
HALF-YEAR
FINANCIAL REPORT
JUNE 30, 2017
innate pharma

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INNATE PHARMA S.A.
French *société anonyme* governed by an Executive Board and a Supervisory Board
with a share capital of 2,700,630.20 euros composed of
54,012,604 shares with a nominal value of 0.05 euros each

Registered office: 117, Avenue de Luminy, F-13009 Marseille, France
Registered with the Company and Trade Register of Marseille under number 424 365 336

Interim financial situation as of June 30, 2017

The following interim consolidated financial statements have been prepared by the Executive Board of the Company, and have been subject to a limited review by our Statutory Auditors. They have been examined by the Supervisory Board of the Company on September 15, 2017.

SUMMARY

INNATE PHARMA AT A GLANCE

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 by targeting NK (Natural Killer) cell receptors. Innate Pharma's innovative approach has resulted in four 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.

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, Novo Nordisk A/S and Sanofi.

Innate Pharma is based in Marseille, France and listed on Euronext in Paris, and had 171 employees as of June 30, 2017.

Learn more about InnatePharma at www.innate-pharma.com.

HALF-YEAR MANAGEMENT REVIEW

The key elements of Innate Pharma's financial results for the first half of 2017 are as follows:

- Cash, cash equivalents and financial assets (current and non-current) amounting to €204.1m (million euros) as of June 30, 2017 (€230.7m as of December 31, 2016). At the same date, the financial liabilities amounted to €4.7m, including €3.5m of non-current liabilities (€5.3m as of December 31, 2016, including €4.1m of non-current liabilities).
- Revenue and other income amounting to €21.3m (€20.7m for the first half of 2016). This amount results from licensing revenue (€15.6m) and from research tax credit (€5.7m). Revenue related to the licensing agreements results from phasing of the initial payment received by Innate Pharma in the context of the agreement signed in April 2015 with AstraZeneca/MedImmune.
- Operating expenses amounting to €39.5m (€23.6m for the first half of 2016), of which 80% are related to research and development. The variance of the research and development costs (€31.6m compared to €20.3m for the first half of 2016) mainly results from higher subcontracting costs, which increased by €5.9m to €16.8m. This increase was mainly driven by the IPH4102 Phase I and other programs which are IND-enabling studies.
- A net loss for the first half of 2017 amounting to €23.4m (€3.2m for the first half of 2016).

A. Revenue and other income

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

In thousands of euros	June 30, 2017	June 30, 2016
Revenue from collaboration and licensing agreements	15,554	16,659
Government funding for research expenditures	5,720	4,025
Revenue and other income	**21,274**	**20,685**

Revenue from collaboration and licensing agreements for the first half of 2017 entirely stems from the agreement signed with AstraZeneca. The related revenue decreased by €0.6m, resulting from the fall in the costs related to this agreement (the initial payment being recognized on the basis of the recognized costs).

For the first half of 2016, the line item also included revenue relating to the agreement signed with Bristol-Myers Squibb.

Government funding for research expenditures are mainly composed of research tax credit (€5.7m for the first half of 2017 compared to €4.0m for the first half of 2016). This variance results from the following:

- For the first half of 2017, the eligible expenses included the amortization expense relating to the anti-NKG2A intangible asset. This resulted from the decision of the Administrative appeal court of Bordeaux to include this kind of expenses (judgement date March 16, 2016);
- The rise in staff costs resulted from the increase of the R&D staff.

Each of these two elements had a positive impact of €0.8m.

The research tax credit relating to the fiscal year 2016, amounting to €9.1m, was collected in July 2017 after deduction of the corporate tax relating to the same fiscal year (€0.3m).

B. Operating expenses, by business function

The following table breaks down the operating expenses by function for the six-month period ended June 30th, 2017, compared to 2016's first half:

In thousands of euros	June 30, 2017	June 30, 2016
Research and development expenses	(31,583)	(20,273)
General and administrative expenses	(7,922)	(3,339)
Operating expenses	**(39,505)**	**(23,612)**

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), subcontracting costs (research, preclinical development and clinical development) as well as costs of materials (reagents and other consumables) and pharmaceutical products.

The increase in R&D expenses between the two periods under review (€31.6m as of June 30, 2017 compared to €20.3m as of June 30, 2016, or +56%) mainly resulted from both higher subcontracting costs (+€5.9m) and share-based compensation expenses (+€2.2m, non- cash item). Higher subcontracting costs were mainly driven by IPH4102 (+€4.2m).

R&D expenses accounted for 80% of operating expenses for the six-month period ended June 30, 2017 (2016: 86%).

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 rise in costs mainly resulted from an increase in share-based compensation (+€3.0m, non-cash item), non-scientific advisories (+€1.2m) and staff costs other than share-based compensation (+€0.5m).

G&A expenses accounted for 20% of operating expenses for the six-month period ended June 30, 2017 (2016: 14%).

During the first half of 2016, the Company granted some equity instruments to its employees, including to Mr. Mahjoubi following his appointment as Chairman of the executive board. Given these instruments include an acquisition period (one or three years), their fair value is spread over the relevant period according to IFRS 2. There was no share-based compensation expense for the first half of 2016. Indeed, the instruments granted in 2015 did not include any acquisition period. Consequently, their fair value was entirely recognized in 2015.

C. Operating expenses, by business nature

The following table breaks down the operating expenses by function for the six-month period ended June 30th, 2017, compared to 2016's first half:

In thousands of euros	June 30, 2017	June 30, 2016
Costs of supplies and consumable materials	(1,900)	(1,568)
Intellectual property expenses	(899)	(654)
Other purchases and external expenses	(21,627)	(13,885)
Employee benefits other than share-based compensation	(7,540)	(5,363)
Share-based payments	(5,177)	-
Depreciation and amortization	(2,128)	(1,563)
Other income and (expenses), nets	(234)	(580)
Operating expenses	**(39,505)**	**(23,612)**

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

- Costs of supplies and consumable materials: the rise in these expenses between the two periods (+€0.3m) mainly resulted from the increase in discovery activities;
- Other purchases and external expenses: the variance of the line item between the two periods was driven by the increase of the subcontracting costs (+€5.9m, see previous page);
- Employee benefits other than share-based compensation: the increase of the line item resulted from the rise in the employees (171 as of June 30, 2017 vs. 127 as of June 30, 2016);
- Share-based payments: the expense recognized for the first half of 2017 relates to a part of the fair value of the free shares and free preferred shares issued in 2016. These instruments include a condition requiring presence. As a consequence, the fair value of these instruments were deferred and recognized as expenses during the acquisition periods. This expense is a non-cash item.
- Depreciation and amortization: the rise of the line item mainly resulted from the amortization relating to the anti-NKG2A intangible asset (€1.5m for the first half of 2017 vs. €1.2m for the first half of 2016);
- Other income and expenses, net: the fall of the other income and expenses mainly resulted from the "contribution sociale de solidarité" based on the turnover of the fiscal year 2015 (€0.3m recognized during the first half of 2016).

D. Financial result

Financial income is mainly composed of interest related to cash, cash equivalents and financial assets.

Financial expenses for the first half of 2017 are mainly composed of exchange losses (€6.2m), resulting from the recovery of the Euro versus the U.S. dollar as of June 30, 2017 compared to December 31, 2016. This variance had an adverse impact on the valuation in Euro of the cash, cash equivalents and financial assets held in U.S. dollar in order to face the expenses expected to be paid in U.S. dollar.

E. Balance sheet item

Cash, cash equivalents and financial assets (current and non-current) amounted to €204.1m as of June 30, 2017, as compared to €230.7m as of December 31, 2016. Cash and cash equivalents do not include the reimbursement of the 2016 research tax credit which was collected in July 2017 (€9.1m). Consequently, the amount of net cash as of June 30, 2017 amounted to €170.3m (€196.4m as of December 31, 2016). Net cash is equal to cash, cash equivalents and current financial assets less current financial liabilities.

Since its incorporation in 1999, the Company has been primarily financed by revenue from its out-licensing activities (mostly in relation to the agreements with Novo Nordisk A/S and Bristol-Myers Squibb) and by issuing new shares. The Company also generated cash from government financing for research expenditure (zero interest loan for innovation) and non-interest-bearing repayable advances (BPI France). As of June 30, 2017, these repayable advances amount to €1.2m, of which €0.3m classified as current financial liabilities and €0.9m as non-current financial liabilities.

The other key balance sheet items as of June 30, 2017 are as follows:

- Deferred revenue of €151.7m relating to the remainder of the initial payment from AstraZeneca not yet recognized as revenue (including €95.1m booked as 'Deferred revenue – non-current portion');
- Receivables from the French government in relation to the research tax credit for 2016 and the six-month period ended June 30, 2017 (€14.7m);
- Intangible assets for a net book value of €7.7m, mainly corresponding to the rights and licenses relating to the acquisition of the monalizumab and anti-CD39 programs;
- Shareholders' equity of €68.9m including the net loss for the period (€23.4m).

F. Cash-flow items

The net cash flow consumed over the six-month period ended June 30, 2017 amounted to -€24.9m, compared to a net cash flow of +€7.0m generated for the same year-ago period. Net cash flows generated during the first half of 2016 mainly resulted from the disposal of current financial instruments.

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

- Net cash used in operating activities of €23.1m, mainly resulting from research and development activities and personnel expenses;
- Net cash used in investing activities for an amount of €1.6m, mainly resulting from the purchase of tangible assets;
- Net cash used in financing activities for an amount of €0.3m, mainly resulting from the reimbursement of finance-leases (principal and interest).

G. Key elements since January 1, 2017

- On February 6, 2017, the Company announced top-line results from the EffiKIR trial evaluating the efficacy of lirilumab as a single agent in elderly patients with acute myeloid leukemia. The trial did not meet the primary efficacy endpoint but confirmed the safety profile of lirilumab as a monotherapy. This result does not call the potential of lirilumab into question which is currently being tested by Bristol-Myers Squibb in a broad and comprehensive combination program in multiple indications.
- On June 2, 2017, the Company announced that it entered into an agreement with Novo Nordisk A/S granting Innate Pharma full worldwide exclusive rights to develop and commercialize a first-in-class clinical-stage anti-C5aR antibody (IPH5401). The terms of the transaction provide for a total upfront payment of €40.0m, of which €37.2m were paid in new Innate Pharma shares and €2.8m in cash. Novo Nordisk A/S will be eligible for €370.0m in development, regulatory and sales milestone payments. Novo Nordisk A/S will also be eligible for double digit royalties on net sales. After the issuance of the new Innate Pharma shares, the stake of Novo Nordisk A/S in Innate Pharma increased from 10.3% to 15.5%. This is a post balance sheet event since the acquisition of the Novo Nordisk A/S subsidiary owning the rights of anti-NKG2A occurred in July 2017.
- On June 26, 2017, the Company announced that Nicolai Wagtmann, PhD, Executive Vice-President and Chief Scientific Officer of Innate Pharma, and member of the Executive Board, has resigned due to personal reasons to pursue a career in the US. A recruitment process is underway and an announcement about his successor will be made in due time. Furthermore, Yannis Morel, PhD, Executive Vice President, Chief Business Officer and member of the Executive Board, has been promoted to EVP Products portfolio strategy & Business development. He now oversees the strategy of the Innate Pharma's growing portfolio of clinical and preclinical assets. Yannis also assumes the role as interim CSO.

H. Nota

The interim consolidated financial statements for the six-month period ended June 30, 2017 have been subject to a limited review by our Statutory Auditors and were approved by the Executive Board of the Company on September 12, 2017. They were reviewed by the Supervisory Board of the Company on September 15, 2017. They will not be submitted for approval to the general meeting of shareholders.

I. Main risks and uncertainties for the remaining six month of the fiscal year

Risk factors identified by the Company are presented in paragraph 1.9 of the registration document ("Document de Référence") submitted to the French stock-market regulator, the "Autorité des Marchés Financiers", on March 31, 2017 (AMF number D.17-0282). 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 registration document available on the internet website of the Company. Not only may these risks and uncertainties occur during the six months remaining in the financial year but also in the years to come.

J. Related party transactions

Transactions with related parties during the periods under review are disclosed in Note 18 to the interim consolidated financial statements prepared in accordance with IAS 34 revised.

No material transaction was concluded with a member of the executive committee or the Supervisory Board following the date of the 2016 registration document.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

A. Statement of financial position (in thousand euros)

	Note	June 30, 2017	December 31, 2016
Assets			
Cash and cash equivalents	4	151,003	175,906
Short-term investments	4	20,481	21,782
Current receivables	5	24,288	32,390
Total current assets		**195,772**	**230,078**
Intangible assets	6	7,720	9,075
Tangible assets	7	9,834	9,094
Non-current financial assets	4	32,631	32,975
Other non-current assets		427	355
Total non-current assets		**50,612**	**51,499**
Total assets		**246,384**	**281,577**
Liabilities			
Trade payables	8	18,182	20,265
Financial liabilities - Current portion	9	1,202	1,264
Deferred revenue - Current portion	13	56,643	54,912
Total current liabilities		**76,027**	**76,441**
Financial liabilities - Non-current portion	9	3,459	4,063
Defined benefit obligations	10	2,422	2,418
Deferred revenue - Non-current portion	13	95,065	112,348
Provisions	17	502	136
Total non-current liabilities		**101,448**	**118,965**
Share capital	11	2,701	2,696
Share premium		193,194	187,571
Consolidated reserves		(103,594)	(116,235)
Net income (loss)		(23,359)	12,640
Other reserves		(33)	(503)
Total shareholders' equity attributable to equity holders of the Company		**68,909**	**86,169**
Total liabilities and equity		**246,384**	**281,577**

B. Statement of income (in thousand euros)

	Note	June 30, 2017	June 30, 2016
Revenue from collaboration and licensing agreements	13	15,554	16,659
Government financing for research expenditures	13	5,720	4,025
Revenue and other income		**21,274**	**20,685**
Research and development	14	(31,583)	(20,273)
General and administrative	14	(7,922)	(3,339)
Net operating expenses		**(39,505)**	**(23,612)**
Operating income (loss)		**(18,231)**	**(2,927)**
Financial income	15	1,216	1,835
Financial expenses	15	(6,344)	(2,080)
Net income (loss) before tax		**(23,359)**	**(3,171)**
Income tax expense	16	–	–
Net income (loss)		**(23,359)**	**(3,171)**
Net income (loss) per share attributable to the equity holders of the Company:			
(in € per share)			
– basic	19	(0.43)	(0.06)
– diluted	19	(0.43)	(0.06)

C. Statement of comprehensive income (in thousand euros)

In thousands of euros	June 30, 2017	June 30, 2016
Net loss for the period:	**(23,359)**	**(3,171)**
Elements which will not be recycled in the income statement		
Actuarial gains and (losses)	186	(243)
Elements which will be recycled in the income statement		
Change in fair value of current financial instruments	240	388
Currency translation gain / (loss)	43	11
Other comprehensive income for the period:	**469**	**156**
Comprehensive income for the period:	**(22,890)**	**(3,015)**

D. Statement of cash flows (in thousand euros)

	Note	June 30, 2017	June 30, 2016
Net income (loss)		**(23,359)**	**(3,171)**
Depreciation and amortization	6, 7	2,127	1,563
Provisions for defined benefit obligations	10	190	460
Provisions for charges	14	366	–
Share-based payments	14	5,177	–
Variance of depreciation on financial assets	4	(218)	(600)
Foreign exchanges (gains) / losses on financial instruments	4	2,682	1,027
Variance on accrued interests on financial instruments	4	(84)	(152)
Gains on assets and other financial assets	15	(421)	(748)
Net interests paid	15	58	65
Operating cash flow before change in working capital		**(13,482)**	**(1,555)**
Change in working capital		(9,591)	(20,513)
Net cash generated from / (used in) operating activities:		**(23,072)**	**(22,067)**
Purchase of intangible assets	6	(181)	(7,740)
Purchase of tangible assets	7	(1,314)	(1,018)
Disposal of tangible assets	7	39	
Purchase of current financial assets	4	–	(9,469)
Purchase of non-current financial assets	4	(500)	(1,527)
Disposal of current financial assets	4	–	48,198
Disposal of non-current financial assets	4	4	–
Purchase of other non-current assets		(71)	–
Gains on other financial assets	15	421	748
Net cash generated from / (used in) investing activities:		**(1,601)**	**29,193**
Transactions on treasury shares	11	–	14
Issue of own shares	11	450	141
Repayment of financial liabilities	9	(667)	(240)
Net interests paid	15	(58)	(65)
Net cash generated from financing activities:		**(274)**	**(150)**
Effect of the exchange rate changes		44	7
Net increase / (decrease) in cash and cash equivalents:		**(24,903)**	**6,982**
Cash and cash equivalents at the beginning of the period:		175,906	152,870
Cash and cash equivalents at the end of the period:		**151,003**	**159,852**

Change in working capital June 30, 2017	Note	June 30, 2017	December 31, 2016	Variance
Current receivables	5	24,288	32,390	8,102
Deferred revenue	13	(151,708)	(167,261)	(15,553)
Operational liabilities	8	(18,055)	(20,195)	(2,140)
Change in working capital		**(145,474)**	**(155,066)**	**(9,591)**

Change in working capital June 30, 2016	Note	June 30, 2016	December 31, 2015	Variance
Current receivables	5	20,944	16,216	(4,728)
Deferred revenue	13	(193,003)	(209,764)	(17,761)
Trade payables	8	(13,282)	(12,306)	976
Change in working capital		**(185,341)**	**(205,854)**	**(20,513)**

E. Statement of changes in shareholders' equity (in thousand euros)

	Number of shares	Share capital	Share premium	Retained earnings	Net gain / (loss)	Other comprehensive income	Total shareholders' equity
Balance as of December 31, 2015	**53,834**	**2,692**	**186,337**	**(109,525)**	**(6,706)**	**(730)**	**72,067**
Net loss for the 6-month period ended June 30, 2016	–	–	–	–	(3,171)	–	(3,171)
Change in fair value of current financial instruments	–	–	–	–	–	388	388
Actuarial gains and losses	–	–	–	–	–	(243)	(243)
Foreign exchange gain / (loss)	–	–	–	(3)	–	11	8
Total comprehensive income for the period	–	–	–	(3)	**(3,171)**	**156**	**(3,018)**
Net loss appropriation for 2015	–	–	–	(6,706)	6,706	–	–
Exercise and subscription of equity instruments	62	3	138	–	–	–	141
Liquidity contract – Treasury shares	–	–	14	–	–	–	14
Total contributions by and contributions to owners of the Company, recognized directly in equity	**62**	**3**	**152**	**(6,706)**	**6,706**	**–**	**155**
Balance as of June 30, 2016	**53,896**	**2,695**	**186,489**	**(116,234)**	**(3,171)**	**(574)**	**69,204**
Net loss for the 6-month period ended December 31, 2016	–	–	–	–	15,811	–	15,811
Change in fair value of current financial instruments	–	–	–	–	–	(73)	(73)
Actuarial gains and losses	–	–	–	–	–	174	174
Foreign exchange gain / (loss)	–	–	–	–	–	(29)	(29)
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**15,811**	**71**	**15,883**
Exercise and subscription of equity instruments	26	1	50	–	–	–	51
Share-based payment	–	–	1,032	–	–	–	1,032
Others	–	–	–	(1)	–	–	(1)
Total contributions by and contributions to owners of the Company, recognized directly in equity	**26**	**1**	**1,082**	**(1)**	**–**	**–**	**1,083**
Balance as of December 31, 2016	**53,921**	**2,696**	**187,571**	**(116,235)**	**12,640**	**(503)**	**86,169**
Net loss for the 6-month period ended June 30, 2017	–	–	–	–	(23,359)	–	(23,359)
Change in fair value of current financial instruments	–	–	–	–	–	240	240
Actuarial gains and losses	–	–	–	–	–	186	186
Foreign exchange gain / (loss)	–	–	–	–	–	43	43
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**(23,359)**	**469**	**(22,890)**
Net loss appropriation for 2016	–	–	–	12,640	(12,640)	–	–
Exercise and subscription of equity instruments	91	5	445	–	–	–	450
Share-based payment	–	–	5,177	–	–	–	5,177
Others	–	–	1	1	–	1	3
Total contributions by and contributions to owners of the Company, recognized directly in equity	**91**	**5**	**5,623**	**12,641**	**(12,640)**	**1**	**5,630**
Balance as of June 30, 2017	**54,013**	**2,701**	**193,194**	**(103,594)**	**(23,359)**	**(33)**	**68,909**

F. Notes to the Financial Statements

1. The Company

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. Incorporated in 1999 and listed on Euronext in Paris in 2006, Innate Pharma is based in Marseille, France, and had 171 employees as of June 30, 2017.

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 targeting NK (Natural Killer) cells' receptors to activate the innate immune system. Innate Pharma's innovative approach has resulted in four first-in-class, clinical-stage therapeutic antibodies that may address a broad range of solid and hematological cancer indications. Innate Pharma carries on a balanced strategy to broaden its portfolio of partnered and proprietary programs while maximizing the assets' value. The Company has four clinical-stage assets. Two are developed under partnerships: lirilumab, licensed to the biopharmaceutical group Bristol-Myers Squibb, and monalizumab, under a global co-development and commercialization agreement with AstraZeneca. These two drug-candidates are currently tested in broad clinical programs of Phase I/II trials. The other clinical-stage drug-candidates are IPH4102, developed in cutaneous T cell lymphomas (CTCL) and currently tested in a Phase I trial, and IPH5401, acquired from Novo Nordisk A/S. The clinical trials in oncology for IPH5401 are expected to begin in 2018.

As of June 30, 2017, the Company owned a fully owned subsidiary, called Innate Pharma, Inc., created in 2009 and registered in the Delaware, United States. The corporate purpose of this company consists of managing the business development activities in the United Sates. This company is dormant since January 1, 2011.

The Company is and should continue, in the near to mid-term, to be financed primarily through the issuance of new equity instruments as well as through partnering activity. The Company's activity is not subject to seasonal fluctuations.

The Executive Board approved these interim consolidated financial statements presented under IFRS on September 12, 2017. They were also examined by the Supervisory Board on September 15, 2017 and were subject to a limited review by the statutory auditors of the Company. They are not subject to approval by the General Meeting of shareholders.

Key events since January 1, 2017

- On February 6, 2017, the Company announced top-line results from the EffiKIR trial evaluating the efficacy of lirilumab as a single agent in elderly patients with acute myeloid leukemia. The trial did not meet the primary efficacy endpoint but confirms the tolerance profile of lirilumab as a monotherapy. This result does not call the potential of lirilumab into question which is currently being tested by Bristol-Myers Squibb in a broad and comprehensive combination programs in multiple indications. As a consequence, this does not in any way affect the continuity of the Company's operations.
- On June 2, 2017, the Company announced that it entered into an agreement with Novo Nordisk A/S granting Innate Pharma full worldwide exclusive rights to develop and commercialize a first-in-class clinical-stage anti-C5aR antibody (IPH5401). The terms of the transaction provide for a total upfront payment of €40.0m, of which €37.2m were paid in new Innate Pharma shares and €2.8m in cash. Novo Nordisk A/S will be eligible for €370.0m in development, regulatory and sales milestone payments. Novo Nordisk A/S will also be eligible for double digit royalties on net sales. After the issuance of the new Innate Pharma shares, the stake of Novo Nordisk A/S in Innate Pharma increased from 10.3% to 15.5%. This is a post balance sheet event described in Note 20.

2. Accounting policies

2.1. Basis of preparation

The interim consolidated financial statements for the six-month period ended June 30, 2017 have been prepared in accordance with IAS 34, "Interim Financial Reporting" from the International Financial Reporting Standards (IFRS) as adopted by the European Union. They should be read in conjunction with the annual consolidated financial statements as of December 31, 2016 prepared in accordance with IFRS as adopted by the European Union and presented in paragraph 3.3.1 of the registration document submitted to the French stock-market regulator, the "Autorités des Marchés Financiers", on March 31, 2017 (D.17-0282).

2.2. Accounting policies

The accounting policies applied are the same as those adopted in the preparation of the annual financial statements as of December 31, 2016 in accordance with IFRS as adopted by the European Union.

Application of the following new and amended standards is mandatory for the first time for the financial period beginning on January 1, 2017 and, as such, they have been adopted by the Company:

- Amendments to IAS 7 "Statement of cash flows – Disclosure initiative";
- Amendments to IAS 12 "Income taxes" to clarify the recognition of deferred tax assets for unrealized losses".

None of these amendments and interpretations has a significant impact on the financial statements of the Company for the six-month period ended June 30, 2017.

The following new standards, amendments to existing standards and interpretations have been published but are not applicable in 2017, and have not been early adopted by the Company:

- IFRS 9 "Financial instruments", mandatory for annual periods beginning on or after January 1, 2018. IFRS 9 supersedes IAS 39 "Financial instruments: recognition and measurement";
- IFRS 14 "Regulatory deferral accounts". The European Union did not launch the homologation process of this standard;
- IFRS 15 "Revenue from contracts with customers", mandatory for annual periods beginning on or after January 1, 2018. IFRS 15 supersedes IAS 11 "Construction contracts", IAS 18 "Revenue" and the corresponding interpretations (IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31);
- IFRS 16 "Leases", mandatory for annual periods beginning on or after January 1, 2019. This standard supersedes IAS 17 and the corresponding interpretations (IFRIC 4, SIC 15 and SIC 27);
- Amendments to IFRS 2 "Clarifications of classification and measurement of share based payment transactions", mandatory for annual periods beginning on or after January 1, 2018. The expected impacts of this amendment are not material;
- Amendments to IFRS 4 "Application of IFRS 9 and IFRS 4";
- Amendment to IAS 40 "Investment property", not approved by the European Union yet (effective for annual periods beginning on or after January 1, 2018 according to the IASB).

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

Standards	Work progress	Estimate of the impacts
IFRS 9 Financial instruments	The Company has completed the assessment of the impact of IFRS 9 on its financial instruments (especially the available-for-sale investments).	The Company does not expect the adoption of IFRS 9 on its consolidated financial statements to be significant as of January 1, 2018, the initial date of application of the standard. The adoption of IFRS 9 primary impacts the measurement of available-for-sale investments (OPCVM) currently designated at fair value through other comprehensive income, which will have to be accounted for in profit and loss under IFRS 9.
IFRS 15 Revenue from contracts with customers	The Company has performed an assessment of the impact of IFRS 15 on revenue derived from its material contracts (AstraZeneca and Sanofi).	AstraZeneca agreement The agreement signed with AstraZeneca includes, besides the USD250 million initial upfront payment received by Innate Pharma in June 2015, cash transactions between the parties related to their respective research commitments. According to the requirements of IFRS 15 related to amounts owed to customers, the Company concluded that USD70 million to be paid by Innate Pharma to fund AstraZeneca research will be recognized as a reduction of revenue instead of subcontracting costs over the duration of the contract. The impact of this reclassification is currently being analyzed by the Company. Amounts still owed to AstraZeneca as of the reporting date will be measured at the appropriate €/USD exchange rate with resulting exchange gains or losses recognized in profit and loss. Sanofi agreement No difference was identified regarding the accounting treatment of this agreement under IFRS 15 compared to IAS 18. The cumulative impact of the transition to IFRS 15 will be recorded as an adjustment to the opening balance of equity as at the date of initial application (January 1, 2018)
IFRS 16 Lease	The Company has identified various commitments expected to be recognized in the statement of financial position under IFRS 16.	The Company has completed its impact analysis of IFRS 16. The impact of IFRS 16 is not expected to be material. The items to be recognized in the statement of financial position are presently disclosed in Note 17 Commitments, contingencies and litigation (buildings,, photocopiers and company cars). IFRS 16 will become effective as of January 1, 2019.

3. Management of financial risks

Interim consolidated financial statements do not include all the information relating to financial risks described in the annual consolidated financial statements. The Company did not identify other risks than the ones presented in the 2016 registration document.

4. Cash, cash equivalents and financial assets

(in thousand euros)	June 30, 2017	December 31, 2016
Cash and cash equivalents	151,003	175,906
Short-term investments	20,481	21,782
Cash, cash equivalents and short-term investments	*171,484*	*197,688*
Non-current financial assets	32,631	32,975
Cash, cash equivalents and financial assets	**204,115**	**230,664**

The variance of financial assets (current and non-current) for the first half of 2016 and 2017 is as follows:

(in thousand euros)	December 31, 2016	Purchases	Disposals	Variance in fair value by P&L	Variance in fair value by OCI	Variance in accrued interests	F/X variance	June 30, 2017
Current	21,782	–	–	–	96	25	(1,422)	20,481
Non-current	32,975	500	(4)	218	144	59	(1,260)	32,631
Total financial assets	**54,757**	**500**	**(4)**	**218**	**240**	**84**	**(2,862)**	**53,112**

(in thousand euros)	December 31, 2015	Purchases	Disposals	Variance in fair value by P&L	Variance in fair value by OCI	Variance in accrued interests	F/X variance	June 30, 2016
Current	83,040	9,469	(48,198)	85	198	43	(562)	44,075
Non-current	37,794	1,527	–	515	190	109	(465)	39,670
Total financial assets	**120,834**	**10,996**	**(48,198)**	**600**	**388**	**152**	**(1,027)**	**83,745**

4.1. Cash and cash equivalents

Cash and cash equivalents are mainly composed of current bank accounts, interest-bearing accounts and fixed-term accounts.

(in thousand euros)	June 30, 2017	December 31, 2016
Current accounts	35,880	65,516
Interest-bearing accounts	50,670	54,656
Fixed-term accounts	64,453	55,735
Cash and cash equivalents	**151,003**	**175,906**

Fixed-term accounts meet the criteria to be considered as cash equivalents: capital is guaranteed, available on a daily basis and convertible in a well-known amount of cash.

Assets classified as “Others” also meet these criteria.

4.2. Short-term investments

(in thousand euros)	June 30, 2017	December 31, 2016
Commercial papers	5,621	5,810
Mutual funds ("OPCVM")	14,860	15,972
Short-term investments	**20,481**	**21,782**

Maturity of the commercial papers is comprised between July and September 2017. These instruments are defined by the Company as financial assets at fair value through profit or loss.

Negotiable medium-term notes ("Bons à Moyen Terme Négociable" or "BMTN") classified as current financial assets are available on a quarterly or semi-annual basis. Capital is guaranteed and easily convertible in a well-known amount of cash. These instruments are defined by the Company as financial assets at fair value through profit or loss.

Parts of mutual funds are defined by the Company as assets available for sale measured at fair value though other comprehensive income. The Company only invests in funds with a very low level of risk. The maturity of the parts of mutual funds classified as current financial instruments is one year or shorter.

4.3. Non-current financial assets

(in thousand euros)	June 30, 2017	December 31, 2016
Mutual funds ("OPCVM")	10,237	10,085
Other non-current financial instruments	16,046	16,608
Negotiable medium-term notes	4,317	4,748
Capitalization contract for defined benefit obligations	2,031	1,534
Non-current financial assets	**32,631**	**32,975**

Parts of mutual funds are defined by the Company as assets available for sale measured at "Fair value though other comprehensive income". The Company only invests into funds with a very low level of risk. The maturity of the parts of mutual funds classified as non-current financial instruments is longer than one year.

Other non-current financial assets generally include a guarantee of capital at the maturity date (which is always longer than one year). These instruments are defined by the Company as financial assets at fair value through profit or loss and classified as non-current due to their maturity.

Negotiable medium-term notes classified as non-current financial assets are available before their maturity date if there is no risk on the capital. Capital is guaranteed and easily convertible in a well-known amount of cash at the maturity date. These instruments are defined by the Company as financial assets at fair value through profit or loss.

The capitalization contract relating to the defined benefit obligations is a financial investment whose purpose is the financing of retirements. It can be terminated at each anniversary date. It is not an insurance contract. Consequently, this asset does not enter into the scope of IAS 19 and has therefore no impact on the provision for retirement benefits recorded in the statement of financial position (see Note 10).

4.4. Cash, cash equivalents and financial assets per currency

(in thousand euros)	June 30, 2017			December 31, 2016		
	€	$	Total	€	$	Total
Cash and cash equivalents	118,479	32,524	**151,003**	133,707	42,199	**175,906**
Current and non-current financial assets	20,543	32,569	**53,112**	19,623	35,134	**54,757**
Total	**139,022**	**65,093**	**204,115**	**153,330**	**77,333**	**230,664**

The part of the financial assets held and denominated in U.S. dollars will be used by the Company to pay for services invoiced in this currency, which will be invoiced in U.S. dollars during the next few years.

4.5. Financial instruments per valuation method

(in thousand euros)	June 30, 2017	December 31, 2016
Variance of fair value through profit or loss(1)	210	824
Variance of fair value through other comprehensive income(2)	248	315

(1) For the fiscal year 2016, this amount is composed of unrealized gains for €919 thousand and unrealized losses for €95 thousand, recognized in financial result. For the first half of 2017, this amount is composed of unrealized gains for €278 thousand and unrealized losses of €68 thousand.

(2) Financial assets for which the change in fair value is recognized through other comprehensive income are only composed of mutual funds.

5. Current receivables

(in thousand euros)	June 30, 2017	December 31, 2016
Research tax credit and other tax credits (CICE*)	14,687	8,925
Prepaid expenses	6,462	6,323
VAT refund	2,469	2,087
Prepayments made to suppliers	290	513
Trade account receivables	–	14,230
Others	380	312
Current receivables and prepayments	**24,288**	**32,290**

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

The net book value of the receivables is considered to be a reasonable approximation of their estimated fair value.

The debt relating to the research tax credit for the fiscal year 2016 amounts to €9.1m. We received the payment on July 25, 2017.

All receivables and other current assets have payment terms of less than one year. No valuation allowance was recognized on accounts receivable as there is no past due receivable.

6. Intangible assets

(in thousand euros)	Purchased licenses	Other intangible assets	Intangible assets in progress	Total intangible assets
Year ended December 31, 2016				
Net opening balance	**9,732**	**–**	**–**	**9,732**
Purchases[(1)]	1,665	44	9	1,718
Reclassification	31	–	–	31
Depreciation	(2,406)	–	–	(2,406)
Net closing balance	**9,022**	**44**	**9**	**9,075**
6-month period ended June 30, 2017				
Net opening balance	**9,022**	**44**	**9**	**9,075**
Acquisitions	–	181	–	181
Depreciation	(1,505)	(31)	–	(1,536)
Net closing balance	**7,517**	**194**	**9**	**7,720**

[(1)] As a result of the licensing agreement signed with OREGA Biotech for the acquisition of the anti-CD39, the Company recognized an intangible asset for the cost of the purchased license amounting to €1.3m.

7. Tangible assets

(in thousand euros)	Lands and buildings[1]	Laboratory equipment and other tangible assets	Tangible assets in progress	Total tangible assets
Year ended December 31, 2016				
Net opening balance	**4,197**	**1,940**	**166**	**6,304**
Purchases[2]	–	3,649	30	3,679
Disposals	–	(2)	–	(2)
Depreciation	(297)	(560)	–	(857)
Transfers	–	149	(149)	–
Reclassification	–	(14)	(17)	(31)
Net closing balance	**3,900**	**5,164**	**30**	**9,094**
6-month period ended June 30, 2017				
Net opening balance	**3,900**	**5,164**	**30**	**9,094**
Acquisitions	–	1,254	117	1,371
Disposals	–	(39)	–	(39)
Depreciation	(149)	(443)	–	(592)
Transfers	–	34	(34)	–
Net closing balance	**3,751**	**5,969**	**113**	**9,834**

(1) Gross value of the land amounts to €772 thousand. The land is not depreciated.

(2) Including €1,412 thousand of laboratory equipment and €846 thousand of refurbishment works in the headquarters financed through finance-lease agreements.

8. Trade payables

(in thousand euros)	June 30, 2017	December 31, 2016
Suppliers (excluding capex)	14,707	15,599
Tax and social liabilities	3,223	4,391
Other payables	125	205
Operational liabilities	*18,055*	*20,195*
Capex suppliers	127	70
Trade payables	**18,182**	**20,265**

9. Financial liabilities

(in thousand euros)	December 31, 2016	Subscriptions	Reimbursements	Transfers	June 30, 2017
BPI PTZI IPH41	375	–	(225)	150	300
Finance leases – Real estate transaction	718	–	(357)	369	730
Finance leases – Laboratory equipment	171	–	(86)	87	172
Total – Current financial liabilities	**1 264**	**–**	**(667)**	**606**	**1,202**
BPI France	1,050	–	–	(150)	900
Finance leases – Real estate transaction	1,853	–	–	(369)	1,484
Finance leases – Laboratory equipment	1,160	–	–	(86)	1,075
Total – Non-current financial liabilities	**4,063**	**–**	**–**	**(606)**	**3,459**
Total financial liabilities	**5,327**	**–**	**(667)**	**–**	**4,661**

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. The reimbursement of this loan occurs between September 2016 and June 2021.

Lease-finance obligations relate primarily to the real estate transaction the Company carried out, in 2008, to acquire and refurbish its new headquarters and main laboratories. In the context of this operation, the Company paid a guarantee in the form of a down-payment. This down-payment amounts to €459 thousand as of June 30, 2017 (€530 thousand as of December 31, 2016). In the schedule above, financial liabilities relating to this real-estate transaction do not include this down-payment.

During the first half of 2016, the Company carried out some refurbishment works and acquired several laboratory equipments. A part of these investments was financed through finance-leases for a global amount of €575 thousand.

The table below details the repayment schedule of the aforementioned borrowings:

(in thousand euros)	Within 1 year	From 2nd to 5th year included	Over 5 years	Total
BPI France (ex Oséo)	300	900	–	**1,200**
Finance leases – Real estate transaction	730	1,484	–	**2,214**
Finance leases – Laboratory equipment	172	697	378	**1,247**
Total	**1,202**	**3,081**	**378**	**4,661**

The table below details the repayment schedule for the contractual flow (principal and interest) of the aforementioned borrowings (in thousands of euros):

(in thousand euros)	Within 1 year	From 2nd to 5th year included	Over 5 years	Total
BPI France (ex Oséo)	300	900	–	**1,200**
Finance leases – Real estate transaction	789	1,529	–	**2,318**
Finance leases – Laboratory equipment	179	718	379	**1,276**
Total	**1,268**	**3,147**	**379**	**4,794**

10. Defined benefit obligations

(in thousand euros)	June 30, 2017	December 31, 2016
Provision for retirement benefits	2,064	2,082
Provision for seniority awards	358	336
Defined benefit obligations	**2,422**	**2,418**

The Company's pension benefits mainly correspond to indemnities due to employees who leave the Company in the context of their retirement. The Company uses an external actuary firm so as to evaluate this provision corresponding to the fair value of the obligations not covered by plan assets. Regarding the actuarial assumptions, the main change compared to December 2016 is the actualization rate (1.9% compared to 1.5% as of December 31, 2016). The impact of this change amounts to €160 thousand, recorded in the other comprehensive income.

The Company is committed to pay seniority awards for the employees reaching a seniority of 10, 15 and 20 years in the Company. The Company recognizes a provision relating to these seniority awards through an expense in the statement of income under the line item "Employee benefits other than share-based compensation" (see Note 14). These awards enter indeed in the scope of IAS 19. This provision, which is also calculated by an external actuary firm, amounts to €358 thousand as of June 30, 2017.

11. Capital

11.1. Share capital

As of December 31, 2016, the share capital was composed of 53, 921,304 common shares with a 0.05 euro par value, or a share capital amounting to 2,696,065.2 euros.

On January 24, 2017, the Executive Board minuted the exercise of 750 BSAAR 2012, 700 BSA 2011-2 and 37,500 BSA 2014, bringing the share capital to 2,698,012.7 euros (53,960,254 shares). The exercise price received by the Company was recorded as share capital to 1,947.5 euros and an issue premium for 325,196.5 euros.

On February 10, 2017, the Executive Board minuted the exercise of 500 BSAAR 2012 and 50,000 BSA 2013, bringing the share capital to 2,700,537.7 euros (54,010,754 shares). The exercise price received by the Company was recorded as share capital to 2,525 euros and an issue premium for 116,495 euros.

On June 14, 2017, the Executive Board minuted the exercise of 1,850 BSAAR 2012, bringing the share capital to 2,700,630.2 euros (54,012,604 shares). The exercise price received by the Company was recorded as share capital for 92.5 euros and an issue premium for 3,681.5 euros.

On June 23, 2017, Nicolai Wagtmann resigned from its functions as Executive Board member. The 450 AGAP (giving right, in case of maximum conversion to 90,000 ordinary shares) granted to him on October 21, 2016 therefore lapsed.

11.2. Potential capital

As of June 30, 2017, the number of shares that could be issued in case of:

(i) exercise of warrants: 347,500;

(ii) exercise of outstanding repayable warrants: 1,363,072;

(iii) conversion of preferred shares: 1,407,200; and

(iv) definitive acquisition of free shares: 549,875

amounts to 3,667,647 shares, representing approximately 6.79% of the Company's share capital based on the existing number of shares on a fully diluted basis (i.e. 57,680,251).

11.3. Treasury shares

As of June 30, 2017, the Company held 18,575 treasury shares for an amount of €203 thousand (€275 thousand as of December 31, 2016).

12. Financial instruments recognized in the statement of financial position and related effect on the income statement

The following tables show the carrying amounts and fair values of financial assets and financial liabilities. The tables do not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

(1) The fair value of financial assets classified as fair value through profit and loss corresponds to the market value of the assets, which are primarily determined using level 2 measurements.

(2) The fair value of financial assets classified as fair value through comprehensive income corresponds to the market value of the assets, which are primarily determined using level 1 measurements.

(3) The book amount of financial assets and liabilities measured at amortized cost was deemed to be a reasonable estimation of fair value.

As of June 30, 2017	Book value on the statement of financial position	Fair value through profit and loss (1)	Fair value through comprehensive income (2)	Debt at amortized costs (3)	Fair value
Financial assets					
Non current financial assets	32,631	20,363	10,237	2,031	32,631
Current receivables	24,288	-	-	24,288	24,288
Short term investments	20,481	5,621	14,860	-	20,481
Cash and cash equivalents	151,003	151,003	-	-	151,003
Total financial assets	**228,402**	**176,987**	**25,097**	**26,319**	**228,402**
Financial liabilities					
Other non current liabilities	502	-	-	502	502
Non current financial liabilities	3,459	-	-	3,459	3,459
Current financial liabilities	1,202	-	-	1,202	1,202
Trade payables	18,182	-	-	18,182	18,182
Total financial liabilities	**23,345**	**-**	**-**	**23,345**	**23,345**

As of December 31, 2016	Book value on the statement of financial position	Fair value through profit and loss (1)	Fair value through comprehensive income (2)	Debt at amortized costs (3)	Fair value
Financial assets					
Other non current assets	32,975	21,356	10,085	1,534	32,975
Current receivables	32,390	-	-	32,390	32,390
Short term investments	21,782	5,810	15,972	-	21,782
Cash and cash equivalents	175,906	175,906	-	-	175,906
Total financial assets	**263,053**	**203,072**	**26,057**	**33,924**	**263,053**
Financial liabilities					
Other non current liabilities	136	-	-	136	136
Non current financial liabilities	4,063	-	-	4,063	4,063
Current financial liabilities	1,264	-	-	1,264	1,264
Trade payables	20,265	-	-	20,265	20,265
Total financial liabilities	**25,729**	**-**	**-**	**25,729**	**25,729**

In accordance with the amendments to IFRS 7 "Financial Instruments: Disclosures", financial instruments are presented in three categories based on a hierarchical method used to determine their fair value:

- level 1: fair value calculated using quoted prices in an active market for identical assets and liabilities;
- level 2: fair value calculated using valuation techniques based on observable market data such as prices of similar assets and liabilities or parameters quoted in an active market;
- level 3: fair value calculated using valuation techniques based wholly or partly on unobservable inputs such as prices in an inactive market or a valuation based on multiples for unlisted securities.

13. Revenue and other income

13.1. Revenue from collaboration and licensing agreements

Revenue from collaboration and licensing agreements results from the agreements signed with Bristol-Myers Squibb ("BMS") in 2011 and AstraZeneca ("AZ") in 2015. The initial payment relating to the agreement signed with Bristol-Myers Squibb was entirely recognized as of June 30, 2016. Due to the absence of milestone payment over the period, no revenue relating to this agreement was recognized for the first half of 2017.

(in thousand euros)	June 30, 2017	June 30, 2016
AZ: recognition of the initial payment collected in 2011[1]	15,554	16,117
BMS: recognition of the initial payment collected in 2015[1]	–	441
BMS: other elements	–	101
Revenue from collaboration and licensing agreements	**15,554**	**16,659**

(1) Variance of deferred revenue

(in thousand euros)	Initial payment AZ	Initial payment BMS	Personnel BMS	Other	Total
As of December 31, 2105	**208,838**	**441**	**485**	**–**	**209,764**
Recognition in the statement of income	(16,117)	(441)	(242)	–	(16,800)
Others	–	–	–	40	40
As of June 30, 2016	**192,721**	**–**	**243**	**40**	**193,003**

(in thousand euros)	Initial payment AZ	Initial payment BMS	Personnel BMS	Other	Total
As of December 31, 2106	**167,261**	**–**	**–**	**–**	**167,261[1]**
Recognition in the statement of income	(15,554)	–	–	–	(15,554)
Others	–	–	–	–	–
As of June 30, 2017	**151,708**	**–**	**–**	**–**	**151,708[2]**

(1) Including €54,912 thousand of current and €112,348 thousand of non-current liabilities.

(2) Including €56,643 thousand of current and €95,065 thousand of non-current liabilities.

13.2. Government financing for research expenditures

As of June 30, 2017, estimate of the amount of research tax credit for the first half period is calculated on the basis of eligible expenses in the period. However, since the fiscal year 2015, the Company reached the limitation relating to the eligible subcontracting costs. As of June 30, 2017, a limitation representing 50% of the annual limitation was applied.

14. Operating expenses

(In thousand euros)	June 30, 2017			June 30, 2016		
	G&A	R&D	Total	G&A	R&D	Total
Other purchases and external expenses	(2,814)	(18,813)	**(21,627)**	(1,583)	(12,302)	**(13,885)**
Employee benefits other than share-based compensation	(1,903)	(5,637)	**(7,540)**	(1,453)	(3,910)	**(5,363)**
Share-based compensation[1]	(2,993)	(2,184)	**(5,177)**	–	–	**–**
Depreciation and amortization	(127)	(2,001)	**(2,128)**	(90)	(1,473)	**(1,563)**
Cost of supplies and consumable materials	–	(1,899)	**(1,899)**	–	(1,568)	**(1,568)**
Intellectual property expenses	–	(899)	**(899)**	–	(654)	**(654)**
Other income and (expenses), net	(85)	(150)	**(235)**	(213)	(367)	**(580)**
Total operating expenses	**(7,922)**	**(31,583)**	**(39,505)**	**(3,339)**	**(20,273)**	**(23,612)**

[1] During the second half of 2016, the Company granted some equity instruments to its employees, including to Mr. Mahjoubi following his appointment, on December 14, 2016, as Chairman of the executive board. These instruments including an acquisition period (one or three years), their fair value is spread over the relevant period according to IFRS 2. There was no share-based compensation expense for the first half of 2016. Indeed, the instruments granted in 2015 did not include any acquisition period. Consequently, their fair value was entirely recognized in 2015.

14.1. Other purchases and external expenses

(In thousand euros)	June 30, 2017			June 30, 2016		
	G&A	R&D	Total	G&A	R&D	Total
Subcontracting[1]	-	(16,812)	**(16,812)**	-	(10,854)	**(10,854)**
Travel expenses and congress attendance	(195)	(529)	**(724)**	(205)	(426)	**(631)**
Non-scientific advisory and consulting[2]	(1,939)	(260)	**(2,199)**	(754)	(112)	**(866)**
Leasing and maintenance	(221)	(634)	**(855)**	(211)	(430)	**(641)**
Scientific advisory and consulting[3]	-	(431)	**(431)**	-	(396)	**(396)**
Marketing, communication and public relations	(202)	(28)	**(230)**	(215)	(27)	**(242)**
Attendance fees	(125)	-	**(125)**	(100)	-	**(100)**
Others	(131)	(120)	**(251)**	(98)	(57)	**(155)**
Other purchases and external expenses	**(2,814)**	**(18,813)**	**(21,627)**	**(1,583)**	**(12,302)**	**(13,885)**

(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 costs are recorded in subcontracting on the basis of the level of completion of the clinical trials.

(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 relate to consulting services performed by third parties to support the research and development activities of the Company.

14.2. Employee benefits other than share-based compensation

The line item amounted to €7,540 thousand and €5,363 thousand for the six-month periods ended June 30, 2017 and June 30, 2016 respectively. The Company had 171 employees as of June 30, 2017, compared to 127 as of June 30, 2016.

14.3. Depreciation and amortization

The line item is mainly composed of the amortization of the monalizumab intangible asset (see Note 6).

14.4. Cost of suppliers and consumable materials

Cost of supplies and consumable materials consists mainly of the cost of procurement of the Company's drug substance and/or drug product that is manufactured by third-parties.

15. Financial income and expenses, net

(in thousand euros)	June 30, 2017	June 30, 2016
Gains on financial assets	505	821
Variance of fair value of financial assets	278	582
Foreign exchange gains	405	416
Other financial income	28	16
Financial income	**1,216**	**1,835**
Foreign exchange losses	(6,157)	(1,877)
Variance of fair value of financial assets	(68)	(77)
Interests on borrowings and finance-leases	(58)	(65)
Other financial expenses	(61)	(61)
Financial expenses	**(6,344)**	**(2,080)**
Financial income and expenses, net	**(5,128)**	**(244)**

Interest paid on borrowings notably includes the finance lease agreement relating to the acquisition and refurbishment of the Company's main premises. These expenses are net of the interest received or to be received relating to the down-payment paid as a guarantee in the context of the real-estate finance-lease.

The material amount of the foreign exchange losses for the six-month period ended June 30, 2017 results from the strengthening of the Euro versus the $ USD over the period. The spot as of June 30, 2017 was €1 for $1.1412 versus €1 for $1.0541 as of June 30, 2016.

16. Income tax

Given its stage of development which prevents management from making sufficiently reliable financial forecasts, the Group does not recognize deferred tax assets. Temporary differences mainly result from finance leases, provision for defined benefit obligation and tax loss carry forward. As of June 30, 2017, the net amount of deferred tax liabilities excluding tax loss carry forward was €228 thousand (€184 thousand as at December 31, 2016).

In accordance with the tax regulations, the Company had tax losses to be carried forward with no time limit for a total amount of €163m as of December 31, 2016.

Tax proof

(in thousand euros)	June 30, 2017	June 30, 2016
Income before taxes	**(23,359)**	**(3,171)**
Statutory tax rate	33.33%	33.33%
Theoretical tax benefit	7,786	1,057
Increase/decrease in tax expense arising from:		
Research tax credit	1,891	1,338
Provision for defined benefit obligations	(1)	(230)
Share-based payment	(1,726)	-
Non recognition of deferred tax assets related to tax losses and temporary differences	(7,765)	(2,270)
Other differences	(185)	105
Effective tax expense	-	-
Effective tax rate	0%	0%

17. Commitments, contingencies and litigation

17.1. Real property lease

In the wake of the increase of the staff, the Company contracted on February 1, 2016 a lease agreement relating to additional premises. The Company is committed for two years. As of June 30, 2017, the commitment relating to this agreement for the remaining period amounts to €59 thousand.

On June 23, 2017, the Company contracted another lease agreement on a three year period aiming at superseding the one mentioned previously. As of June 30, 2017, the commitment relating to this agreement amounts to €730 thousand.

17.2. Purchasing of consumables

Following the free supply of a laboratory equipment, the Company is committed towards one of its suppliers to a minimum level of purchases of consumables for the period June 2017 to June 2020. The global commitment amounts to €555 thousand.

17.3. Renting of copiers and company cars

The Company subscribed to renting contracts for its copiers and company cars. As of June 30, 2017, the global amount of these commitments amounts to €64 thousand.

17.4. Litigations

On April 4, 2012, Platine Pharma Services SAS, our former subsidiary, received a proposed adjustment following a tax audit. The adjustment amounts to €91 thousand. The management of Platine Pharma Services is contesting this adjustment. The period subject to the tax audit was prior to the acquisition by Transgene of an equity interest in Platine Pharma Services. Therefore, in accordance with the liabilities guarantee clause, the contingent liability resulting from this adjustment would only be borne by the Company. However, based on its assessment of the technical merits, the Company believes that it is not probable that an outflow of resources embodying economic benefits will be required to settle the contingency and, as a result, has not recognized a provision in the consolidated financial statements.

Innate Pharma is exposed to contingent liabilities relating to legal actions before the labor court happening in the ordinary course of its activities. Each known litigation or procedure in course the Company is involved in was analyzed at the closing date after consultation of advisors.

18. Related party transactions

Members of the Executive Board and Executive Committee

The following compensations were granted to members of the executive committee of the Company and were expensed during the period under review:

(in thousand euros)	June 30, 2017	June 30, 2016
Salaries and short-term employee benefits	873	555
Extra pension benefits	–	8
Consultancy fees	111	286
Share-based payments[1]	2,462	–
Key management compensation	**3,446**	**849**

[1] See comment in Note 14.

There were seven members of the executive committee as of June 30, 2017 and 2016.

19. Earnings per share

19.1. 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 ordinary shares in issue during the period.

(in thousand euros)	June 30, 2017	June 30, 2016
Net loss for the period	(23,359)	(3,171)
Weighted average number of ordinary shares issued (in thousands)	53,955	53,853
Basic loss per share (€ per share)	(0.43)	(0.06)

19.2. Diluted

Diluted loss per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As of June 30, 2017 and 2016, warrants, stock options and free shares allocated but not yet acquired did not have a dilutive effect. Indeed, they incur an increase of the earning per share. Therefore, the diluted earning per share is equal to the earning per share.

	June 30, 2017	June 30, 2016
Net loss for the period	(23,359)	(3,171)
Weighted average number of ordinary shares issued (in thousands)	53,955	53,853
Adjustment for warrants, stock options and free shares (in thousands)	–	–
Basic loss per share (€ per share)	(0.43)	(0.06)

20. Post balance sheet events

- On July 3, 2017, the Company subscribed to a loan towards Société Générale in order to finance the building of its future headquarters. The maximum amount of this loan will be €15.2m. The Company will use it over the period of the works according to the payments that will be made to the suppliers. This period will end on September 1, 2019. The reimbursement of the capital will begin on September 1, 2019 over a 12 year period. As a counterpart of this loan, the Company subscribed to financial instruments towards Société Générale for an amount of €15.2m and granted a collateral on these instruments. The maturity date of these instruments is as follows: €4.2m as of July 2024, €5.0m as of July 2027 and €6.0m as of July 2031.
- On July 13, 2017, the Company purchased a subsidiary of the Novo Nordisk A/S group owning the rights relating to the anti-C5aR antibody. The terms of the agreement provide for an upfront payment of €40.0m, of which €37.2m were paid in the form of new shares in the Company and €2.8m will be paid in cash. Novo Nordisk A/S is eligible for up to €370.0m by way of development, regulatory and sales milestone payments and to double digit royalties on future net sales.

STATUTORY AUDITORS' REVIEW REPORT ON INTERIM CONSOLIDATED FINANCIAL STATEMENTS

This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with the requirements of article L. 451-1-2-III of the French Monetary and Financial Code ("Code monétaire et financier"), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of Innate Pharma, for the period from January 1 to June 30, 2017,
- the verification of the information presented in the half-yearly management report.

These condensed half-yearly consolidated financial statements are the responsibility of the Executive Board. Our role is to express a conclusion on these financial statements based on our review.

1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, the IFRS standard as adopted by the European Union applicable to interim financial information.

2. Specific verification

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

Marseille, September 15, 2017

The Statutory Auditors

French original signed by

AUDIT CONSEIL EXPERTISE, SA	**DELOITTE & ASSOCIES**
Member of PKF International	
Nicolas Lehnertz	Hugues Desgranges

DECLARATION BY THE PERSON RESPONSIBLE FOR THIS HALF-YEAR FINANCIAL REPORT

I hereby declare, to the best of my knowledge, that the financial statements for the last six month period have been prepared in accordance with generally accepted accounting principles and give a true and fair view of the assets and liabilities, the financial position and the results of the Company, and that the interim financial report beginning on page 3 reflects the changes in the turnover, results and financial position of the Company and of all of the entities included within the consolidation scope as well as a description of the principle risks and uncertainties for the six months to come.

Chairman of the Executive Board

Mr Mondher Mahjoubi

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