PRESS RELEASE

innate pharma

2016: Operational progress and robust financial position for further growth

- ***Cash, cash equivalents and financial instruments[*] amounted to €230.7m (million euros) as of December 31, 2016***
  - ***Revenue and other income amounted to €65.7m (€25.1m in 2015), including $15m (€13.8m) milestone payment from Bristol-Myers Squibb related to progress with lirilumab***
  - ***Operating expenses amounted to €58.2m (€35.9m in 2015); increase driven by continued investment in its portfolio of drug candidates***
- ***First report of potential clinical benefit for lirilumab in combination with nivolumab and for IPH4102, validating Innate Pharma's positioning and strategy***
- ***Broadening of proprietary preclinical pipeline and new bispecific antibodies technology***
- ***Key leadership changes to support next phase of growth, with appointment of Mondher Mahjoubi as CEO of the Company***

Marseille, France, March 7, 2017

Innate Pharma SA (the "Company" - Euronext Paris: FR0010331421 – IPH) today reports its consolidated financial results for the year ended December 31, 2016. The consolidated financial statements are attached to this press release.

Over the course of 2016, Innate Pharma made significant progress across its portfolio of partnered and proprietary programs. The Company reported encouraging clinical activity for lirilumab in combination with nivolumab in a Phase I/II trial and for IPH4102 in monotherapy in a Phase I trial. Clinical investigators also reported a favorable safety profile for monalizumab as a monotherapy. The Company continued to broaden and advance its portfolio of early stage programs with two new programs targeting the tumor microenvironment (respectively targeting CD39 and CD73) and a new bispecific antibodies technology engaging NK cells. During the year, the program IPH4301 has started IND-enabling studies and is expected to enter clinic in 2018.

At the beginning of 2017, the Company announced top-line results from the EffiKIR study which evaluated the efficacy of lirilumab as a single agent for maintenance of remission in patients with acute myeloid leukemia; further development of lirilumab in this setting will not be pursued.

In terms of organization, Mondher Mahjoubi was appointed Chief Executive Officer and Chairman of the Executive Board of Innate Pharma on December 30, 2016, succeeding Hervé Brailly, who became Chairman of the Supervisory Board. Dr. Mahjoubi's appointment was designed to support the Company's evolution as it advances its key programs towards late-stage development.

[*] current and non-current

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Mondher Mahjoubi, Chief Executive Officer of Innate Pharma, said: "*2016 was marked by the first report of potential clinical benefit for lirilumab in combination with nivolumab in patients with squamous cell carcinoma of the head and neck and for IPH4102 in cutaneous T cell lymphomas. These data further validate the Company's rationale for the development of these drug candidates, and more broadly support the fundamental rationale underpinning Innate Pharma's broad pipeline of drug candidates and technologies".* **He added:** *"The Company maintained a strong financial position whilst continuing to invest and advance its portfolio of drug candidates and enters a period where it becomes eligible to further milestone payments. Looking ahead to 2017, we are confident in building on the progress seen in 2016 with the release of more clinical data in the months ahead."*

* * *

A conference call for institutional investors and sell-side analysts will be held today at 2:00pm (CET)

Dial in numbers: +33 (0)1 70 77 09 43

The FY2016 results presentation will be made available on the Company's website 30 minutes before the conference call begins.

A replay will be available on Innate Pharma's website after the conference call.

* * *

Financial highlights for 2016:

The key elements are as follows:

- Cash, cash equivalents and financial instruments amounting to €230.7m (million euros) as of December 31, 2016 (€273.7m as of December 31, 2015), including non-current financial instruments (€33.0m);
    - At the same date, the financial liabilities amounted to €5.3m (€3.8m as of December 31, 2015).
- Revenue and other income amounting to €65.7m (€25.1m in 2015). This amount mainly results from licensing revenue (€56.2m) and from research tax credit (€9.1m).
    - Revenue from collaboration and licensing agreements mainly results from the spreading of the initial payment received by Innate Pharma in the context of the agreement signed in April 2015 with AstraZeneca/MedImmune (€41.6m in 2016 and €12.1m in 2015).
    - The 2016 revenue also includes a $15m (€13.8m) milestone payment received from Bristol-Myers Squibb for the continued exploration of lirilumab in combination with nivolumab. The milestone payment followed the presentation at the SITC annual meeting (November 2016) of encouraging preliminary activity results from the cohort of patients with squamous cell carcinoma of the head and neck (SCCHN) of a Phase I/II trial. The payment was received in January 2017.

- Operating expenses amounting to €58.2m (€35.9m in 2015) of which 84% related to research and development. The majority of the increase results from the increase in subcontracting costs in relation with the clinical development of the Company's drug candidates (+€15.6m).
- A net financial income amounting to €5.4m.
- As a consequence of the items mentioned previously, the net profit for 2016 amounts to €12.6m to be compared to a loss of €6.7m for 2015.

The table below summarizes the IFRS consolidated financial statements for fiscal year 2016, with a comparison with 2015:

	Year ended December 31	
In thousand euros (IFRS)	**2016**	**2015**
Revenue from collaboration and licensing agreements	56,159	17,906
Government financing for research expenditures	9,561	7,235
Revenue and other income	**65,721**	**25,141**
Research and Development expenses	(48,628)	(29,906)
General and Administrative expenses	(9,522)	(6,008)
Operating expenses	**(58,150)**	**(35,914)**
Operating income / (loss)	**7,571**	**(10,772)**
Financial income / (expenses), net	5,370	4,066
Income tax	(301)	-
Net income / (loss)	**12,640**	**(6,706)**

Pipeline update (second half of 2016):

Lirilumab (anti-KIR antibody), licensed to Bristol-Myers Squibb:

Lirilumab is a fully human monoclonal antibody that is designed to block the interaction between KIR2DL-1,-2,-3 inhibitory receptors and their ligands. Blocking these receptors facilitates activation of NK cells and, potentially some subsets of T cells, ultimately leading to destruction of tumor cells.

- In the second half of 2016, several sets of clinical data were presented on lirilumab:
  - At the ESMO conference in October 2016, clinical investigators from the Memorial Sloan-Kettering Cancer Center, New York, US, presented safety data from the Phase I trial testing lirilumab in combination with nivolumab in advanced refractory solid tumors in 159 patients. The safety profile of lirilumab and nivolumab was similar to that observed with nivolumab monotherapy, with the exception of low-grade and clinically manageable infusion-related reactions. They also presented safety data from lirilumab in combination with ipilimumab in advanced solid tumors in 22 patients. There did not appear to be additional safety concerns when compared to that observed with ipilimumab monotherapy based on the limited population studied.
  - At the SITC conference in November 2016, clinical investigators from the Earle A. Chiles Research Institute, Oregon, US, presented preliminary efficacy data pertaining to a cohort of patients with squamous cell carcinoma of the head and neck (SCCHN) from the Phase I/II trial testing lirilumab with nivolumab in solid tumors. The data marked the first report of potential clinical benefit of an anti-KIR antibody in combination with a PD-1 pathway blocker. The objective response rate (ORR), a secondary endpoint measured by Response Evaluation Criteria In Solid Tumors (RECIST), among 29 evaluable patients was 24% (7/29), with complete responses in 10% of patients (3/29), including confirmed and unconfirmed responses. Seventeen percent (5/29) of these evaluable patients had deep responses, with reductions in tumor burden greater than 80%. Early signals of enhanced clinical benefit were observed in PD-L1 positive tumors, with an ORR of 41% (7/17) in patients with ≥1% PD-L1 expression.
  - At the ASH conference in December 2016, clinical investigators from the MD Anderson Cancer Center, Texas, US, presented preliminary safety data from the Phase Ib/II testing lirilumab in combination with 5-azacitidine in a heavily pretreated patient population with relapsed acute myeloid leukemia. The combination showed a good safety profile, full doses of lirilumab and 5-azacitidine were well tolerated and no dose-limiting toxicities were observed. The preliminary efficacy data for 25 evaluable patients showed a response rate of 20%, including two patients that achieved a complete response or complete response with insufficient count recovery and three patients that achieved hematologic improvement.
- In January 2017, the Company announced that, as per the licensing agreement for lirilumab, Bristol-Myers Squibb paid Innate Pharma a US$15 million milestone payment for the continued exploration of lirilumab in combination with nivolumab. This milestone payment followed the presentation at the SITC annual meeting (November 2016) of encouraging preliminary activity results from the cohort of patients with SCCHN of a Phase I/II trial.
- At the beginning of 2017, the Company announced top-line results from its EffiKIR trial (see the “post period events” section).

Monalizumab (anti-NKG2A antibody), partnered with AstraZeneca/Medimmune:

Monalizumab is a checkpoint inhibitor targeting NKG2A, an inhibitory receptor expressed on tumor infiltrating cytotoxic CD8 T lymphocytes and NK cells. This monoclonal antibody is currently being tested in an exploratory program of Phase I or I/II clinical trials in various cancer indications in monotherapy and combinations in solid tumors and in hematology.

- In November 2016, clinical investigators from the Canadian Cancer Trials Group (CCTG) presented the first data from the dose-ranging part of a Phase I/II clinical trial of monalizumab as a single agent in patients with advanced gynecological malignancies. The dose-ranging part involved 18 patients with advanced, heavily pretreated ovarian cancer receiving monalizumab at three dose levels (1, 4 and 10 mg/kg, every two weeks – six patients at each dose level). The data showed that monalizumab was well tolerated with no dose-limiting toxicities observed. Preliminary efficacy data showed short-term disease stabilization in 41% of patients, including one patient with a mixed response. The cohort-expansion part of the trial is ongoing with at the recommended Phase II dose of 10 mg/kg every two weeks.
- During the second half of 2016, the Company closed the Phase I/II trial testing monalizumab in head and neck cancers in a preoperative setting. The decision to stop this trial was due to slow enrollment and not based on any safety considerations.

IPH4102 (anti-KIR3DL2 antibody):

IPH4102 is a first-in-class cytotoxicity-inducing antibody currently being tested in a Phase I clinical trial for the treatment of KIR3DL2-expressing cutaneous T-cell lymphomas (CTCL), in particular their aggressive forms, Sezary syndrome and transformed mycosis fungoides. IPH4102 was granted the orphan designation status in Europe.

- Clinical investigators presented preliminary safety and efficacy data on the first seven dose levels at the 3WCCL conference in October 2016 and at the ASH conference in December 2016. The preliminary safety data showed that IPH4102 was well tolerated in 16 patients with heavily pretreated relapsed/refractory CTCL. No dose-limiting toxicity was observed. The majority of adverse events was typical for CTCL or reflected low-grade infusion reactions. The eighth dose level out of ten was completed without dose-limiting toxicity.

  The preliminary efficacy data showed signs of clinical activity with a global objective response rate of 38%. At the time of the presentation, the median response duration was at least 126 days and all responses were ongoing. Complete responses were seen in skin (two patients) and blood (three patients). The results of exploratory biological endpoints such as pharmacodynamics in skin and blood are in line with clinical activity results.

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

IPH4301 (anti-MICA/B antibody):

IPH4301 is a first-in-class anti-MICA/B therapeutic antibody that exhibits dual anti-tumor mechanism: direct killing of MICA/B-expressing tumor cells (antibody-dependant cell-mediated cytotoxicity - ADCC) as well as immunomodulatory effects through the restoration of NKG2D expression on immune cells.

The program is expected to enter clinical trials in 2018.

IPH52 (anti-CD39 antibody):

This program, currently in preclinical development, aims at developing an anti-CD39 monoclonal antibody. CD39 plays a major role in promoting immunosuppression through the pathway degrading adenosine triphosphate (ATP) into adenosine. Within the tumor microenvironment, ATP promotes immune cell-mediated killing of cancer cells. In contrast, adenosine accumulation causes immune suppression and dysregulation of immune cell infiltrates resulting in tumor spreading. Blockade of CD39 may stimulate anti-tumor immunity across a wide range of tumors.

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

IPH53 (anti-CD73† antibody):

This program, currently in preclinical development, aims at developing an anti-CD73 monoclonal antibody. CD73 plays a major role in promoting immunosuppression through the pathway degrading ATP into adenosine. CD73 is active on the last step of the degradation pathway, where it is the enzyme that actually degrades AMP into adenosine. CD73-blockade could promote an anti-tumor immune responses across a wide range of tumors.

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

Corporate update:

Governance changes:

In December, the Company announced the appointment of Mondher Mahjoubi as Chairman of Innate Pharma's Executive Board, succeeding Hervé Brailly who became Chairman of the Supervisory Board. As part of the governance changes, Laure-Hélène Mercier was appointed Chief Financial Officer. She was previously EVP, Finance, in charge of financial operations and, before that, Head of Investor Relations. Catherine Moukheibir, Senior Advisor for financial strategy, left the Executive Board and maintains an advisory position.

Team:

In 2016, Innate Pharma recruited 36 new people, mostly in research and development, to support the expansion of the preclinical portfolio and the increase in the number of clinical trials performed by the Company. As at December 31, 2016, the headcount was 154 employees.

Post period event:

EffiKIR study:

In February 2017, the Company announced top-line results from the EffiKIR trial, a randomized, double-blind, placebo-controlled Phase II trial testing the efficacy of lirilumab as a

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

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single agent maintenance treatment in elderly patients with acute myeloid leukemia in first complete remission. The study did not meet its primary efficacy endpoint of leukemia-free survival ("LFS").

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

Next scientific publications:

As a reminder, preclinical and clinical data on monalizumab will be presented at the AACR Annual Meeting 2017 being held April 1 - 5, 2017, in Washington, D.C. Abstracts are available on the conference website.

About Innate Pharma:

Innate Pharma S.A. is a clinical-stage biotechnology company with a focus on discovering and developing first-in-class therapeutic antibodies that harness the innate immune system to improve cancer treatment and clinical outcomes for patients.

Innate Pharma specializes in immuno-oncology, a new therapeutic field that is changing cancer treatment by mobilizing the power of the body's immune system to recognize and kill cancer cells.

The Company's aim is to become a fully-integrated biopharmaceutical company in the area of immunotherapy and focused on serious unmet medical needs in cancer. Innate Pharma has pioneered the discovery and development of checkpoint inhibitors to activate the innate immune system. Innate Pharma's innovative approach has resulted in three first-in-class, clinical-stage antibodies targeting natural killer cell receptors that may address a broad range of solid and hematological cancer indications as well as additional preclinical product candidates and technologies. Targeting receptors involved in innate immunity also creates opportunities for the Company to develop therapies for inflammatory diseases.

The Company's expertise and understanding of natural killer cell biology have enabled it to enter into major alliances with leaders in the biopharmaceutical industry including AstraZeneca, Bristol-Myers Squibb and Sanofi.

Based in Marseille, France, Innate Pharma has more than 160 employees and is listed on Euronext Paris.

Learn more about Innate Pharma at www.innate-pharma.com.

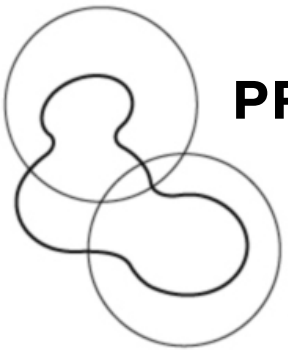
Information about Innate Pharma shares:

ISIN code	FR0010331421
Ticker code	IPH

Disclaimer:

This press release contains certain forward-looking statements. Although the company believes its expectations are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties, which could cause actual results to differ materially from those anticipated. For a discussion of risks and uncertainties which could cause the company's actual results, financial condition, performance or achievements to differ from those contained in the forward-looking statements, please refer to the Risk Factors ("Facteurs de Risque") section of the Document de Reference prospectus filed with the AMF, which is available on the AMF website (http://www.amf-france.org) or on Innate Pharma's website.

This press release and the information contained herein do not constitute an offer to sell or a solicitation of an offer to buy or subscribe to shares in Innate Pharma in any country.



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APPENDIX

Innate Pharma SA

Consolidated financial statements at December 31, 2016

The following consolidated balance sheet, income statement and statement of cash flows are prepared in accordance with International Financial Reporting Standards.

The audit procedures on the consolidated financial statements have been performed. The auditors' report will be issued after the finalization of the required procedures relating to the filing of the annual report ('Document de Référence'). The consolidated financial statements were approved by the Company's Executive board on March 6, 2017. These statements were reviewed by the Company's Supervisory board on March 6, 2017 and will be submitted for approval to the Shareholders' General Meeting on June 23, 2017.

Innate Pharma's financial annual report, included in the reference document, will be available during the second quarter of 2017.

Statement of financial position
(in thousand euros)

	Year ended December 31,	
	2016	**2015**
Assets		
Current assets		
Cash and cash equivalents	175,906	152,870
Short term investments	21,782	83,040
Current receivables	32,390	16,216
Total current assets	**230,078**	**252,126**
Non-current assets		
Intangible assets	9,075	9,732
Tangible assets	9,094	6,304
Non-current financial assets	32,975	37,784
Other non-current financial assets	355	10
Total non-current assets	**51,499**	**53,830**
Total assets	**281,577**	**305,956**
Liabilities		
Current liabilities		
Trade payables	20,265	18,631
Financial liabilities – current portion	1,264	622
Deferred revenue – current portion	54,912	40,910
Total current liabilities	**76,441**	**60,163**
Non-current liabilities		
Financial liabilities – non-current portion	4,063	3,132
Defined benefit obligations	2,418	1,740
Deferred revenue – non-current portion	112,348	168,854
Provisions	136	-
Total non-current liabilities	**118,965**	**173,726**
Shareholders' equity attributable to equity holders of the Company		
Share capital	2,696	2,692
Share premium	187,571	186,337
Consolidated reserves	(116,235)	(109,525)
Net income (loss)	12,640	(6,706)
Other reserves	(503)	(730)
Total shareholders' equity attributable to equity holders of the Company	**86,169**	**72,067**
Total liabilities and equity	**281,577**	**305,956**

Statement of income (loss)
(in thousand euros)

	Year ended December 31,	
	2016	**2015**
Revenue from collaboration and licensing	56,159	17,906
Government financing for research expenditures	9,561	7,235
Revenue and other income	**65 721**	**25,141**
Research and development	(48,628)	(29,906)
General and administrative	(9,522)	(6,008)
Net operating expenses	**(58,150)**	**(35,914)**
Operating income (loss)	**7,571**	**(10,772)**
Financial income	7,327	6,755
Financial expenses	(1,957)	(2,689)
Net income (loss) before tax	**12,941**	**(6,706)**
Income tax expense	(301)	-
Net income (loss)	**12,640**	**(6,706)**
Net income (loss) per share attributable to equity holders of the Company:		
Weighted average number of shares (in thousand):	53,869	53,400
(in € per share)		
- Basic loss per share	0.23	(0.13)
- Diluted loss per share	0.23	(0.13)

Statement of cash flows
(in thousand euros)

	Year ended December 31,	
	2016	**2015**
Net income (loss)	**12,640**	**(6,706)**
Depreciation and amortization	3,263	2,655
Provisions for defined benefit obligations	609	386
Provisions for charges	136	-
Share-based compensation expense	1,031	1,011
Change in valuation allowance on financial assets	(826)	-
Gains (losses) on financial assets	(834)	-
Change in valuation allowance on financial instruments	(183)	(163)
Gains on assets and other financial assets	(1,699)	(972)
Interest paid	124	139
Others	(324)	(91)
Operating cash flow before change in working capital	**(13,937)**	**(3,578)**
Change in working capital	(50,788)	205,166
Net cash generated from / (used in) operating activities	**(36,851)**	**201,588**
Acquisition of property and equipment	(1,350)	(1,072)
Acquisition of intangible assets	(8,043)	-
Purchase of current financial instruments	(16,629)	(84,075)
Purchase of non-current financial instruments	(1,525)	(37,792)
Disposal of current financial instruments	78,565	-
Disposal of non-current financial instruments	7,793	5,995
Gains on assets and other financial assets	1,699	972
Net cash generated from / (used in) investing activities	**60,510**	**(115,972)**
Proceeds from the exercise / subscription of equity instrument	193	3,497
Repayment of financial liabilities	(685)	(452)
Interest paid	(124)	(139)
Purchase/sale of treasury shares	14	125
Net cash generated from / (used in) financing activities	**(602)**	**3,032**
Effect of the exchange rate changes	(23)	(63)
Net increase / (decrease) in cash and cash equivalents	**23,036**	**88,584**
Cash and cash equivalents at the beginning of the year	152,870	64,286
Cash and cash equivalents at the end of the year	**175,906**	**152,870**

The presentation of the cash outflows relating to the purchases of intangible assets was modified in the comparative column in order to take into consideration the payment In 2016 of the additional consideration paid to Novo Nordisk A/S (purchase of anti-NKG2A).

Management discussion on annual results for 2016:

Revenue and other income

Revenue and other income result from government financing for research expenditure and collaboration and licensing agreements. The Company's revenue and other income were €25.1 million and €65.7 million for the fiscal years ended December 31, 2015 and 2016, from the following sources:

Year ended December 31 (in thousand euros)	2016	2015
Revenue from collaboration and licensing agreements	56,159	17,906
Government financing for research expenditures	9,561	7,235
Revenue and other income	**65,721**	**25,141**

Revenue from collaboration and licensing agreements

Revenue from collaboration and licensing agreements amounted to €17.9 million and €56.2 million for the fiscal years ended December 31, 2015 and 2016, respectively. These revenues result from the agreements signed with Bristol-Myers Squibb in July 2011 and AstraZeneca in April 2015.

Following the licensing agreement signed with Bristol-Myers Squibb for the development and commercialization of the drug candidate lirilumab (July 2011), the Company received an upfront payment of €24.9 million ($35.3 million). This upfront payment, which is non-refundable and non-creditable, is recognized in turnover during the expected period of duration of the clinical program in course at the date of the contract. The amount recognized as revenue amounted to €0.9m and €0.4m for the fiscal years 2015 and 2016, respectively. This payment was entirely recognized in revenue as of June 30, 2016.

On October 3, 2015, the Company received a $5 million (€4.5 million milestone payment as part of this licensing agreement. This payment was triggered by the dosing of a first patient in a Phase II train of lirilumab in combination with rituximab in patients with relapsed/refractory or high-risk untreated Chronic Lymphocytic Leukemia. This payment was entirely recognized in revenue in 2015 since there is no related service to be rendered by the Company.

Following the presentation at the SITC annual meeting (November 2016) of encouraging preliminary activity results from the cohort of patients with SCCHN of a Phase I/II trial, we have been eligible to a milestone payment of $15 million (€13.8 million). We received the consideration in January 2017 but we recognized this milestone, as revenue, in its entirety in 2016 since the trigger event occurred in 2016.

The Company entered into a global co-development and commercialization agreement with AstraZeneca for monalizumab in April 2015. The Company received an initial payment amounting to $250 million on June 30, 2015. The recognition of this amount is based on the costs Innate Pharma is engaged to bear in the context of the agreement. The amount recognized for the fiscal year 2015 amounts to €12.1 million and €41.6 million for the fiscal year 2016. The percentage of completion has been determined on the basis of the costs recognized during the period compared to the total expected costs. At December 31, 2016, the amount not yet in revenue amounts to €167.3 million (€54.9 million as "Operational liabilities" and €112.3 million as "Other non-current liabilities").

Consequently, the rise of the turnover in 2016 mainly results from the revenue relating to the AstraZeneca agreement (€41.6 million) and the milestone payment received from Bristol-Myers Squibb (€13.8 million).

Government funding for research expenditures

The table below details government financing for research expenditure for the fiscal years ended December 31, 2015 and 2016:

Year ended December 31 (in thousand euros)	2016	2015
Research tax credit	9,082	7,045
French and foreign public grants	479	190
Government financing for research expenditures	**9,561**	**7,235**

The calculation of the research tax credit is based on 30% of the amount of eligible expenses for the fiscal year.

The table below shows the amount of R&D expenses (net of grants) eligible for the fiscal years ended December 31, 2015 and 2016:

Year ended December 31 (in thousand euros)	2015	2015
R&D expenses eligible for the research tax credit	30,203	24,248
Grants received, net	-	(799)
Net expenses eligible for the research tax credit	**30,203**	**23,449**

Net expenses eligible for the research tax credit increased by 25% compared to the fiscal year 2015 whilst the R&D expenses increased by 63%. This results from the fact that, since the fiscal year 2015, the Company reached the cap of the subcontracting expenses eligible to the calculation of the research tax credit. For the fiscal year 2016, the rise of the eligible expenses mainly results from the inclusion for the calculation of the research tax credit of the amortization expense relating to the anti-NKG2A intangible asset. This results from the decision of the Administrative appeal court of Bordeaux to include this kind of expenses (judgement date March 16, 2016).

In the absence of corporate tax to pay, the research tax credit is generally reimbursed by the by the French government four years after the fiscal year for which it is determined. However, since 2011, companies that meet the definition of small and medium sized enterprises (SME) according to European Union criteria are eligible for early reimbursement of their research tax credit receivable. The status of SME is lost when the criteria for eligibility are exceeded during two consecutive years. For the fiscal year 2016, for the first time, the Company exceeded all the criteria (including a turnover higher than €50 milion). If the situation is the same for the fiscal year 2017, the Company will lose the status of SME and the corresponding benefits, especially the early reimbursement of the research tax credit. Innate Pharma qualifies for early reimbursement of the research tax credit and received the 2015 amount in August 2016.

During the fiscal year 2015, the income resulting from grants relates to an European grant in the context of the FP-7 Program. During the fiscal year 2016, the income resulting from grants relates to the above mentioned grant and a grant under the FEDER Program.These grants directly impact our income statement, as opposed to repayable loans which are recorded as debt and thus only impact our balance sheet.

Operating expenses by business function

The table below gives a breakdown of net operating expenses by business function for the fiscal years ended December 31, 2015 and 2016:

Year ended December 31 (in thousand euros)	2016	2015
Research and development expenses	(48,628)	(29,906)
General and administrative expenses	(9,522)	(6,008)
Net operating expenses	**(58,150)**	**(35,914)**

R&D expenses include the cost of employees assigned to research and development operations (including employees assigned to work under the collaboration and licensing agreements), product manufacturing costs, subcontracting costs as well as costs of materials (reagents and other consumables) and pharmaceutical products.

R&D expenses amounted to €29.9 million and €48.6 million for the fiscal years ended December 31, 2015 and 2016, respectively representing 83% and 84% of net operating expenses. The rise in R&D expenses between 2015 and 2016 mainly results from an increase of subcontracting costs related to the progress in the development of the preclinical and clinical programs and a staff growth.

General and administrative expenses include expenses for employees not directly working on R&D, as well as the expenses necessary for the management of the business and its development. General and administrative expenses were €6.0 million and €9.5 million for the fiscal years ended December 31, 2015 and 2016, respectively representing 17% and 16% of the net operating expenses. This increase mainly results from the growth in lawyers and audit fees due to the Company's structuring in a context of strong expansion and in staff costs.

Operating expenses by nature

The table below gives a breakdown of net operating expenses by nature of expenses for the fiscal years ended December 31, 2015 and 2016:

Year ended December 31 (in thousand euros)	2016	2015
Cost of supplies and consumable materials	(2,852)	(2,607)
Intellectual property expenses	(1,235)	(1,216)
Other purchases and external expenses	(36,022)	(17,722)
Employee benefit other than share-based compensation	(12,796)	(10,142)
Share-based compensation	(1,032)	(1,011)
Depreciation and amortization	(3,263)	(2,655)
Other income and (expenses), net	(950)	(560)
Net operating expenses	**(58,150)**	**(35,914)**

Cost of supplies and consumable materials

The cost of supplies and consumable materials amounted to €2.6 million and €2.9 million for the fiscal years ended December 31, 2015 and 2016, respectively. The increase in this line item results from the growth in purchases used in the Company's laboratories.

Intellectual property expenses

Intellectual property expenses amounted to €1.2 million for the fiscal years ended December 31, 2015 and 2016.

These expenses include the cost of filing and protecting patents (including patents that were acquired from third parties and where the agreements specified that Innate Pharma is responsible for the relevant costs) as well as the costs for obtaining an option or license for intellectual property. In accordance with IAS 38, considering the degree of maturity of the Company and the uncertainty that exists as to the outcome of its research and development projects, intellectual property expenses are recorded in expenses.

Other purchases and external expenses

Other purchases and external expenses amounted to €17.7 million and €36.0 million during the fiscal years ended December 31, 2015 and 2016, respectively, broken down as follows:

Year ended December 31 (in thousand euros)	**2016**	**2015**
Sub-contracting	(28,329)	(12,705)
Non-scientific consultancy	(3,371)	(1,325)
Leases, maintenance and utility	(1,418)	(988)
Travel and conference costs	(1,223)	(1,111)
Scientific consultancy and services	(585)	(753)
Marketing, communication and public relations	(508)	(356)
Attendance fees	(200)	(187)
Insurance	(140)	(114)
Others	(248)	(176)
Other purchases and external expenses	(36,022)	**(17,722)**

Sub-contracting expenses involve discovery research costs (financing of research conducted externally, particularly academic research, antibody humanization technologies, manufacturing process development, etc.), preclinical development (pilot manufacturing, tolerance and pharmacology studies, etc.) and clinical costs (clinical trial management, etc.) outsourced to third parties. The increase in these costs mainly results from the growth and progress of the portfolio of preclinical and clinical programs.

Non-scientific consultancy expenses are mostly fees paid to audit firms, to our certified public accountant for his assistance in accounting, tax and employee matters, to our lawyers, to business strategy or development consultants and recruitment fees. The increase in these expenses between 2015 and 2016 mainly results from lawyers and audit fees due to the Company's structuring in a context of strong expansion.

Leases, maintenance and utility costs are mainly maintenance costs for laboratory equipment and the building.

Travel and conference costs mainly include expenses for employees travelling and attending conferences, particularly scientific, medical, business development and financial conferences.

Scientific consultancy and services consist of costs related to external consultants assisting in the research and development of our products. It also covers fees paid to members of our Scientific Advisory Board.

Employee benefits other than share-based compensation

Employee benefit expenses other than share-based compensation came to €10.1 million and €12.8 million for the fiscal years ended December 31, 2015 and 2016, respectively.

This includes salaries and social benefit costs. On average, Innate Pharma had 109 employees during the fiscal year ended December 31, 2015 and 133 employees during the fiscal year ended December 31, 2016.

The proportion of total staff, excluding Executive committee members, allocated to R&D operations was 75% and 77% for the fiscal years ended December 31, 2015 and 2016 respectively.

The average amount of staff costs per employee was €93 and €96 thousand for fiscal years ended December 31, 2015 and 2016 respectively.

Share-based compensation

Share-based compensation amounted to €1.0 million for the fiscal years ended December 31, 2015 and 2016, respectively.

In accordance with IFRS 2, these costs correspond to the fair value of the equity instruments allocated to directors and employees. The costs recognized in 2015 result from the issuance during the fiscal year of warrants for shares (and free shares in 2015) not including a condition requiring presence. As a consequence, the fair value of these instruments were not deferred but have been recognized as expenses in the income statement.

The cost recognized in 2016 results from the issuance during the fiscal year of free shares and free preferred shares including a condition requiring presence. As a consequence, the fair value of these instruments were deferred and recognized as expenses during the acquisition periods.

Depreciation and amortization

Depreciation and amortization amounted €2.7 million and €3.3 million for the fiscal years ended December 31, 2015 and 2016, respectively. This variance mainly results from the amortization of the intangible asset relating to a price complement to be paid to Novo Nordisk A/S following the agreement signed with AstraZeneca. The related amortization expense amounts to €2.4 million for fiscal year 2016.

Other income and expenses, net

Other income and expenses amounted €0.6 million and €1.0 million for the fiscal years ended December 31, 2015 and 2016, respectively. They mainly included certain indirect taxes, as well as exceptional income and expenses. This variance mainly results from the C3S and CVAE (€0.3 million each).

Net financial income

The net financial income amounted respectively to €4.1 million and €5.4 million for the fiscal years ended December 31, 2015 and 2016, respectively.

The Company's cash investment policy is preferentially directed to instruments with an absence of risk on principal and, whenever possible, guaranteed minimum performance. Only a

small fraction if its investment portfolio (2.5% at December 31, 2016) includes some financial instruments presenting a level of risk, which is considered as very low.

The balance of cash, cash equivalents and short term investments was €235.9 million and €197.7 million for the fiscal years ended December 31, 2015 and 2016, respectively. In addition, the Company held €37.8 million and €33.0 million of non-current financial assets at December 31, 2015 and 2016, respectively. This decrease in our cash position in 2016 resulted from the financing of our activities and especially our R&D expenses. During the fiscal year 2015, our cash position improved following the upfront payment collected in June 2015 in the context of the agreement signed with AstraZeneca ($250 million or €223.5 million).

Income tax expense

For the first time, the taxable income of the company is positive for the year ended December 31, 2016. The tax payable in respect of this exercise amounts to €301 thousand. According to the nature of its revenues, the Company is subject to the regime of capital gains income from intellectual property and therefore benefits from the reduced 15% tax rate. No deferred tax asset has been recorded as there is a minimal likelihood of recovery.

In accordance with IFRS, the research tax credit is classified as an 'Other revenue' and not in the line 'Income tax expense'.

Net income / (loss) per share

The net loss per authorized and issued share came to a loss of €0.13 per share and a gain of €0.23 per share for the fiscal years ended December 31, 2015 and 2016, respectively.

Balance sheet items

Cash, cash equivalents and financial instruments (current and non-current) amounted to €230.7 million as of December 31, 2016, including non-current financial instruments (€33.0 million), compared with €273.7 million at December 31, 2015. This amount does not include the $15 milllion milestone payment from Bristol-Myers Squibb which was received in January 2017. The cash assets held by the Company are composed of current accounts and fixed term accounts. Current financial assets are mainly composed of shares of mutual funds and bonds. Their purpose consists of financing our activities, including our research and developemnt 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, become BPI France) and from research tax credit.

The other key balance sheet items as of December 31, 2016 are as follows:

- Deferred revenue for €167.3 million relating to the remaining of the initial payment from AstraZeneca not yet recognized as turnover (including €112.3 million booked as 'Other non-current liabilities');
- Receivables from the French government in relation to research tax credit for the year 2016 (€9.1 million);
- Intangible assets for a net book value of €9.1 million, corresponding to the rights and licences relating to the acquisition of the anti-NKG2A (upfront payment in 2014 and a price supplement upon agreement with a third party in 2015) and anti-CD39 antibodies;

- Shareholders' equity of €86.2 million including the net gain for the period (€12,6 million).

Cash-flow items

Net cash flows used over the fiscal year 2016 amounted to €23 million, to be compared to a net cash flows generated for the fiscal year 2015 amounting to €88.6 million. Net cash flows generated in 2015 mainly resulted from the initial payment related to the agreement signed with AstraZeneca/MedImmune on April 25, 2015 (€223.5m).

The cash flow used during the period under review mainly results from the following:

- Net cash used in operating activities of €36.9m, mainly resulting from research and development activities and personel expenses;
- Net cash from investing activities for an amount of €60.5 million, mainly resulting from:
  - The disposal (net of purchases) of financial assets for an amount of €68.2 million,
  - Purchase of intangible assets for an amount of €8.0 million, mainly corresponding to the additional consideration relating to monalizumab paid to Novo Nordisk A/S following the agreement signed with AstraZeneca/MedImmune in 2015;
- Net cash used in financing activities for an amount of €0.6m, mainly resulting from the reimbursement of finance-leases (principal and interest).

Post balance sheet events

- On February 6, 2017, the Company announced top-line results from the Effikir trial evaluating the efficacy of lirilumab as a single agent maintenance treatment in elderly patients with acute myeloid leukemia in first complete remission. The trial did not meet the primary efficacy endpoint but confirms the tolerance profile of lirilumab as a monotherapy.

Risk factors

Risk factors affecting the Company are presented in Paragraph 1.8 of the latest "Document de Référence" submitted to the French stock-market regulator, the "Autorité des Marchés Financiers" on April 25, 2016.

Annual financial report for 2016 and "Reference Document"

The Company intends to file its 2016 annual financial report as well as its "Reference Document" for the year so that these documents are made public during the second quarter of 2017.