PRESS RELEASE

innate pharma

2017: CLINICAL PROGRESS, PORTFOLIO EXPANSION AND FINANCIAL STRENGTH CREATE THE FOUNDATION FOR FUTURE GROWTH

- ***Cash, cash equivalents and financial assets[a] amounted to €176.6m (million euros) as of December 31, 2017***
  - ***Revenue and other income amounted to €44.0m (€65.7m in 2016, including a €13.8m milestone payment from Bristol-Myers Squibb)***
  - ***Operating expenses amounted to €84.0m (€58.2m in 2016), driven by continued investment in preclinical and clinical portfolio***
- ***Significant progress across Innate Pharma's partnered and proprietary clinical programs, with new focus on clinical development in tumor microenvironment***
  - ***Dose-escalation data show favorable safety profile and promising clinical activity for IPH4102 in patients with Sézary syndrome, an advanced form of cutanous T-cell lymphoma – cohort expansion ongoing***
  - ***Acquisition of anti-C5aR, now called IPH5401, a clinical-stage antibody, strengthens Innate's proprietary pipeline targeting the tumor microenvironment - a clinical collaboration is now underway with MedImmune***
- ***World renowned immunologist, Professor Eric Vivier, joins Innate Pharma as Chief Scientific Officer***
- ***Innate Pharma will hold a R&D Day for institutional investors and sell-side analysts in London today, to update on its clinical development activities***

Marseille, France, March 8, 2018 – 07:00 AM CET

Innate Pharma (the "Company" - Euronext Paris: FR0010331421 – IPH) today reports its consolidated financial results for the year ended December 31, 2017. The consolidated financial statements are attached to this press release.

During 2017, Innate Pharma has made significant progress across its portfolio of partnered and proprietary programs and has laid the foundations for continued clinical development during 2018. The Company reported a favorable safety profile and encouraging clinical activity for IPH4102 in monotherapy in a Phase I trial in patients with Sézary syndrome, an advanced form of cutanous T-cell lymphoma. First data from a cohort expansion part of the ongoing trial are expected in 2018.

In June 2017, the Company strengthened its proprietary pipeline with the acquisition of IPH5401, a first-in-class anti-C5aR antibody targeting the tumor microenvironment, from Novo Nordisk A/S for a total of €40.0m (€2.8m in cash and €37.2m in new Innate Pharma shares). IPH5401 is a clinical-stage, proprietary product that reinforces Innate Pharma's position in the field of antibodies targeting the tumor microenvironment beyond the Company's existing

[a] current and non-current

activities in the adenosine pathway. Preclinical findings suggest that C5aR blockade increases immune-mediated tumor killing and efficacy of checkpoint inhibitors. IPH5401 will enter first clinical studies in oncology in 2018, as part of a non-exclusive clinical collaboration with MedImmune/AstraZeneca.

The Company also continued to advance its portfolio of early stage programs targeting the tumor microenvironment with two antibodies directed against enzymes in the adenosine pathway, CD39 and CD73, respectively. Preclinical experiments have demonstrated superior blocking activity of IPH52 (anti-CD39) and IPH53 (anti-CD73) for both the cell surface and soluble forms of the enzymes. Significant progress could also be recorded in the Company's collaboration with Sanofi on NK-cell bispecific engagers, who bring together tumor cells and NK cells and trigger NK cell killing of tumor cells. While the project on a first tumor target is on the way to lead candidate selection, Sanofi decided to include a second target into the framework of the collaborative agreement.

During 2017, the Company announced results from the EffiKIR study which evaluated the efficacy of lirilumab as a single agent for maintenance of remission in patients with acute myeloid leukemia. The study did not meet its primary efficacy endpoint of leukemia-free survival. Towards the end of the year, Innate's partner Bristol-Myers Squibb updated on the lirilumab program in combination with Opdivo (nivolumab) in patients with solid tumors. The assessment of efficacy did not provide an obvious development path. Discussions are ongoing regarding next steps.

After the period, Eric Vivier was appointed Chief Scientific Officer on January 8, 2018. In his new role, Professor Vivier will lead Innate Pharma's science and technology platforms as well as the development of collaborations between fundamental, translational and clinical research.

Mondher Mahjoubi, Chief Executive Officer of Innate Pharma, said: "*During 2017, Innate Pharma has made significant clinical advances, within both its wholly-owned and partnered portfolios, laying the foundations for the future focus of our immuno-oncology development strategy. We expect clinical read-outs for both our monalizumab and IPH4102 program in 2018. Moreover, we are very pleased with the acquisition of IPH5401, a first-in-class anti-C5aR antibody, which strengthens our portfolio in the tumor microenvironment.*" **He added:** *"We have a robust financial position, giving us the flexibility to invest for future portfolio growth. With multiple value catalysts ahead in 2018, we believe we are poised for a pivotal year."*

* * *

Innate Pharma will host a R&D Day for institutional investors and sell-side analysts on March 8 from 1:30 to 5:00 pm GMT (8:30 to 12:00 pm ET) in London.

To join the live webcast today at 1:30pm (GMT) please use the following link:

https://www.innate-pharma.com/en/news-events/events/rd-day-2018

To join the event by conference call only, please use the following dial-in numbers:

USA: +1 646-828-8156

INTERNATIONAL: 0800 279 7204

PIN code: 3997784

The presentation will be made available on the Company's website 30 minutes before the start of the event.

A webcast replay will be available on Innate Pharma's website after the event.

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Financial highlights for 2017:

The key elements are as follows:

- Cash, cash equivalents and financial assets amounting to €176.6m (million euros) as of December 31, 2017 (€230.7m as of December 31, 2016), including non-current financial instruments (€60.5m).
    - At the same date, the financial liabilities amounted to €5.9m (€5.3m as of December 31, 2016).
- Revenue and other income amounting to €44.0m (€65.7m in 2016). This amount mainly results from licensing revenue (€32.6m) and from research tax credit (€11.0m).
    - Revenue from collaboration and licensing agreements mainly results from the spreading of the initial payment received by Innate Pharma in the context of the agreement signed in April 2015 with AstraZeneca/MedImmune (€32.3m in 2017 and €41.6m in 2016).
    - The 2016 revenue also included a $15m (€13.8m) milestone payment received from Bristol-Myers Squibb for the continued exploration of lirilumab in combination with nivolumab. The milestone payment followed the presentation at the SITC annual meeting (November 2016) of encouraging preliminary activity results from the cohort of patients with squamous cell carcinoma of the head and neck (SCCHN) of a Phase I/II trial. The payment was received in January 2017 and has generated an exchange gain of €0.3m.

- Operating expenses amounting to €84.0m (€58.2m in 2016) of which 80% related to research and development. The majority of the rise results from the increase in subcontracting costs in relation with the clinical development of the Company's drug candidates (+ €9.7m), in share-based payments (+ €9.0m) and in staff costs (+ €2.4m).
- A net financial loss amounting to €8.0m.
- As a consequence of the items mentioned previously, the net loss for 2017 amounts to €48.4m to be compared to a profit of €12.6m for 2016.

The table below summarizes the IFRS consolidated financial statements for fiscal year 2017, with a comparison to 2016:

	Year ended December 31	
In thousand euros (IFRS)	**2017**	**2016**
Revenue from collaboration and licensing agreements	32,631	56,159
Government financing for research expenditures	11,402	9,561
Revenue and other income	**44,033**	**65,721**
Research and Development expenses	(67,000)	(48,628)
General and Administrative expenses	(17,015)	(9,522)
Operating expenses	**(84,015)**	**(58,150)**
Operating income / (loss)	**(39,983)**	**7,571**
Financial income / (expenses), net	(8,034)	5,370
Income tax	(368)	(301)
Net income / (loss)	**(48,385)**	**12,640**

Pipeline update (second half of 2017):

IPH4102 (anti-KIR3DL2 antibody):

IPH4102 is a first-in-class anti-KIR3DL2 humanized cytotoxicity-inducing antibody, designed for treatment of CTCL, an orphan disease, and in particular, its most aggressive subtypes, Sézary Syndrome and transformed mycosis fungoides.

In October 2017, the final results of the dose-escalation part of the ongoing Phase I study investigating IPH4102 in patients with relapsed/refractory cutaneous T-cell lymphoma (CTCL), an orphan disease, were presented by Pr. Martine Bagot, Principal Investigator and Head of the Dermatology Department at the Saint-Louis Hospital, Paris, in an oral session at the EORTC CLTF in London.

- These data confirm the good safety profile and promising activity of IPH4102 in this elderly and heavily pretreated patients population (n=25). The objective response rate in the 20 patients with Sézary syndrome was 50%; the rate of response lasting at least more than 4 months (ORR4) was 40%, the disease control rate (DCR), 90%, the median duration of response (DOR), 9.9 months and the median progression free survival (PFS), 10.8 months, respectively. Data on pruritus were reported for the first time and show substantial improvement in patients having a global clinical response but

also in patients with stable disease. The Recommended Phase 2 Dose (RP2D) has been identified at 750 mg, a fixed dose equivalent to 10 mg/kg. Expansion cohorts started, including 2 cohorts of 15 patients each in two CTCL subtypes: Sézary syndrome and transformed mycosis fungoides.

- Biomarker results were presented in an oral presentation by Dr. Maxime Battistella, Assistant Professor Pathology and Dermatopathology at St Louis Hospital and Université L. Diderot.
- Data from a cohort expansion part of the ongoing phase I trial in patients with Sézary syndrome are expected in 2018 and will be presented at an upcoming medical conference.

IPH5401 (anti-C5aR antibody):

IPH5401 is a first-in-class fully human therapeutic antibody that specifically binds and blocks C5a receptors (C5aR) expressed on subsets of myeloid-derived suppressor cells (MDSC) and neutrophils.

- In September 2017, at the third CRI-CIMT-EATI-AACR International Cancer Immunotherapy conference, Innate Pharma has presented preclinical data that reinforce the IPH5401 rationale. This data show the selective expression of C5aR on myeloid-derived suppressor cells (MDSC) and neutrophils. These cells accumulate within the tumor microenvironment and secrete pro-angiogenic factors which promote tumor progression. They also inhibit NK and T cells and suppress anti-tumor immunity. In this poster, the data demonstrate that IPH5401 selectively inhibits the activation of neutrophils. Moreover, the data show that the combined administration of anti-C5aR with anti-PD-1 synergistically reduced tumor growth. Taken together, these data suggest that C5aR blockade may result in a more permissive environment for immune-mediated tumor killing and treatment with checkpoint inhibitors.
- IPH5401 will enter clinical studies in oncology in 2018.

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

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

- In September 2017, the Company presented new preclinical data at the third CRI-CIMT-EATI-AACR International Cancer Immunotherapy conference that reinforce the rationale, that combined NKG2A/HLA-E and PD-1/PD-L1 blockade enhance CD8+ T Cell-mediated killing of tumors.
- First clinical data read-outs from the Phase I/II trial in advanced solid tumors are expected in the course of 2018 and will be presented at upcoming medical conferences.

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

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

- In November 2017, Innate Pharma provided an update on the clinical study program of lirilumab, licensed to Bristol-Myers Squibb. While lirilumab was shown to be well-tolerated, the assessment of efficacy from the ongoing exploration of doublet combinations, notably the nivolumab combination in an extended population of SCCHN patients, did not provide clear evidence of benefit to patients or an obvious development path. Discussions are ongoing regarding next steps for the program.
- In December 2017, full data for EffiKIR[b] study have been disclosed in an oral presentation by Pr. Norbert Vey, Team leader Translational Medicine – Hematology at the Paoli-Calmettes Institute (IPC), at the ASH annual meeting. These data suggest that alternate dosing regimens, where KIR receptors are not permanently occupied and allow the interaction with their cognate ligands during maturation, could be worth exploring.

IPH52 (anti-CD39 antibody) and IPH53 (anti-CD73[c] antibody):

CD39 and CD73 are membrane-bound extracellular enzyme which play a major role in promoting immunosuppression through the pathway degrading adenosine triphosphate (ATP) into adenosine. The blockade of CD39 and CD73 has the potential to promote anti-tumor immune responses across a wide range of tumors.

In November 2017, preclinical data for IPH52 and IPH53 were presented at the Immune Checkpoint Inhibitors Summit in Munich. These data demonstrate the expression of CD39 and CD73 in the tumor microenvironment, the blockade rationale in tumor models, especially in combination with checkpoint inhibitors, as well as the efficacy in blocking the ATP/Adenosine pathway.

Corporate update:

In January 2018, Innate Pharma announced the appointment of Prof. Eric Vivier as Chief Scientific Officer of the Company.

Also in January, the Company announced the appointment of Prof. Jean-Yves Blay to the Innate Pharma's Supervisory Board. Additionally, Marcus Schindler, SVP and Head of External Innovation and Strategy at Novo Nordisk A/S has replaced Karsten Munk Knudsen as Novo Nordisk A/S' s permanent representative on the Supervisory Board effective March 7, 2018. Karsten Munk Knudsen was appointed Executive Vice President & Chief Financial Officer of Novo Nordisk A/S on February 15, 2018.

[b] Phase II trial testing the efficacy of lirilumab as a single agent maintenance treatment in elderly patients with acute myeloid leukemia.

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

In 2017, Innate Pharma recruited 34 new people, mostly in research and development, to support the expansion of the preclinical portfolio and the increase in the number of clinical trials performed by the Company. As at December 31, 2017, the headcount was 188 employees.

Post period events:

Clinical collaborations:

On January 30, the Company announced a non-exclusive clinical trial collaboration with MedImmune, the global biologics research and development arm of AstraZeneca. The Phase I/II study (STELLAR-001) will evaluate the safety and efficacy of durvalumab, an anti-PD-L1 immune checkpoint inhibitor, in combination with Innate's investigational first-in-class anti-C5aR monoclonal antibody, IPH5401, as a treatment for patients with selected solid tumors. Innate will sponsor the study with costs equally shared by both parties.

Next scientific publications:

Innate Pharma will present a broad range of preclinical and clinical data on on its development portfolio at the AACR 2018 Annual Meeting being held April 14 – 18, 2018, in Chicago, Illinois. Abstracts will be available on the conference website on March 14 after 4:30 p.m. U.S. ET.

About Innate Pharma:

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

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

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

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

Based in Marseille, France, Innate Pharma has more than 180 employees and is listed on Euronext Paris.

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

Information about Innate Pharma shares:

ISIN code	FR0010331421
Ticker code	IPH

Disclaimer:

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

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

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APPENDIX

Innate Pharma SA

Consolidated financial statements at December 31, 2017

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

The audit procedures on the consolidated financial statements have been performed. The auditors' report will be issued after the finalization of the required procedures relating to the filing of the annual report ('Document de Référence'). The consolidated financial statements were approved by the Company's Executive board on March 7, 2018. These statements were reviewed by the Company's Supervisory board on March 7, 2018 and will be submitted for approval to the Shareholders' General Meeting on May 29, 2018.

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

Statement of financial position
(in thousand euros)

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

Statement of income (loss)
(in thousand euros)

	Year ended December 31,	
	2017	**2016**
Revenue from collaboration and licensing	32,631	56,159
Government financing for research expenditures	11,402	9,561
Revenue and other income	**44,033**	**65,721**
Research and development	(67,000)	(48,628)
General and administrative	(17,015)	(9,522)
Net operating expenses	**(84,015)**	**(58,150)**
Operating income (loss)	**(39,983)**	**7,571**
Financial income	2,482	7,327
Financial expenses	(10,516)	(1,957)
Net income (loss) before tax	**(48,016)**	**12,941**
Income tax expense	(368)	(301)
Net income (loss)	**(48,385)**	**12,640**
Net income (loss) per share attributable to equity holders of the Company:		
Weighted average number of shares (in thousand):	54,352	53,869
(in € per share)		
- Basic loss per share	(0.89)	0.23
- Diluted loss per share	(0.89)	0.23

Statement of cash flows
(in thousand euros)

	Year ended December 31,	
	2017	**2016**
Net income (loss)	**(48,385)**	**12,640**
Depreciation and amortization	4,393	3,263
Provisions for defined benefit obligations	381	609
Provisions for charges	877	136
Share-based compensation expense	9,829	1,031
Change in valuation allowance on financial assets	(26)	(826)
Gains (losses) on financial assets	3,381	(834)
Change in valuation allowance on financial instruments	(204)	(183)
Gains on assets and other financial assets	(1,442)	(1,699)
Interest paid	113	124
Others	-	(324)
Operating cash flow before change in working capital	**(31,080)**	**(13,937)**
Change in working capital	(16,980)	(50,788)
Net cash generated from / (used in) operating activities	**(48,060)**	**(36,851)**
Acquisition of property and equipment	(2,964)	(1,350)
Acquisition of intangible assets	(3,062)	(8,043)
Purchase of current financial instruments	(2,543)	(16,629)
Purchase of non-current financial instruments	(40,729)	(1,525)
Disposal of current financial instruments	5,646	78,565
Disposal of non-current financial instruments	12,750	7,793
Gains on assets and other financial assets	1,442	1,699
Net cash generated from / (used in) investing activities	**(29,460)**	**60,510**
Proceeds from the exercise / subscription of equity instrument	491	193
Proceeds from new loans	1,739	-
Repayment of financial liabilities	(1,202)	(685)
Interest paid	(113)	(124)
Purchase/sale of treasury shares	-	14
Net cash generated from / (used in) financing activities	**915**	**(602)**
Effect of the exchange rate changes	68	(23)
Net increase / (decrease) in cash and cash equivalents	**(76,539)**	**23,036**
Cash and cash equivalents at the beginning of the year	175,906	152,870
Cash and cash equivalents at the end of the year	**99,367**	**175,906**

Management discussion on annual results for 2017:

Revenue and other income

Revenue and other income result from government financing for research expenditure and collaboration and licensing agreements. The Company's revenue and other income were €65.7 million and €44.0 million for the fiscal years ended December 31, 2016 and 2017, from the following sources:

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

Revenue from collaboration and licensing agreements

Revenue from collaboration and licensing agreements amounted to €56.2 million and €32.6 million for the fiscal years ended December 31, 2016 and 2017, respectively. These revenues result from the agreements signed with Bristol-Myers Squibb in July 2011 (for 2016 only) and AstraZeneca in April 2015.

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

Following the presentation at the SITC annual meeting (November 2016) of preliminary activity results from the cohort of patients with SCCHN of a Phase I/II trial, the Company has been eligible to a milestone payment of $15 million (€13.8 million). The consideration was received in January 2017 but principaly recognized as revenue in 2016, since the trigger event occurred in 2016. The payment received in 2017 has generated an exchange gain of €0.3m.

The Company entered into a global co-development and commercialization agreement with AstraZeneca for monalizumab in April 2015. The Company received an initial payment amounting to $250 million on June 30, 2015. The recognition of this amount is based on the costs Innate Pharma is engaged to bear in the context of the agreement. The amount recognized for the fiscal year 2016 amounts to €41.6 million and €32.3 million for the fiscal year 2017. The percentage of completion has been determined on the basis of the costs recognized during the period compared to the total expected costs. As of December 31, 2017, the amount not yet in revenue amounts to €134.9 million (€47.9 million as "Operational liabilities" and €87.0 million as "Other non-current liabilities").

Consequently, the fall of the turnover in 2017 results from both the revenue relating to Bristol-Myers Squibb agreement (€14.3 million decrease) and the AstraZeneca agreement (€9.2 million decrease).

Government funding for research expenditures

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

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

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

The table below shows the amount of R&D expenses (net of grants) eligible for the fiscal years ended December 31, 2016 and 2017:

Year ended December 31 (in thousand euros)	2017	2016
R&D expenses eligible for the research tax credit	37,074	30,203
Grants received, net	(334)	-
Net expenses eligible for the research tax credit	**36,740**	**30,203**

Net expenses eligible for the research tax credit increased by 23% compared to the fiscal year 2016 whilst the R&D expenses increased by 38%. This results from the fact that, since the fiscal year 2015, the Company reached the cap of the subcontracting expenses eligible to the calculation of the research tax credit. For the fiscal year 2017, the rise of the eligible expenses mainly results from the amortization expense relating to the anti-NKG2A intangible asset and the staff costs.

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

During the fiscal years 2016 and 2017, the income resulting from grants relates to an European grant in the context of the FP-7 program and a grant under the FEDER Program. These grants directly impact our income statement, as opposed to repayable loans which are recorded as debt and thus only impact our balance sheet.

Operating expenses by business function

The table below gives a breakdown of net operating expenses by business function for the fiscal years ended December 31, 2016 and 2017:

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

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

R&D expenses amounted to €48.6 million and €67.0 million for the fiscal years ended December 31, 2016 and 2017, respectively representing 84% and 80% of net operating expenses. The rise in R&D expenses between 2016 and 2017 mainly results from an increase of subcontracting costs related to the progress in the development of the preclinical and clinical programs and a staff growth.

General and administrative expenses include expenses for employees not directly working on R&D, as well as the expenses necessary for the management of the business and its development. General and administrative expenses were €9.5 million and €17.0 million for the fiscal years ended December 31, 2016 and 2017, respectively representing 16% and 20% of the net operating expenses. This increase mainly results from the growth in staff costs (especially the IFRS 2 expense relating to share-based payments), lawyers and audit fees due to the Company's structuring in a context of strong expansion and a provision for late payment interests relating to the late payment of a withholding tax in the context of the purchase of the antibody anti-NKG2A (monalizumab) in 2014 and 2016.

Operating expenses by nature

The table below gives a breakdown of net operating expenses by nature of expenses for the fiscal years ended December 31, 2016 and 2017:

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

Cost of supplies and consumable materials

The cost of supplies and consumable materials amounted to €2.9 million and €4.3 million for the fiscal years ended December 31, 2016 and 2017, respectively. The increase in this line item results from the growth in purchases used in the Company's laboratories, which is mainly due to the rise in staff.

Intellectual property expenses

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

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

Other purchases and external expenses

Other purchases and external expenses amounted to €36.0 million and €47.6 million during the fiscal years ended December 31, 2016 and 2017, respectively, broken down as follows:

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

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

Non-scientific consultancy expenses are mostly fees paid to audit firms, to our certified public accountant for his assistance in accounting, tax and employee matters, to our lawyers, to business strategy or development consultants and recruitment fees. The increase in these

expenses between 2016 and 2017 mainly results from lawyers and audit fees due to the Company's structuring in a context of strong expansion.

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

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

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

Employee benefits other than share-based compensation

Employee benefit expenses other than share-based compensation came to €12.8 million and €15.2 million for the fiscal years ended December 31, 2016 and 2017, respectively.

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

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

The average amount of staff costs per employee was €96 and €95 thousand for fiscal years ended December 31, 2016 and 2017 respectively.

Share-based compensation

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

In accordance with IFRS 2, these costs correspond to the fair value of the equity instruments allocated to directors and employees. The costs recognized in 2016 and 2017 mainly result from the issuance during the fiscal year 2016 of warrants for shares not including a condition requiring presence. As a consequence, the fair value of these instruments were recognized as expenses on a straight-line basis in the income statement over the acquisition period.

Depreciation and amortization

Depreciation and amortization amounted €3.3 million and €4.4 million for the fiscal years ended December 31, 2016 and 2017, respectively. This variance mainly results from the amortization of the intangible asset relating to a price complement to be paid to Novo Nordisk A/S following the agreement signed with AstraZeneca. The related amortization expense amounts to €3.0 million for fiscal year 2017 compared to €2.4 million for the fiscal year 2016.

Other income and expenses, net

Other income and expenses amounted €1.0 million and €1.1 million for the fiscal years ended December 31, 2016 and 2017, respectively.

Net financial income

The net financial income amounted to €5.4 million for the fiscal year ended December 31, 2016, to be compared to a €8.0 million loss for the fiscal years ended December 31, 2017. This adverse variance mainly results from foreign exchange losses on our financial assets held in U.S. dollars resulting from the variance of the Euro / U.S. dollar exchange rate.

The Company's cash investment policy is preferentially directed to instruments with an absence of risk on principal and, whenever possible, guaranteed minimum performance. Only a small fraction of its investment portfolio (2.3% as of December 31, 2017) includes some financial instruments presenting a level of risk, which is considered as very low.

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

Income tax expense

For the first time, the taxable income of the company was positive for the year ended December 31, 2016. The tax payable in respect of this exercise amounts to €301 thousand. According to the nature of its revenues, the Company concluded in 2016 that it was subject to the regime of capital gains income from intellectual property and therefore benefits from the reduced 15% tax rate. In 2017, the Company eventually concluded that it was not eligible to this regime and recognized an additional €368 thousand income expense, which corresponds to the difference between the standard 33.33% and the 15% rate.

In the absence of a sufficient probability for recovering, no deferred tax asset was recognized.

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

Net income / (loss) per share

The net loss per authorized and issued share came to a gain of €0.23 per share and a loss of €0.89 per share for the fiscal years ended December 31, 2016 and 2017, respectively.

Balance sheet items

Cash, cash equivalents and financial instruments (current and non-current) amounted to €176.6 million as of December 31, 2017, including non-current financial instruments (€60.5 million), compared with €230.7 million as of December 31, 2016. The cash assets held by the Company are composed of current accounts and fixed term accounts. Current financial assets are mainly composed of shares of mutual funds and bonds. Their purpose consists of financing our activities, including our research and developemnt costs.

Since its incorporation in 1999, the Company has been primarily financed by partnerships and by issuing new securities. The Company has generated cash flow from its collaborations, from repayable financing and grants received from various French and foreign public organizations (including Oséo, become Bpifrance) and from research tax credit.

The other key balance sheet items as of December 31, 2017 are as follows:

- Deferred revenue for €134.9 million relating to the remaining of the initial payment from AstraZeneca not yet recognized as turnover (including €87.0 million booked as 'Other non-current liabilities');
- Receivables from the French government in relation to research tax credit for the year 2017 (€11.0 million);
- Intangible assets for a net book value of €46.2 million, mainly corresponding to the rights and licences relating to the acquisition of the anti-NKG2A, anti-CD39 and anti-C5aR antibodies;
- Shareholders' equity of €86.0 million including the net loss for the period (€48.4 million).

Cash-flow items

Net cash flows used over the fiscal year 2017 amounted to €76.5 million, to be compared to net cash flows used for the fiscal year 2016 amounting to €23.0 million.

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

- Net cash used in operating activities of €48.1m, mainly resulting from research and development activities and personel expenses;
- Net cash used in investing activities for an amount of €29.5 million, mainly resulting from:
    - The purchase (net of disposal) of non-current financial assets for an amount of €28.0 million,
    - The purchase of intangible assets for an amount of €3.1 million, mainly corresponding to the purchase of anti-C5aR (€2.8 million paid in cash);
    - The purchase of tangible assets for an amount of €3.0 million.
- Net cash from financing activities for an amount of €0.9m.

Post balance sheet events

- On January 30, the Company announced a non-exclusive clinical trial collaboration with MedImmune, the global biologics research and development arm of AstraZeneca. The Phase I/II study (STELLAR-001) will evaluate the safety and efficacy of durvalumab, an anti-PD-L1 immune checkpoint inhibitor, in combination with Innate's investigational first-in-class anti-C5aR monoclonal antibody, IPH5401, as a treatment for patients with selected solid tumors. Innate will sponsor the study with costs equally shared by both parties.

Risk factors

Risk factors affecting the Company are presented in Paragraph 1.8 of the latest "Document de Référence" submitted to the French stock-market regulator, the "Autorité des Marchés Financiers" on March 31, 2017.

Annual financial report for 2017 and "Reference Document"

The Company intends to file its 2017 annual financial report as well as its "Reference Document" for the year so that these documents are made public during the second quarter of 2018.