparation of the procedures for selecting future Supervisory Board members and for evaluating the candidates;
- The appointment of Executive Board members, executives and certain key employees;
- The composition of the Supervisory Committees;
- The prevention of conflict of interests within the Supervisory Board; and
- The drafts of significant modifications in the organization of the management of the Company or of one of its subsidiaries.

ARTICLE 11. TRANSACTIONS COMMITTEE

11.1 Composition

The Transactions committee is comprised of the Chairman of the Executive Board and of members of the Supervisory Board. A majority of its members are independent Board members.

Members of the Transactions committee and its Chairman are designated by the Supervisory Board.

The members of the Executive Board inform the Transactions committee of the strategy and possible opportunities for development and partnerships. The Transactions committee submits proposals to the Supervisory Board.

The term of the Transactions committee members is one year and is renewable.

11.2 Operations

Meeting attendance

In addition to its members, the Transactions committee may also invite anyone capable of assisting in its opinions to its meetings.

Confidentiality

The information provided to the Transaction committee or to which it has access is confidential. The members of the Transaction committee must therefore adhere, with respect to any persons that are not members of the Supervisory Board, to the same strict confidentiality requirements that apply to members of the Supervisory Board. These requirements are also applicable to non-members invited to attend a Transaction committee meeting.

Frequency of meetings

The Transactions committee meets as often as it deems necessary and at least once a year upon convocation of its Chairman or the Chairman of the Supervisory Board.

11.3 Attributions

The Transactions committee's primary responsibility is to examine with the Company and its investment bankers and/or consultants, business and corporate development opportunities (these strategic opportunities may include in-licensing of products and acquisitions of other companies), and to this end it will:

- 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.

ARTICLE 12. AUDIT COMMITTEE

12.1 Composition

The Audit committee is comprised of members of the Supervisory Board only. At least one member of the Audit committee must have particular expertise in financial or accounting matters, and be independent (in the meaning of Article 2).

The term of the members of the Audit committee members is one year and is renewable.

12.2 Operations

Attendance at Board Meetings

The Audit committee and its members may invite the Chairman of the Board, the Vice-Chairman and the members of the Executive Board to attend meetings.

Another member of the finance department, as well as the person who is in charge of the internal control may also participate in these meetings.

The Audit committee shall interview the Company's Statutory Auditors within the context of the preparation of the half-yearly and annual financial statements. Furthermore, the Committee may obtain from the Statutory Auditors at any time all useful information for the execution of its responsibilities.

The Statutory Auditors may also request a meeting with the Committee. The Audit committee shall meet at least once per year in the sole presence of the Statutory Auditors.

The members of the Audit committee may also call upon the services of an independent expert.

Confidentiality

The information provided to the Audit committee or to which it has access is confidential. The members of the Audit committee must therefore adhere, with respect to any persons that are not members of the Supervisory Board, to the same strict confidentiality requirements that apply to members of the Supervisory Board. These requirements are also applicable to non-members invited to attend an Audit committee meeting.

Frequency of the Meetings

The Audit committee shall meet as often as it deems necessary and at least two times per year to examine the Company's half-year and annual financial statements upon convocation of its Chairman or the Chairman of the Supervisory Board.

The Audit committee meets physically, by conference call or videoconference. The Audit committee decision can also be taken by written consultation (mail or e-mail) on the topic of the renewal of the Statutory Auditors mandate or on the audit annual budget.

The Statutory Auditors may request that the Chairman of the Supervisory Board convene the Committee if they deem it necessary.

12.3 Attributions

The Audit committee's primary responsibility is examining the half-year and annual financial statements and any other significant financial information and reporting to the Supervisory Board the content of the financial statements as well as its assessment regarding the effectiveness and quality of the information. It also has the responsibility to make recommendations to the Supervisory Board regarding the Company's internal controls.

Without getting into the details of the financial statements, the Committee shall be responsible for determining the effectiveness of the information system that contributes to their establishment and the validity of the manner in which they record significant transactions.

The Committee examines the significant financial transactions which may have or which may result in a conflict of interests.

The Committee provides its opinion on the appointment and renewal of the Statutory Auditors and the quality of their work. The Audit committee's attributions also include the following tasks:

- To guide the selection of Statutory Auditors;
- To make recommendations on the amount of fees requested by the Statutory Auditors for their activities;
- To verify compliance with regulations which guarantee the independence of the Statutory Auditors.

The Committee is responsible for examining the financial, accounting and general fiscal policy of the Company or of one of its subsidiaries and for the implementation of such policy.

The Committee shall be in charge of all matters submitted by the Supervisory Board.

Financial information

It must also:

- Obtain the general work programme set by the statutory auditors, as well as of the tests they carried out;
- Examine the half-year and annual financial statements before they are submitted to the Supervisory Board and particularly:
    - Study the accuracy and effectiveness of the accounting methods used to draw up the accounts;
    - Control the integrity of the financial information published by the Company;
    - Review the major forecasts made by management;
    - Obtain comments made by the Statutory Auditors and, if applicable, significant adjustments resulting from the audit;
- Examine the risks, litigations and significant off-balance sheet commitments;
- Regularly examine the major financial risks with management and, if applicable, give an opinion on the significant financial transactions of the Company or one of its subsidiaries; and
- Examine the activities, the conclusions and the recommendations of the Statutory Auditors.

Internal audit

The Committee shall follow-up on the internal control, the audit of the Company and on the risk management.

More specifically, the Committee shall verify that the procedures of financial control and internal controls for collecting and controlling of information are defined and guarantee the accuracy of the financial information. The Committee regularly evaluates the quality of these internal controls procedures and, if applicable, notifies the Supervisory Board of the irregularities or anomalies in the accounts. It shall ensure, if applicable, that the accounts are improved on a regular basis.

The Committee examines the draft Supervisory Board Report on the composition, the functioning of the Supervisory Board and the procedures of internal controls.

ARTICLE 13. AD HOC COMMITTEES

In addition to the permanent Committees, the Supervisory Board may at any time create one or more temporary, or not, ad hoc committees, notably for reviewing conflicts of interest and assessing the composition and operating methods of the Supervisory Board.

ARTICLE 14. CENSORS

Pursuant to Article 23 of the By-laws, an ordinary meeting of shareholders may appoint one or more censors at its discretion, who may be natural persons or legal entities, and may be shareholders or non-shareholders, for a term of office expiring at the shareholders meeting convened to decide on the financial statements for the financial year during which they were appointed. This appointment may always be renewed.

Censors take part in all the meetings of the Supervisory Board and have a consultative vote, according to the same methods as those that apply to members of the Supervisory Board. They are entitled to the same information and communication as members of the Supervisory Board and are bound by the same obligations of confidentiality and discretion, described in Articles 15 to 20 below.

IV. CODE OF ETHICS OF THE MEMBERS OF THE SUPERVISORY BOARD

ARTICLE 15. PRINCIPLES

Each Supervisory Board member must be able to serve his or her term according to the rules of independence, ethics and integrity.

Pursuant to the principles of corporate governance of the Company, each Supervisory Board member shall exercise his or her functions in good faith, in consideration of the Company's best interests and with the same diligence that a reasonably prudent person would exercise in comparable circumstances.

Each Supervisory Board member shall strive, in all circumstances, to preserve his or her independence of analysis, judgment, decision and action and to disregard all direct and indirect pressure that could affect him or her.

15.1 Confidentiality

The Supervisory Board members, as well as any person attending the Supervisory Board meetings, are held to general confidentiality requirements regarding information they are given by the Company, whether they receive the information before or during a Supervisory Board meeting or in reports or the documents given to them during a Supervisory Board meeting or when supplementary information or Committee reports are requested. In general, the Supervisory Board members, in their position as members of the Supervisory Board, are expected to withhold from communicating outside the Company, especially to the press.

Non-public information given to a Supervisory Board member in the course of performing his or her functions is provided to him or her in his or her quality as a Board member. He or she must protect its confidentiality and may not under any circumstance disclose it. This obligation also applies to the representatives of legal entities who are Supervisory Board members.

15.2 Responsibility of independence of Supervisory Board members

In the exercising of his or her appointed term, each Supervisory Board member should determine whether he or she is independent of any interest that conflicts with the corporate interests of the Company. Each Supervisory Board member undertakes to verify that Company decisions do not favor one category of shareholders over another.

Each Supervisory Board member shall inform the Supervisory Board of any conflict of interest, actual or potential, current or future, in which he or she is or may be, directly or indirectly, implicated. He or she must then refrain from participating in deliberations and decisions regarding those topics.

ARTICLE 16. INFORMATION OF SUPERVISORY BOARD MEMBERS

Before accepting his or her appointment, each Supervisory Board member must be familiar with the legal and regulatory texts related to his or her position and with the specific provisions of the Company's By-laws and of this Charter.

ARTICLE 17. DECLARATION OF THE SUPERVISORY BOARD MEMBERS REGARDING THEIR PERSONAL SITUATION

Each Supervisory Board member shall regularly inform the Company of changes in his or her personal situation, including, in particular, the following:

- The existence and nature of family relationships between Supervisory Board members and the Executive Board members or other Executive officers;

- The names of all of the Companies for which a Supervisory Board member is or was a member of an administrative, management or supervisory body, or an active partner, at any time during the last five years ;

- Any conviction for fraud over the course of at least the last five years;

- Any bankruptcy, receivership or liquidation over the course of at least the last five years;

- Any incrimination or official public sanction by a statutory or regulatory authority;

- A court injunction preventing him or her to (a) act as a member of an administrative, management or supervisory body or (b) participate in the management or oversight of a company's activities over the course of the last five years.

The Company is required to make a declaration regarding the aforementioned elements in its Reference Document and, if applicable, for a financial transaction requiring a visa from the French *Autorité des marchés financiers*, in a prospectus. It is therefore the responsibility of the Supervisory Board members to inform the Company of any information that may be pertinent to such a declaration.

ARTICLE 18. CONTROL AND EVALUATION OF THE OPERATION OF THE SUPERVISORY BOARD

Supervisory Board members should be aware of the distribution and exercise of the powers and responsibilities of the Company's governing bodies.

Supervisory Board members shall verify that no one exercises any unapproved discretionary authority over the Company. They should ensure that the Supervisory Board Committees are operating effectively.

On a regular basis, the Supervisory Board shall include on its agenda a deliberation regarding its operation, and its evaluation, as well as, if applicable, regarding the operation and evaluation of the Committees it has created and which performed the same self-evaluation. To fulfill this obligation, and based on the recommendations of the Compensation and nomination committee, the Supervisory Board shall:

- Analyze its method of operation;

- Evaluate the quality and efficiency of the deliberations of the Supervisory Board;

- Verify that significant issues were properly prepared and discussed and that the Supervisory Board members had access to information and the conditions of the preparation for the meetings;

- Evaluate the effectiveness of the Supervisory Board in executing its responsibilities;

- Analyze the reasons for any weakness perceived by the Chairman, the members of the Supervisory Board or the shareholders.

The Chairman of the Supervisory Board informs the shareholders in his or her report on the composition and functioning of the Supervisory Board and internal controls procedures.

A meeting of the Supervisory Board members who are independent from general management, prepared by the Compensation and nomination committee, can be organized annually at request of the Compensation Committee, without the presence of the Chairman and/or Vice-Chairman of the Supervisory Board, if necessary, to evaluate their performances.

ARTICLE 19. PRESENCE OF SUPERVISORY BOARD MEMBERS

Each Supervisory Board member shall agree to use his or her best effort to attend all Supervisory Board meetings and, if applicable, the meetings of the Committees, in accordance with a calendar decided upon in advance and provided to him or her, and to be available for any extraordinary meeting.

In general, it is recommended that all Supervisory Board members attend the Company's general shareholders' meeting.

The number of meetings and their agenda and the participation of the members in Supervisory Board meetings shall be indicated in the Supervisory Board Chairman's report on the composition, the functioning of the Supervisory Board and on the internal controls procedures.

ARTICLE 20. TRANSACTIONS ON COMPANY SECURITIES

In accordance with Article L. 621-18-2 of the French Monetary and Financial Code, Articles 223-22 to 223-26 of the General Regulations of the French *Autorité des marchés financiers* and instruction n° 2006-05 of February 3, 2006 relating to transactions of the directors and the persons mentioned in Article L. 621-18-2 of the French Monetary and Financial Code on Company securities, the directors, persons associated with them, and persons closely related to them (except a portfolio manager acting on behalf of other legal entities that are corporate officers within the group to which the Company belongs, legal entities that are corporate officers acting on behalf of others) must declare any acquisition, transfer, subscription or exchange of securities when the aggregate value of these transactions performed during the calendar year is greater than €5,000.

These persons are included on a list that is updated on a regular basis and submitted to the AMF and to interested parties and they must abstain from any transaction if they are aware of confidential information.

Each of these persons must submit his or her declaration, accompanied by a bank statement, to the AMF within five trading days following the close of the transaction pursuant to the requirements of instruction n° 2006-05 mentioned above. Such a person must also send a copy of this declaration to the Company.

The AMF shall publish these declarations on its website. The content of these declarations is also included in the management report presented at the Company's annual general shareholders' meeting.

APPENDIX 5 - FEES PAID TO THE STATUTORY AUDITORS

Fees of the Statutory Auditors and the members of their networks paid for by the Company

The table below sets out the fees of the Statutory Auditors and the members of their networks paid for by the Company for the fiscal years 2012 and 2013:

	Audit Conseil Expertise – Member of PKF International			
In euros	**Amount (excluding VAT)**		**%**	
	2013	**2012**	**2013**	**2012**
Audit				
- Statutory Auditor, certification, examination of the annual accounts in French standards	64,753	58,650	97	100
- Other work directly related to the Statutory Auditors' Engagement	1,665	-	3	-
Sub-total	**66,418**	**58,650**	**100**	**100**
Other services				
- Tax	-	-	-	-
- Others	-	-	-	-
Sub-total	-	-	-	-
TOTAL	**66,418**	**58,650**	**100**	**100**

	PricewaterhouseCoopers Audit			
In euros	**Amount (excluding VAT)**		**%**	
	2013	**2012**	**2013**	**2012**
Audit				
- Statutory Auditor, certification, examination of the annual accounts in French standards	67,850	61,710	100	100
- Other work directly related to the Statutory Auditors' Engagement	-	-	-	-
Sub-total	**67,850**	**61,710**	**100**	**100**
Other services				
- Tax	-	-	-	-
- Others	-	-	-	-
Sub-total	**-**	**-**	**-**	**-**
TOTAL	**67,850**	**61,710**	**100**	**100**

APPENDIX 6 - SELECTED FINANCIAL INFORMATION OVER THE LAST FIVE FISCAL YEARS

In thousands of euros, except for information per	**2009**	**2010**	**2011**	**2012**	**2013**
Revenue from collaboration and licensing agreements	3 243	211	7,454	10,377	10,469
Government financing for research expenditures	4 407	4 109	4,286	3,905	4,182
Non-core services	65	-	-	-	-
Revenue and other income	**7 716**	**4 320**	**11,740**	**14,282**	**16,651**
Research and development expenses	(18 032)	(14 041)	(14,843)	(13,418)	(15,131)
General and administrative expenses	(5 219)	(3 969)	(4,467)	(4,251)	(4,313)
Net operating expenses	**(23 251)**	**(18 010)**	**(19,310)**	**(17,668)**	**(19,444)**
Operating income (loss)	**(15 535)**	**(13 690)**	**(7,570)**	**(3,386)**	**(2,792)**
Financial income / (expense), net	910	32	590	185	(99)
Net income (loss)	**(14 626)**	**(13 658)**	**(6,980)**	**(3,199)**	**(2,892)**
Number of shares outstanding					
Average number of shares outstanding (in thousands)	26 299	37 435	37,687	37,802	38,703
Net income (loss) per share (in euros)					
Net income (loss) per share (basic)	(0,56)	(0,36)	(0,19)	(0,08)	(0,07)
Balance sheet					
Cash, cash equivalents and current financial instruments (1)	49 194	34 581	46,606	32,616	41,348
Total assets	64 219	48 010	60,109	48,295	55,882
Total capital and reserves attributable to equity holders	47 122	33 516	26,625	23,364	40,286
Total financial liabilities	8 277	7 487	6,770	4,505	4,819
Net cash, cash equivalents and current financial	**40 917**	**27 094**	**39,836**	**28,111**	**36,350**
Statement of cash flow					
Changes in working capital	6 778	(666)	19,120	(8,560)	(9,415)
Net cash generated from / (used in) operating activities	(5 936)	(13,449)	12,986	(10,475)	(10,967)
Net cash generated from / (used in) investing activities	18 940	(289)	2,445	(3,411)	(958)
Net cash generated from financing activities	22 559	(893)	(659)	(2,148)	19,677
Net increase / (decrease) in cash and cash equivalents	**35 563**	**(14 631)**	**14,789**	**(16,022)**	**7,776**
Cash and cash equivalents at the beginning of the year	10 885	46 448	31,818	46,606	30,584
Cash and cash equivalents at the end of the year*	**46 448**	**31 818**	**46,606**	**30,584**	**38,360**

** Does not include current financial instruments amounting to 2,746 thousand euros, 2,763 thousandseuros, 2,032 thousand euros and 2,989 thousand euros as at December 31, 2009, 2010, 2012 and 2013 respectively.*

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

APPENDIX 7 - REGULATORY ENVIRONMENT

1. Introduction

Research and development work, pre-clinical tests, clinical studies, facilities, and the manufacture and sale of the Company's products 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 ("EMEA"), the Food and Drug Administration ("FDA") in the United States, l'Agence Française de Sécurité Sanitaire des Produits de Santé ("AFSSAPS") 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 pre-clinical developments, clinical trials and laboratory tests. The development of a new drug from fundamental research to marketing comprises five steps: (i) research, (ii) pre-clinical trials, (iii) clinical trials in humans, (iv) marketing authorization and (v) marketing.

In France, law No. 88-1138 of 20 December 1988, referred to as the Huriet-Sérusclat law, amended by law No. 2004-806 of 9 August 2004 on public health policy, sets the conditions under which biological research should be organized for the development of drug candidates. This law added Articles L. 1121-1 *et seq*. to the French Public Health Code in a Section devoted to biomedical research.

2. Regulation of clinical trials

In humans, clinical trials are usually carried out in three phases that are generally sequential, but can also overlap, as described in Section 6.3.2 of this Reference Document. Clinical trials are sometimes necessary after marketing to explain certain side-effects, investigate a specific pharmacological effect, obtain more accurate additional data or explore new indications. 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.

Clinical trial authorization

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 French legislation by 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. This regulation replaces the declaration system laid down in the Huriet-Sérusclat law of 20 December 1988, which required that a biomedical research protocol be presented to an Advisory Committee for an advisory opinion for the protection of individuals in biomedical research, and a statement by the promoter of the protocol to the AFSSAPS (French Agency for the Safety of Healthcare Products, which became the ANSM in 2012) before the start of clinical trials. From August 27, 2006, when this new legal and regulatory framework was implemented in France, a clinical trial must be authorized by the ANSM and receive a positive opinion from an ethic committee before its starts. The ANSM manages and evaluates biomedical research on health products. 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.

According to Article L. 1123-7 of said code, 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 ANSM can inform the initiator that it has objections to undertaking the research. The promoter may then modify the content of the research project and submit a new application to the ANSM; however, such a procedure may only be applied once. If the promoter does not modify the content of his application, it is considered as being rejected. According to the terms of the decree of 26 April 2006, the time for examining the application for authorization may not exceed 60 days from the date on which the complete file was received. Lastly, according to Article L. 1123-11, if there is a public health risk or if the ANSM considers that the conditions under

which the research is carried out no longer comply with the conditions in the application for authorization or do not comply with the provisions of the French Public Health Code, it may at any time request that the research procedures be modified, and may suspend or even prohibit the research.

The current regulations relating to clinical trials, which are governed by the 2001 Directive cited above, are in the process of being revised.

Following tripartite negotiations with the European Parliament and the European Commission and Council, on December 20, 2013 the Member States (Coreper) approved a compromise text with the European Parliament in relation to the draft Regulation on clinical trials (2012/0192(COD)).

The new legislation takes the form of a European Regulation, allowing the rules for clinical trials to be uniform throughout the European Union.

The new regulation is intended to reduce the administrative formalities and to reactivate patient-based research in Europe. The aim is to restore the European Union's competitiveness in the field of clinical research and to develop new innovative treatments and drugs which will ultimately benefit patients.

The main changes introduced by the regulation are as follows:

- **The (single) authorization procedure for clinical trials** will allow a quick and detailed examination of the request by the relevant Member States and will lead to one single evaluation result. The authorization request will be filed via a portal associated with a European Union database. The use of this portal will constitute a pre-requisite for examination of the authorization request.

- **The extension of the principle of tacit agreement to the entirety of the authorization procedure;**

- **The improvement of the conditions for conducting multinational clinical trials;**

- **The strengthening of the rules on patient protection and informed consent;**

- **Increased transparency in relation to promoting recruitment of participants in clinical trials and their results;**

- **The possibility for the European Commission to undertake checks in Member States and third countries to verify that monitoring and compliance with the rules are effective.**

The regulation is due to be formally adopted by the Parliament and the Council on March 10, 2014. The text will then be formally adopted in spring 2014 by the Member States. It will apply from 2016.

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

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"). These Good Clinical Practices ("GCP"), which were the subject in France of a decision dated November 24, 2006 setting the rules of good practices for biomedical research manipulating drugs for humans and stipulating applicable standards, constitute a set of ethical and scientific quality requirements that must be met during the planning, implementation, registration and notification of clinical trials. Directive 2005/28/EC dated 8 April 2005 also adopted the GCP principles in the context of strengthening the regulatory structure specified by Directive 2001/20/EC. The competent authority designated in each Member Country to authorize clinical trials must take into consideration, among other factors, the scientific value of the study, the safety of the participants and the possible responsibility of the clinical site.

Conducting clinical trials

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. Articles L.1122-1 *et seq*. of the French Public Health Code specify that 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.

3. 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 EMEA 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 "CTD". The file relating to the AMM describes the manufacture of the active substance, the manifacture 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.

Registration procedures in Europe

To access the European markets through community procedures, drug products must be submitted to either the centralized procedure, the mutual-recognition procedure or the decentralized procedure.

- 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. If the marketing authorization is granted by the EMEA, it is automatically valid for all European Union member states.

- 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.

National procedure has a decreasing interest as community procedures are becoming more and more popular in Europe.

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.

Since 2008, as a consequence of a European directive, a marketing authorization is now renewed only once, five years after the intitial registration, The marketing authorization is then valid for an unlimited period unless the authorities ask the laboratory to undertake a renewal on an exceptional basis (following a problem with pharmacovigilance for example).

It is possible for a drug to be withdrawn from the market, upon the request of the health authorities, if a serious prblem arises, in particular a safety-related problem. The marketing authorization is then cancelled.

There can be various reasons for the withdrawal of drugs from the market, with the main ones being reasons of public health, major undesirable side effects and non-compliance with manufacturing rules.

Registration procedures outside of Europe

Pharmaceutical firms who whish 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 order to facilitate the registration in these countries, a worldwide harmonization process of regulation for the development and registration of medicinal drugs is being implemented: the International Conference on Harmonization, or "ICH".

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.

An NDA/BLA should give enough information, data and analysis to allow the FDA to answer major questions such as:

- If the drug is safe and effective for its intended use, and whether its benefits outweigh the risks;
- If the labeling of the drug is appropriate, and if this is not the case, what should it contain; and
- If the methods used in the manufacture and control to maintain quality of the drug are adequate to preserve the identity of the drug, strength, quality and purity.

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.
- Accelerated approval: the evaluation process is accelerated (150 days instead of 210 days) when a drug is of major interest from the standpoint of public health.
- 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. The pharmaceutical company must justify the presumed efficacy of the drug which the assessment is inadequate, and undertake to submit a proper marketing authorization within a certain timeframe.

In the United States, the Congress adopted a new regulation in 1997 (Food and Drug Administration Modernization Act or "Modernization Act"), intended to facilitate the access to market of new non-toxic and effective drugs, medical devices and biologicals by expediting the review process by the FDA. The Modernization Act establishes the legal framework for the review and accelerated approval of products. As in Europe, these procedures 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. 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 therepies 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 1 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

Orphan drugs

Orphan drugs are drugs used for the diagnostic, prevention or treatment of deadly or serious rare conditions.

A special authorization procedure is used for orphan drugs.

In the United States, the 1983 Orphan Drug Act brings together various texts that encourage the development of treatments for orphan diseases. 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. 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 affecting no more than 5 people out of 10,000 in the European Union and for which there is no satisfactory treatment. 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.

4. The Transparency decree 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 will be gathered centrally on a single website which will be managed under the responsibility of the Ministry of Health; the details of the operation thereof were determined by the order of December 3, 2013 by the minister in charge of health.

Industrial companies must forward the information to be published to the authority responsible for the website in accordance with a timescale specified to be:

- within a period of 15 days after the signature of each agreement subject to the publication obligation;

- at the latest on August 1 in respect of the benefits given or paid during the first half of the year in progress and at the latest on February 1 of the following year in respect of the benefits given or paid during the second half of the year in progress.

This website will be accessible for the public to consult from April 1, 2014.

APPENDIX 8 - FROM THE DISCOVERY OF A DRUG CANDIDATE TO ITS REGISTRATION

The development process comprises three types of activity:

1) Pre-clinical and non-clinical studies:

Pre-clinical and non-clinical studies consist of laboratory evaluations of the product's potential efficacy and safety of use. Efficacy is evaluated in various cell culture models (*in vitro* studies) and in animal models (*in vivo* studies) with the limits inherent to the transposition of observations from one species to another. Immunology involves particular problems, as the receptors targeted by the products are generally very specific to each species considered. Moreover, tumor biology also differs substantially from one species to another. The passage to clinical development depends on a fine appreciation of the risk incurred by patients compared to the expected therapeutic benefits. In this respect, the results of clinical biology studies, notably from retrospective clinical studies involving the mechanism of action of the drug candidate, can play a crucial role in the appreciation of the product's efficacy.

The documentation of the drug candidate's potential toxicity, the anticipated side-effects and the risks related to the use of the drug candidate are important parts of pre-clinical studies. Traditionally, the acute toxicity of the product is evaluated first, as observed for various doses in a single administration, followed by the evaluation of the toxic effects associated with repeated administration of the drug. These toxicology studies are complemented by specific studies in safety pharmacology that evaluate the possible effects of the drug candidate on certain physiological functions (nervous system, cardiovascular system, respiratory system). The risks regarding carcinogenesis and reproduction alteration associated with a possible mutagenic effect of the product are also evaluated.

Lastly, analytical methods must be developed to monitor the evolution of the drug candidate in the organism, to measure its concentrations in body fluids (bioanalytical method), in order to correlate the observed biological effects with the doses administered and to define the method of administering the product. The field of pharmacokinetic studies quantitatively describes the absorption, metabolism and elimination of the drug.

2) Clinical studies:

Clinical studies on humans are commonly conducted in three phases, which are usually sequential but can also overlap. In Phase I, the drug candidate is generally administered to determine its initial safety profile, to identify side-effects and to evaluate tolerance at the doses administered, as well as its distribution and metabolism. During Phase II, the drug candidate is studied in a limited patient population to determine preliminary efficacy and optimum dosage levels and to increase the accuracy of the tolerance profile. The Phase II study program generally comprises exploratory studies (Phase IIa), primarily intended to define the dosage and to obtain the first efficacy data, sometimes using indirect biological markers for clinical efficacy (typically, in oncology, markers correlated to tumor mass) and wider studies comprising a control group to confirm the activity of the product at the planned dosage (Phase IIb). Phase III studies are large-scale comparative trials intended to produce data demonstrating the relative efficacy and tolerance as required by the regulatory authorities. Phase IIb and Phase III studies aimed at registration are commonly referred to as "pivotal studies".

The development cycle for a drug candidate is very long; typically 8 to 12 years elapse between the characterization of a product's pharmacological activity and its marketing. It should be pointed out that, because tumor pathologies may develop slowly, the patient monitoring period necessary to demonstrate therapeutic benefits can be significantly longer than for other therapeutic fields. The investments involved increase as the process advances, while the risk remains high until the most advanced stages of development, especially in oncology.

3) Pharmaceutical development:

Pharmaceutical development aims at the industrial production of a drug candidate that is precisely characterized at the chemical and physicochemical levels and has constant properties in order to ensure the pharmaceutical quality of the product. The production of a drug candidate comprises two steps: the production of an active molecule through chemical synthesis or by biological means (the "active pharmaceutical ingredient"), followed by formulation and presentation in a form suited to human administration. For each major stage in the production of the drug candidate, its specifications are defined, in particular relating to the required purity level. One of the central aspects of pharmaceutical development associated with the implementation of a robust and reproducible production method is the development of analytical methods used to characterize the product and to control compliance with specifications (quality control). During pre-clinical and clinical development of the drug candidate, the product specifications vary, notably depending on the regulatory requirements regarding the purity of the active ingredient and changes of scale in industrial production.

Currently, the Company's activity focuses on the initial stages of the research and development process: research, pre-clinical development and exploratory clinical studies up to and including Phase IIa and the corresponding pharmaceutical development. In order to carry out these complex, multidisciplinary operations, the Company has

implemented the appropriate organizational and management procedures and have brought together the know-how and expertise that it considers indispensable to overseeing development, or which it believes provide it with a competitive advantage given that most research and development takes place through subcontracting agreements.

APPENDIX 9 - ORGANIZATION AND MANAGEMENT OF RESEARCH AND DEVELOPMENT

The Company's research, development and pharmaceutical operations are managed in a matrix-based organization and in accordance with the procedures defined in its quality system, which was granted ISO 9001:2000 certification in 2005, renewed yearly since then (see Section 4.3.1 of this Reference Document).

The Company's research and development activities are organized in programs corresponding to a drug candidate or family of drug candidates targeting a given cell receptor and to development for an indication or a group of related clinical indications. Each program is overseen by a program manager and makes use of skills from various research and development groups defined by branch (e.g., cell immunology, chemistry, protein chemistry). The resources from the different research and development groups involved in a program are defined on a case-by-case basis and are subject to regular evaluations and reallocation, generally on a quarterly basis. Successive phases are distinguished in carrying out a program, defined in reference to milestones M0 to M3. The milestone following milestone M3 is the first marketing authorization.

- M0: initial definition of a program;
- M1: selection of a drug candidate and of an indication;
- M2: first administration to humans;
- M3: first clinical efficacy data in humans (proof-of-concept).

These milestones correspond to a set of prerequisites determined on the basis of standard industry practices, notably for the early milestones (M0 and M1), and on regulatory validation steps for the subsequent milestones (M2 and M3). Declaring that a development milestone has been reached and the resulting decision to change phases are decisions made by the Company's Executive Committee, which carries out periodic reviews of the programs and allocates resources accordingly. The different program phases result from different economic and management rationales.

Before M0: this is the "exploratory research" phase when there is no defined program but a set of possible projects identified internally or outside, through collaborative work or scouting. The objectives are to build a scientific rationale for pharmacological intervention on a molecular or cell target in a group of indications and to create or consolidate intellectual property elements. Projects in the exploratory research phase may lead to the implementation of a research and development program when the prerequisites of milestone M0 are met (validation of the contemplated molecular or cellular target and intellectual property).

Between M0 and M1: the program is in the "feasibility/validation" research phase. This phase aims at characterizing a drug candidate and demonstrating its efficacy through pre-clinical studies in cellular or animal models. From an economic and organizational point of view, the passage to milestone M1 is an essential step and a veritable change of scale for the program, insofar as the beginning of pharmaceutical development represents a very significant share of the early research and development costs.

Between M1 and M2: the program is in the "pre-clinical development" phase. In the pre-clinical phase, the drug candidate is defined and studies are carried out according to a regulatory reference system. For pharmaceutical development aspects, this notably consists in implementing a production method, producing pilot industrial batches, defining temporary product specifications and setting up analytical controls. Concurrently, non-clinical studies are carried out in pharmacology, toxicology and pharmacokinetics as required for the file presented to the regulatory agencies for the start of clinical trials. This phase of the program largely involves subcontractors. It should be pointed out that pre-clinical studies and pharmaceutical development studies continue throughout the program, notably depending on regulatory requirements and any changes of scale in industrial production of the drug candidate. However, the production process must be precisely defined at the start of the Phase IIb/III pivotal studies.

Between M2 and M3: the program is in the “clinical development for proof-of-concept” phase. The first administration to humans, which is milestone M2, is subject to authorization by the competent regulatory authorities. Milestone M3 corresponds to the end of one or more Phase IIa studies. A summary of results is generally submitted to the regulatory authorities at the end of the Phase IIa.

After reaching milestone M3, a decision is made whether to continue development with large scale studies aimed at obtaining marketing authorization (Phase IIb and Phase III). The Company will weigh the important decision to continue these studies with its own resources or through a partnership, sharing costs by sharing the commercial rights if the program is successful.

GLOSSARY

AFSSAPS/ANSM — Agence Française de Sécurité Sanitaire des Produits de Santé. This is the body responsible in France for the monitoring of the clinical trials of our drug candidates and for their marketing authorization. This agency has become l'Agence Nationale de Sécurité du Médicament (ANSM)

Apoptosis — Also called "Programmed Cell Death". An active mechanism found in all cell types which, through a cascade of energy-consuming biochemical events, results in the fragmentation of genetic material and the death of a cell. Apoptosis can be triggered by cell stress, by the immune system's killer cells, or more generally by cell interactions in the course of normal development processes in multicellular organisms.

Autoimmunity — Disturbance of the immune system function that recognizes elements which are normally present in the organism as being foreign (autoreactivity), triggering the destruction of normal cells or the production of autoreactive antibodies, thereby causing chronic inflammation. Autoimmunity lies at the origin of many diseases. In autoimmune pathologies, the target may be a specific organ (*e.g.*, autoimmune diabetes) or the immune system can exert activity against a wide variety of targets (*e.g.*, lupus).

Autologous — Refers to the interaction of elements from an individual with other elements from the same individual. Thus, in an autologous cell therapy process, patients are treated with their own cells. In an anti-tumor cytotoxic activity test performed under autologous conditions, cells from a patient's tumor are exposed to effector cells taken from the same patient.

Autoreactivity — Ability of the immune system to recognize elements of the self. Autoreactivity is the phenomenon involved in autoimmune pathologies (see autoimmune).

Benefit / risk ratio — For a drug candidate, the evaluation of the expected therapeutic benefits compared with possible side-effects and the probability of their occurrence is the basis for the decision to conduct clinical trials in humans, and constitutes the main outcome measure for regulatory agencies. This evaluation of probabilities lies at the root of medical judgment. Side-effects considered unacceptable for a benign pathology may thus be acceptable in a more critical context.

Biological marker — Measurable biological parameter whose quantitative variations are linked to a drug candidate's mechanism of action, used to evaluate its biological activity in patients. For example, the number of circulating γδ cells is a biological marker of the activity of γδ agonists.

Cell therapy — Treatment in which the therapeutic product administered to the patient consists of a cell preparation obtained from the patient's own cells in the laboratory.

Chemotherapy — Treatment of a cancer using chemical agents that are toxic to malignant cells (cytotoxic) or inhibit cell growth (cytostatic) so as to reduce the tumor.

Clinical development — Studies of a drug candidate conducted on humans under the control of the health authorities, with the ultimate goal of obtaining a marketing authorization. Such studies usually take place in three phases. In Phase I,

	the product is administered to healthy volunteers in order to evaluate the tolerance and to measure certain pharmacokinetic parameters. In Phase II, the product is administered to small groups of patients with particular pathologies to determine the effective dose and shed light on any biological effects. Therapeutic efficacy is determined in Phase III on large groups of patients, sometimes in comparison with a reference treatment.
Consolidation treatment	Treatment to prevent relapses. The control of residual disease is the objective of consolidation therapies. For many cancers, the patients' survival depends on the efficacy of the consolidation treatment. Immunotherapies are primarily positioned as consolidation treatment.
Conventional T lymphocyte	A conventional T lymphocyte specifically recognizes the complex formed by an antigen bound to an MHC molecule, through a dedicated receptor, the T lymphocyte antigen receptor (alpha beta TCR). Some T lymphocytes have the ability to destroy target cells (cytotoxic T lymphocytes), whereas others play a role in regulating the immune system. Conventional lymphocytes are the support behind immunological memory: successive exposure to a same antigen triggers immune responses with increasing intensity. This immune response, called an "adaptive immune response", is the basis of vaccination.
Effector cells	Immune system cells that are able to kill a recognized target cell. More generally, the immune system may be analyzed as the coupling of recognition abilities involving dedicated receptors (such as antibodies or T cell antigen receptors) and effector mechanisms resulting in the elimination of the recognized element. The main effector mechanisms are cell lysis, involving killer cells (cytotoxic cells) and antibody-dependent mechanisms. NK cells are typically effector cells.
EMEA (European Agency for the Evaluation of Medicinal Products)	European regulatory agency responsible for evaluating applications for marketing authorization under a centralized procedure. The EMEA coordinates with national agencies in application of the principle of subsidiarity. The pharmaceutical industry is in direct contact with the EMEA for the development of orphan drugs.
FDA (Food and Drug Administration)	This U.S. agency monitors clinical trials and issues marketing authorizations.
First-in-class	A drug class is a set of drugs with the same mechanism of action, generally targeting the same receptor. In this context, a "first-in-class" drug is a drug using a new mechanism of action or targeting a new receptor, as opposed to a "best-in-class" drug, which is the drug with the best benefit/risk ratio in an existing class.
First-line treatment	Treatment applied upon diagnosis of tumor.
Galenics	Technology for the pharmaceutical formulation of an active ingredient, *i.e.* putting a molecule into the pharmaceutical form, in a state suitable for administration to humans and allowing the expected therapeutic effect to be obtained. The pharmaceutical form must also be stable and constant in its properties throughout its intended shelf life.
GCP	Good Clinical Practices (Bonnes Pratiques Cliniques). Set of French standards applying to clinical trials in humans, aimed at ensuring the safety of patients included in the trials as well as the quality of the information gathered during such trials.

GLP	Good Laboratory Practices (Bonnes Pratiques de Laboratoire). Set of French standards applying to trials carried out in a laboratory during the development of a drug candidate. These standards notably apply to trials implemented for controlling drugs and verifying whether the specifications defined are met (quality control), as well as to pre-clinical trials carried out to evaluate product safety. The international GLP system and the recommendations from the International Conference on Harmonization (ICH) common to the United States, Europe and Japan are also referred to.
Immune response	In the presence of an antigen, specialized immune system cells with a receptor specific to this antigen on their surface are activated and proliferate, and some acquire the ability to eliminate the antigen. All of these molecule and cell events constitute the immune response. The response process is precisely regulated and involves many cell types.
Immune system	All the biological mechanisms allowing an organism to recognize and tolerate what belongs to itself ("the self") and to reject what is foreign to it (the "non-self"): foreign substances or infectious agents to which it is exposed, but also its own components that have been altered (such as tumor cells).
Informed consent	According to the legislative provisions applicable in France, any patient involved in a clinical trial should be informed of the objective, methodology and duration of the research, and also of the expected benefits and predictable constraints and risks associated with the administration of products undergoing the clinical trials. The information supplied is summarized in a written document that is given to the patient prior to any experimental treatment. Patients sign an informed consent document stating their willingness to take part in the trial after having received this information.
Innate immunity	Innate immune responses are not affected by prior exposure to the antigen: innate immunity is characterized by a lack of memory. Unconventional lymphocytes are part of innate immunity, as opposed to conventional lymphocytes which are the support behind immunological memory.
Intermediate marker ("Surrogate marker")	A measurable biological parameter whose quantitative variations are considered to have predictive value in relation to the expected therapeutic effect. In oncology, the measurement of tumor mass is frequently used as an intermediate marker of therapeutic efficacy.
ISO 9001:2000	International standard reference system applicable to quality management within an organization, stressing constant improvement of the processes constituting the activity of the organization. The ISO 9001 standard notably applies to organizations with research and development activities. Compliance with this standard reference system is certified by an independent agency.
Lymphocytes	Immune system cells with a receptor for the antigen. Lymphocytes are present in blood and the lymphoid organs (spleen, lymph nodes) and can infiltrate tumors in the event of an effective anti-tumor response. B lymphocytes produce soluble proteins binding to the antigen called an antibody (humoral immunity). T lymphocytes are able to destroy cell targets directly (cell immunity). Unconventional lymphocytes constitute a

	compartment of cell immunity defined by a special antigen recognition method.
MHC (Major Histocompatibility Complex)	Group of molecules involved in antigen recognition by conventional T lymphocytes. MHC molecules are present at the surface of nearly all the cells of the organism. These molecules have large variations from one individual to another, and partly define the "immunological identity" of each individual by controlling the repertoire of T antigens recognized by each one. Unconventional lymphocytes are not subject to this control and can recognize MHC-deficient cells (see "missing self"). In advanced stages of the disease, tumors often lose the expression of MHC molecules, thereby escaping elimination by conventional T lymphocytes, although remaining sensitive to unconventional lymphocytes.
Missing self	Unconventional lymphocytes express inhibitor receptors for MHC molecules that are able to block the antigen activation effect. Thus, responses harmful to the organism that would be directed against "self" cells are usually restricted, in the absence of strong stimulation. When the MHC is not expressed ("missing self"), unconventional lymphocytes are activated. Normal MHC expression can be counteracted by the powerful activator signals provided by antigen recognition. This mechanism is very important for controlling the activity of NK cells, which are highly capable of destroying their targets. The "missing self" was discovered by Klas Karre and Alessandro and Lorenzo Moretta, who received the Yvette Mayent – Institut Curie prize in June 2001 for their work. Most conventional lymphocytes are not subject to this type of control by inhibitor receptors.
Mutagenic	Exposure to a mutagenic (or genotoxic) product is likely to result in alterations of the genetic material (mutations) which may lead to cancers (carcinogenesis) or congenital malformations (teratogenicity).
NCE ("New Chemical Entity")	New synthetic organic molecule developed for pharmaceutical use.
NK cells	NK ("Natural Killer") cells are special unconventional lymphocytes found in large amounts in blood (up to 10% of the circulating lymphocytes). NKs have a remarkable ability to kill a wide variety of tumor targets very effectively. Tumor targets are recognized through the antibodies bound to the surface of malignant cells or through specialized receptors, NCRs (Natural Cytotoxicity Receptors), recently discovered by Alessandro Moretta *et al*. As A. Moretta, K. Karre *et al*. have also shown, NKs are subject to special regulation (see "missing self") inhibiting responses directed against the "self's" molecules.
Occurrence	Number of new cases diagnosed over one year for a given pathology.

Orphan drug Status granted by the EMEA or the FDA to a drug developed for a rare disease, whose occurrence or prevalence is below certain thresholds defined by the regulatory authorities. This status enables a drug candidate to benefit from advantages such as temporary commercial exclusivity, exemptions from registration fees or technical/regulatory advice from the agencies.

Pharmacokinetics Study of what happens to a molecule in the organism, including its absorption, metabolization and elimination. Pharmacokinetic studies in animals, then in humans, are used to develop quantitative models describing these various steps according to the time elapsed and physiological parameters to determine the method of administration and the dosage to be used at a clinical level to obtain the desired therapeutic effect from the drug candidate.

Pharmacology Scientific discipline central to the discovery and development of drugs that investigates active ingredients' mechanism of action on the organism. During the development of a drug candidate, non-clinical pharmacology studies relate to the description of the mechanism of action at cellular and molecular levels, and clinical pharmacology studies aim at demonstrating the relationships between the mechanism of action and the expected therapeutic effect or the possible toxic effects on patients.

Pre-clinical development Studies carried out on a drug candidate to evaluate its toxicity and efficacy before its first administration to humans.

Prevalence Number of patients with a given pathology.

Proof of concept In Company jargon, proof of concept is the first indication of the clinical efficacy of a drug candidate obtained during a clinical trial initiated by the Company.

Randomized study Clinical study in which patients are divided into several groups receiving different treatments according to a statistical procedure that is intended to ensure that there is no bias in the recruitment of the different groups. The effects of several dosage levels of a drug candidate can thus be tested and treatment with the drug candidate being studied can be compared to a reference treatment. Efficacy data, which serve as a reference for the registration of a new product, are usually produced in random studies.

Receptor Molecule expressed on the surface of a cell allowing it to communicate with its environment. Each receptor is able to establish a specific contact with another membrane or soluble molecule (ligand), and then to deliver a signal inside the cell that will be followed by biological effects. For example, binding of an antigen to a T-cell antigen receptor results in the division and proliferation of the T lymphocyte under certain conditions.

Residual disease	Malignant cells found in patients in remission after the primary tumor has been eliminated (by surgery, radiotherapy or chemotherapy). Residual disease is at the origin of disease propagation (metastases) and the development of new tumor foci (secondary tumors).
Second-line treatment	Treatment applied if the first-line treatment fails or in case of relapse.
Unconventional lymphocytes	Unconventional lymphocytes constitute a specific cell compartment of the immune system. Antigen recognition by unconventional lymphocytes does not involve MHC, and thus works in the same way for each individual, making pharmacological manipulation of these cells feasible. Unlike conventional lymphocytes, which recognize a single structure, unconventional lymphocytes recognize a wide range of structurally related target antigens. In blood, unconventional lymphocytes (NK, γδ 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. Pre-clinical efficacy studies, notably in animal models, may also provide elements of direct pre-clinical validation for a drug candidate.

BIBLIOGRAPHY

1. D. Pende et al., J Exp Med 190, 1505 (Nov 15, 1999).
2. A. Pessino et al., J Exp Med 188, 953 (Sep 7, 1998).
3. M. Vitale et al., J Exp Med 187, 2065 (Jun 15, 1998).
4. A. Moretta et al., J Exp Med 178, 597 (Aug 1, 1993).
5. N. Wagtmann et al., Immunity 2, 439 (May, 1995).
6. K. Karre, H. G. Ljunggren, G. Piontek, R. Kiessling, Nature 319, 675 (Feb 20-26, 1986).
7. P. Constant et al., Science 264, 267 (Apr 8, 1994).
8. B. Lemaitre, E. Nicolas, L. Michaut, J. M. Reichhart, J. A. Hoffmann, Cell 86, 973 (Sep 20, 1996).
9. A. Poltorak et al., Science 282, 2085 (Dec 11, 1998).
10. R. Medzhitov, P. Preston-Hurlburt, C. A. Janeway, Jr., Nature 388, 394 (Jul 24, 1997).
11. A. Diefenbach, E. R. Jensen, A. M. Jamieson, D. H. Raulet, Nature 413, 165 (Sep 13, 2001).
12. L. Ruggeri et al., Science 295, 2097 (Mar 15, 2002).
13. J. Wang, R. J. Homer, Q. Chen, J. A. Elias, J Immunol 165, 4051 (Oct 1, 2000).
14. L. Cohn, C. Herrick, N. Niu, R. Homer, K. Bottomly, J Immunol 166, 2760 (Feb 15, 2001).
15. W. K. Born et al., Respir Res 1, 151 (2000).
16. J. Pons et al., Eur Respir J 25, 441 (Mar, 2005).
17. K. Ogasawara et al., Immunity 20, 757 (Jun, 2004).
18. S. Giebel, F. Locatelli, T. Lamparelli, A. Velardi, S. Davis, G. Fuimento, R. Maccario, F. Bonetti, J. Wojnaz, M. Martinetti, F. Frassoni, G. Giorgiani, A. Bacigalupo, J. Holowiecki, Blood 102, 864-819 (August 2003).
19. L. Panicot-Dubois, M. Aubert, C. Franceschi, E. Mas, F. Silvy, C. Crotte, J-P. Bernard, D. Lombardo, M-O. Sadoulet, Neoplasia en 2004 (November/December 2004).
20. J-D. Bouaziz, N. Ortonne, J. Giustiniani, V. Schiavon, D. Huet, M. Bagot, A. Bensussan, J. of investigative dermatology (Dec. 2005).
21. Kröger N, et al., Br J Haematol. 2005 Jun;129(5):631-43.
22. H.M. Prince et al., déc. 2009, Blood (114), pp 4337-4353
23. National Comprehensive Cancer Network (NCCN®) Practice Guidelines in Oncology – v.4.2009