# PRESS RELEASE

innate pharma

## FIRST HALF OF 2014: BROADENED CLINICAL PORTFOLIO AND STRENGTHENED CASH POSITION

- ***Acquisition in February 2014 of IPH2201, anti-NKG2A antibody, a Phase II-ready first-in-class checkpoint inhibitor***
- ***Successful €50m capital increase subscribed by specialized investors***
- ***Cash and cash equivalents amounting to €78.9 million****
- ***All programs on track***

**Marseille, France, September 17, 2014**

Innate Pharma SA (the "Company" - Euronext Paris: FR0010331421 – IPH), the innate immunity company developing first-in-class therapeutic antibodies for cancer and inflammatory diseases, reports today its consolidated financial results for the first half of 2014.

Hervé Brailly, Chief Executive Officer of Innate Pharma, commented: *"This first half of 2014 has been marked by the acquisition of a novel clinical-stage checkpoint inhibitor. The Company has secured the financial resources for its Phase II development, with a successful €50m fund raising subscribed by specialized investors. Our cash horizon thus remains end of 2017, by which time we expect to create significant value from our assets.*

*Lirilumab, licensed to Bristol-Myers Squibb, should deliver major data in 2015. We expect to have the results of the randomized Phase II trial with lirilumab as single-agent in Acute Myeloid Leukemia end of 2015. Recruitment for this trial was completed last July.*

*We expect to enroll a first patient in the first Phase II trial with IPH2201 by the end of 2014, and initiate other trials in the first half of 2015.*

*Recently, IPH4102 was granted orphan drug status in the EU; it is on track to become our third first-in-class candidate in clinical development in 2015.*

*Innate Pharma enters an exciting stage in its development, with a significant expansion of its clinical-stage portfolio, comforting its unique positioning in the very promising area of immuno-oncology."*

***A meeting for fund managers, financial analysts and journalists will be held today at 11:30 am (CET) at the SFAF premises in Paris***

24, rue de Penthièvre, 75008

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***A conference call will be held today at 2:00pm (CET)***

- Dial in number: +33 (0)1 70 77 09 40 -

A replay will be available during three months after the conference call.

Dial in number: +33 (0)1 72 00 15 00 Access number: 289032#.

* Cash, cash equivalents and current financial instruments.

## Financial highlights of the first-half of 2014:

The key elements of these results are as follows:

- A decrease in revenue and other income (€4.1 million for the first half of 2014 compared to €7.0 million for the first half of 2013), mainly due to the decrease in the recognition of the upfront payment from the licencing deal with Bristol-Myers Squibb. As a reminder, this upfront payment of $35.3 million is recognized in turnover during the expected period of duration of the clinical program ongoing at the date of the signing, which is now almost completed.
- An increase in operating expenses (€13.2 million vs €9.2 million) mainly related to IPH4102, which has entered IND-enabling studies in the fourth quarter of 2013. It also includes an amortization of intangible assets (rights and licences) for an amount of €0.7 million in relation with IPH2201, the anti-NKG2A antibody (no cash impact). The operating loss amounts €9.1 million for the first half of 2014.
- A strong balance sheet: €78.9 million in cash and cash equivalents as at June 30, 2014, and €4.4 million in financial debt, of which €2.9 million are related to long term lease-financing. Based on its current programs, the Company estimates that it has sufficient cash to fund operations to the end of 2017. This estimate does not take into account any non-recurring revenue.

The table below summarizes the IFRS consolidated financial statements for the six-month period ended June 30, 2014, with a comparison to the same period in 2013:

| | 6-month period ended June 30 | |
|---|---|---|
| **In thousands of euros (IFRS)** | **2014** | **2013** |
| Revenue from collaboration and licensing agreements | 1,027 | 4,534 |
| Government funding for research expenditures | 3,110 | 2,444 |
| **Current revenue and other income** | **4,137** | **6,978** |
| Research and development | (10,890) | (7,003) |
| General and administrative | (2,310) | (2,152) |
| **Operating expenses** | **(13,200)** | **(9,155)** |
| **Operating income / (loss)** | **(9,063)** | **(2,177)** |
| Financial income | 338 | 339 |
| Financial expenses | (143) | (152) |
| Share of profit (loss) of associates and joint ventures | (170) | (332) |
| **Net loss** | **(9,039)** | **(2,323)** |

## Update on drug-candidates portfolio:

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

During the first half of 2014, all ongoing trials progressed on track. 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, "EffiKIR") completed target enrollment with 150 patients randomized in July, according to the plans. In March 2014, the Data and Safety Monitoring Board ("DSMB") completed its second assessment of the EffiKIR study and recommended continuation of the trial as planned. The DSMB meets every six months and the next assessment will take place at the end of September. Results of EffiKIR on the primary efficacy endpoint, Leukemia-Free Survival, are expected by the end of 2015. No interim analysis is planned.

In July, Innate Pharma completed the single-agent Phase I trial with lirilumab. This safety trial enrolled 37 patients with a variety of hematologic and solid tumors with slowly progressive or stable disease or in complete response, thus not allowing measurement of tumoral response. Patients received up to four doses of lirilumab, ranging from 0.015 mg/kg to 10 mg/kg. The primary endpoint was safety. Lirilumab appeared to be well tolerated, with a safety profile consistent with earlier observations with IPH2101[†]. The maximum tolerated dose was not reached. This study paved the way for the randomized Phase II EffiKIR trial with lirilumab.

The two Phase I trials being conducted by Bristol-Myers Squibb in solid tumors in combination with ipilimumab and nivolumab, respectively, are ongoing. In March 2014, Innate Pharma announced the start of the cohort expansion portion of the Phase I clinical trial testing the combination of the two investigational checkpoint inhibitors lirilumab and nivolumab. Recruitment for this latter trial is almost completed.

**IPH2201 (anti-NKG2A antibody):**

On February 5, 2014, Innate Pharma and Novo Nordisk A/S announced that Innate Pharma had acquired full worldwide development and commercialization rights in all therapy areas to the anti-NKG2A antibody from Novo Nordisk A/S. In return, Novo Nordisk A/S received €2.0 million in cash and 600,000 IPH shares[‡]. Novo Nordisk A/S is eligible to a total of €20 million in potential registration milestones and single-digit tiered royalties on future sales.

IPH2201 is a first-in-class therapeutic antibody targeting NKG2A, a NK and T cell checkpoint relevant in both inflammatory disorders and immuno-oncology. It 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. This trial has been completed in 2014.

In April 2014, the Company presented its initial clinical plan for IPH2201. Three indications have been prioritized: Head and Neck cancer, Chronic Lymphocytic Leukemia and Ovarian cancer. IPH2201 will be tested as a single agent and as combination therapy in five trials in these indications. The first of these clinical trials is planned to begin in 2014.

[†] IPH2101 is the parental version of lirilumab (also known as IPH2102); they are produced in hybridoma and CHO cells, respectively.

[‡] Issued at a unit price of 8.33 euros.

**IPH4102 (anti-KIR3DL2 antibody):**

IPH4102 is a first-in-class cytotoxic anti-KIR3DL2 antibody, aiming at depleting cutaneous T-cell lymphomas (CTCL) cells. It is currently in IND-enabling studies and expected to enter a Phase I clinical trial in 2015. In August 2014, IPH4102 was granted orphan drug designation for the treatment of CTCL by the European commission.

## Corporate update:

**Capital increase:**

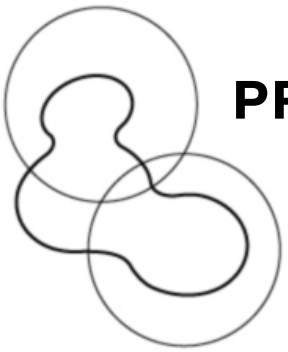
In June 2014, Innate Pharma raised €50 million in a capital increase subscribed by specialized institutional investors, corresponding to 6.25 million new ordinary shares. The subscription price of each new share was €8.0, corresponding to an 11.7% discount to the volume-weighted average of the closing prices of the Company's existing shares on the Euronext Paris stock exchange over the last five stock market trading days preceding the date upon which the issuance price was set, i.e. on June 23, 2014.

**Associate:**

In July 2014, the Shareholders Meeting of Platine Pharma Services SAS voted a capital increase reserved to a new investor, Advanced Bioscience Laboratories Inc. (ABL, Inc.). The shareholding of the Company into Platine Pharma Services SAS reduced from 33.26% to 9.87%. This decrease in Innate's participation is part of Innate's plan to focus its efforts and resources to its product portfolio development.

**Nomination:**

In September 2014, Innate Pharma appointed Pierre Dodion as Chief Medical Officer and member of the Executive Committee. In his most recent roles, Pierre Dodion was Senior Vice President Corporate Development and Operations of ARIAD Pharmaceuticals (2010-2013) and Associate Partner at Alacrita LLC (2014). He replaces Marcel Rozencweig who becomes President of Innate Pharma Inc., Innate's fully-owned US subsidiary. Marcel Rozencweig will represent the Company in its interaction with US stakeholders and remains a member of the Executive Committee of Innate Pharma SA.





## About Innate Pharma:

Innate Pharma S.A. is a biopharmaceutical company discovering and developing first-in-class therapeutic antibodies for the treatment of cancer and inflammatory diseases.

Its innovative approach has translated into major alliances with leaders in the biopharmaceutical industry such as Bristol-Myers Squibb and Novo Nordisk A/S.

The Company has two clinical-stage programs in immuno-oncology, a new therapeutic field that is changing cancer treatment by enhancing the capability of the body's own immune cells to recognize and kill cancer cells. Innate Pharma science also has potential in chronic inflammatory diseases.

Listed on Euronext-Paris, Innate Pharma is based in Marseille, France, and had 90 employees as at June 30, 2014.

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

## Practical 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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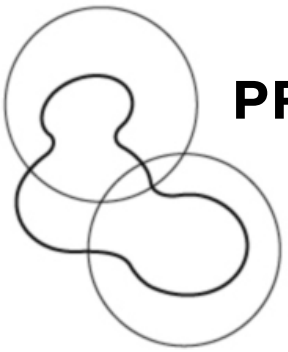
# Interim Financial Statements and Notes

## Consolidated Interim Balance Sheet
(in thousands of euros)

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | 73,969 | 38,360 |
| Financial instruments | 4,944 | 2,989 |
| Current receivables | 12,045 | 8,002 |
| **Total current assets** | **90,958** | **49,350** |
| **Non-current assets** | | |
| Intangible assets | 6,347 | - |
| Tangible assets | 6,054 | 6,258 |
| Associates and joint ventures | 102 | 272 |
| Other non-current assets | 6 | 2 |
| **Total non-current assets** | **12,509** | **6,532** |
| **Total assets** | **103,468** | **55,882** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade payables | 12,291 | 8,665 |
| Financial liabilities | 444 | 613 |
| Provisions | - | - |
| **Total current liabilities** | **12,735** | **9,278** |
| **Non-current liabilities** | | |
| Financial liabilities | 3,981 | 4,206 |
| Defined benefit obligations | 848 | 789 |
| Other non-current liabilities | 883 | 1,324 |
| **Total non-current liabilities** | **5,712** | **6,319** |
| **Capital and reserves attributable to equity holders of the Company** | | |
| Share capital | 2,648 | 2,287 |
| Share premium | 181,437 | 128,000 |
| Retained earnings | (89,964) | (87,072) |
| Net income (loss) | (9,039) | (2,892) |
| Other reserves | (61) | (38) |
| **Total capital and reserves attributable to equity holders of the Company** | **85,021** | **40,286** |
| **Total liabilities and equity** | **103,468** | **55,882** |

## Consolidated Interim Income Statement
(in thousands of euros)

| | 6-month period ended June 30 | |
|---|---|---|
| | **2014** | **2013** |
| Revenue from collaboration and licensing | 1,027 | 4,534 |
| Government financing for research expenditures | 3,110 | 2,444 |
| **Revenue and other income** | **4,137** | **6,978** |
| Cost of supplies and consumable materials | (788) | (722) |
| Intellectual property expenses | (265) | (119) |
| Other purchases and external expenses | (7,358) | (4,522) |
| Employee benefits | (3,556) | (3,240) |
| Depreciation and amortization | (1,082) | (430) |
| Other expenses | (150) | (121) |
| **Operating expenses, net** | **(13,200)** | **(9,156)** |
| **Operating income (loss)** | **(9,063)** | **(2,177)** |
| Financial income | 338 | 339 |
| Financial expenses | (143) | (152) |
| Share of profit (loss) of associates and joint | (170) | (332) |
| **Net income (loss) before tax** | **(9,039)** | **(2,323)** |
| Income tax expense | - | - |
| **Net income (loss)** | **(9,039)** | **(2,323)** |
| **Net income (loss) per share attributable to the equity holders of the Company:** | | |
| (in € per share) | | |
| - basic | (0.19) | (0.06) |
| - diluted | (0.19) | (0.06) |





## Consolidated Interim Statement Of Cash Flows
(in thousands of euros)

| | 6-month period ended June 30 | |
|---|---|---|
| | 2014 | 2013 |
| **Net income (loss)** | **(9,039)** | **(2,323)** |
| Depreciation and amortization | 1,082 | 430 |
| Provisions for charges and defined benefit obligations | 41 | 41 |
| Share of profit (loss) of associates and joint ventures | 170 | 332 |
| (Gains) / losses on disposal of fixed assets | 2 | 2 |
| Gains on assets and other financial assets | (242) | (271) |
| Net interests paid | 86 | 75 |
| **Operating cash flow before changing in working capital** | **(7,900)** | **(1,714)** |
| Current receivables and prepayments | (4,043) | (2,024) |
| Deferred revenue | (441) | (3,831) |
| Trade payables | 3,626 | (395) |
| **Net cash generated from / (used in) operating activities:** | **(8,759)** | **(7,964)** |
| Acquisition of property, plant and equipment | (230) | (259) |
| Acquisition of intangible assets | (2,023) | - |
| Disposal of fixed assets | - | 117 |
| Acquisition of current financial assets | (1,955) | (1,988) |
| Disposal of current financial assets | - | 2,033 |
| Gains on assets and other financial assets | 242 | 271 |
| **Net cash generated from / (used in) investing activities:** | **(3,967)** | **174** |
| Transactions on treasury shares | 11 | 34 |
| Capital increase | 47,807 | - |
| Issue of own shares | 1,003 | 420 |
| Repayment of financial liabilities | (394) | (417) |
| Net interests paid | (86) | (75) |
| **Net cash generated from financing activities:** | **48,340** | **(38)** |
| Effect of the exchange rate changes | (5) | (4) |
| **Net increase / (decrease) in cash and cash equivalents:** | **35,609** | **(7,833)** |
| Cash and cash equivalents at the beginning of the period: | 38,360 | 30,584 |
| **Cash and cash equivalents at the end of the period:** | **73,369** | **22,751** |

## Revenue and other income

The following table summarizes operating revenue for the periods under review:

| | 6-month period ended June 30 | |
|---|---|---|
| **In thousands of euros** | **2014** | **2013** |
| Revenue from collaboration and licensing agreements | 1,027 | 4,534 |
| Government funding for research expenditures | 3,110 | 2,444 |
| **Revenue and other income** | **4,137** | **6,978** |

For the six-month periods ended June 30, 2013 and 2014, revenue from collaboration and licensing agreements came from the licensing agreement signed with Bristol-Myers Squibb in July 2011. Following this agreement, the Company received an upfront payment of 24.9 million euros (35.3 million U.S. dollars). This upfront payment, 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 (1.8 million euros as at June 30, 2014). In addition to this payment, the Company invoiced back to Bristol-Myers Squibb external costs related to the licensed program as provided in the agreement.

Government funding for research costs is composed of the research tax credit (3.1 million euros for the six-month period ended June 30, 2014 compared to 2.4 million euros for the same year-ago period). The 2013 research tax credit should be received by the end of the fiscal year.

## Operating expenses by business function:

The following table breaks down the net operating expenses by function for the periods under review:

| | 6-month period ended June 30 | |
|---|---|---|
| **In thousands of euros** | **2014** | **2013** |
| Research and development expenses | (10,890) | (7,003) |
| General and administrative expenses | (2,310) | (2,152) |
| **Operating expenses** | **(13,200)** | **(9,155)** |

Research and development ("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.

The variance in R&D expenses between the two periods under review (10.9 million euros for the six-month period ended June 30, 2014 compared to 7.0 million euros for the same year ago period, or +56%) mainly results from the subcontracting costs (5.1 million euros compared to 2.8 million euros). This rise results from the costs relating to the program IPH4102. In 2014, the line item also includes the amortization of the intangible asset relating to the acquisition of anti-NKG2A for an amount of 0.7 million euros (see "Key events since January 1, 2014" below).

R&D expenses accounted for 83% of Operating expenses for the six-month period ended June 30, 2014 (2013: 76%).

General and administrative ("G&A") expenses mostly comprise costs of the "support" staff as well as external expenses for the management and development of our business. The increase of these costs mainly results from an increase in staff costs (0.1 million euros).

G&A expenses accounted for 17% of Operating expenses for the six-month period ended June 30, 2014 (2013: 24%).

## Operating expenses by nature:

The following table breaks down the net operating expenses by nature of expense for the periods under review:

| | 6-month period ended June 30 | |
|---|---|---|
| **In thousands of euros** | **2014** | **2013** |
| Costs of supplies and consumable materials | (788) | (722) |
| Intellectual property expenses | (265) | (119) |
| Other purchases and external expenses | (7,358) | (4,522) |
| Employee benefits other than share-based compensation | (3,556) | (3,240) |
| Depreciation and amortization | (1,082) | (430) |
| Other income and (expenses), net | (150) | (121) |
| **Operating expenses** | **(13,200)** | **(9,155)** |

The changes in the most significant line items can be analysed as follows:

- Costs of supplies and consumable materials: the rise in these expenses between the two periods (0.8 million euros for the six-month period ended June 30, 2014 compared to 0.7 million euros for the same year ago period, or +9%) mainly results from the increase of the discovery activities.

- Other purchases and external expenses: the variance in these expenses between the two periods (7.4 million euros for the six-month period ended June 30, 2014 compared to 4.5 million euros for the same year-ago period, or +63%) mainly results from the subcontracting costs (5.1 million euros compared to 2.8 million euros) relating to the IPH4102 program.

- Employee benefits other than share-based compensation: the increase in these expenses between the two periods (3.6 million euros for the six-month period ended June 30, 2014 compared to 3.2 million euros for the same year-ago period, or +10%) mainly results from the salary increases and the recruitments of the period.

- Depreciation and amortization: the rise of the line item between the two periods (1.1 million euros for the six-month period ended June 30, 2014 compared to 0.4 million euros for the same year-ago period, or +175%) results from the amortization of the intangible asset relating to anti-NKG2A for an amount of 0.7 million euros (see "Key events since January 1, 2014" below).

**Balance sheet items:**

Cash, cash equivalents and financial instruments amounted to 78.9 million euros as at June 30, 2014, as compared to 41.3 million euros as at December 31, 2013. Cash and cash equivalents do not include the reimbursement of the 2013 research tax credit which will be received during the second half year (4.1 million euros).

Since its incorporation in 1999, the Company has been primarily financed from revenue from its licensing activities (mostly in relation to the agreements with Novo Nordisk A/S and Bristol-Myers Squibb) and by issuing new securities. The Company also generated cash from government financing for research expenditure and repayable advances (BPI France). As at June 30, 2014, these repayable advances amount to 1.5 million euros booked in non-current financial liabilities.

The other key balance sheet items as at June 30, 2014 are as follows:

- Intangible assets for a net book value of 6.3 million euros, corresponding to the rights and licences relating to the acquisition during the half year of the anti-NKG2A antibody (see "Key events since January 1, 2014" below);
- Receivables from the French government in relation to research tax credit for the year 2013 and the six-month period ended June 30, 2014 (7.3 million euros);
- Deferred revenue for 1.8 million euros relating to the remaining of the initial payment from Bristol-Myers Squibb not yet recognized as turnover (including 0.9 million euros booked as "Other non-current liabilities");
- Shareholders' equity of 85.0 million euros including the net loss for the period (9.0 million euros).

**Cash-flow items:**

The net cash flow generated over the six-month period ended June 30, 2014 amounted to 35.6 million euros, compared to a net cash flow of 7.8 million euros used for the same year-ago period.
The cash flow generated during the period under review mainly results from the following:

- A loss of 9.0 million euros for the six-month period ended June 30, 2014, including amortization for an amount of 1.1 million euros.

- The net proceed from a capital increase completed in June 2014 subscribed by specialist institutional investors for an amount of 47.8 million euros.
- The acquisition of the anti-NKG2A antibody from Novo Nordisk A/S (2.0 million euros, see "Key events since January 1, 2014" below).
- The acquisition of current financial assets (2.0 million euros).
- The net proceed from the issuance of new shares corresponding to the exercise of equity instruments (1.0 million euros).

## Key events since January 1, 2014

- On February 5, 2014, Innate Pharma SA acquired from Novo Nordisk A/S full development and commercialization rights to the anti-NKG2A antibody, a first-in-class immune checkpoint inhibitor ready for Phase II development in oncology. Novo Nordisk A/S received 2.0 million euros in cash and 600,000 shares Innate Pharma and will be eligible to a total of 20 million euros in potential registration milestones and single-digit tiered royalties on future sales.
- On June 24, 2014, the Company raised 50 million euros in a capital increase subscribed by specialist institutional investors. 6.25 million new ordinary shares were issued. The subscription price of each new share is 8.0 euros, corresponding to a 11.7% discount to the volume-weighted average of the closing prices of the Company's existing shares on the Euronext Paris stock exchange over the last five stock market trading days preceding the date upon which the issuance price is set, i.e. on June 23, 2014, in accordance with the sixteenth resolution of the Shareholders General Meeting of the Company March 27, 2014.

## Precisions:

The interim consolidated financial statements for the six-month period ended June 30, 2014 have been subject to a limited review by our Statutory Auditors and were approved by the Executive Board of the Company on September 16, 2014. They were reviewed by the Supervisory Board of the Company on September 16, 2014. They will not be submitted for approval to the general meeting of shareholders.

## Risk factors:

Risk factors identified by the Company are presented in paragraph 5 of the "Document de Référence" submitted to the French stock-market regulator, the "Autorité des Marchés Financiers", on April 7, 2014. The main risks and uncertainties the Company may face in the six remaining months of the year are the same as the ones presented in the reference document available on the internet website of the Company.

## Related party transactions:

Transactions with related parties during the periods under review are disclosed in Note 21 to the Interim consolidated financial statements prepared in accordance with IAS 24 revised.