HALF-YEAR FINANCIAL REPORT JUNE 30, 2018

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 2,880,351.55 euros composed of
57,600,100 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, 2018

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 14, 2018.

SUMMARY

INNATE PHARMA AT A GLANCE

Innate Pharma S.A. is a clinical-stage biotechnology company dedicated to improving cancer treatment and clinical outcomes for patients through first-in-class therapeutic antibodies that harness the body's own immune system.

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 broad pipeline includes four first-in-class clinical stage antibodies as well as preclinical candidates and technologies that have the potential to address a broad range of cancer indications with high unmet medical needs.

Innate Pharma has pioneered the discovery and development of checkpoint inhibitors, with a unique expertise and understanding of Natural Killer cell biology. This innovative approach has resulted in major alliances with leaders in the biopharmaceutical industry including AstraZeneca, Bristol-Myers Squibb, Novo Nordisk A/S and Sanofi. Innate Pharma is building the foundations to become a fully-integrated biopharmaceutical company.

Innate Pharma is based in Marseille, France and listed on Euronext in Paris, and had 194 employees as of June 30, 2018.

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 2018 are as follows:

Cash, cash equivalents and financial assets (current and non-current) amounting to €141.6m (million euros) as of June 30, 2018 (€176.6m as of December 31, 2017). At the same date, the financial liabilities amounted to €5.2m, including €3.9m of non-current liabilities (€5.9m as of December 31, 2017, including €4.5m of non-current liabilities).

Revenue and other income amounting to €23.7m (€21.2m for the first half of 2017 restated). This amount mainly results from licensing revenue (€16.9m) and from research tax credit (€6.2m). 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 €39.4m (€37.1m for the first half of 2017 restated), of which 86% are related to research and development. The increase in research and development expenses (€33.8m compared to €29.2m for the first half of 2017 restated) results from the rise in subcontracting costs (+ €6.5m). This variance mainly results from the IPH54 program. Share-based payments were down €4.0m, including €1.9m in R&D and €2.1m in G&A, making up the most of G&A expenses decrease.

A net loss for the first half of 2018 amounting to €16.2m (€23.4m for the first half of 2017).

Note on change of accounting standards during the period

During the period, two new standards IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial instruments" became mandatory from January 1, 2018.

- IFRS 15 supersedes IAS 18 "Revenue", changes the accounting treatment of the revenue relating to the licensing and collaboration agreement signed with AstraZeneca in 2015. Under IFRS 15, the portion of the co-funding of R&D works performed by AstraZeneca is no longer recognized in R&D expenses but deducted from the recognition of the payment received by Innate Pharma at signing. This portion of co-funding is now recognized as a liability and no longer as deferred revenue in the balance sheet.
- Regarding financial instruments, IFRS 9 requires for non-derivative financial assets a change of name of the sub-categories of financial assets without, however, modifying the valuation principles of these assets, which remain either at fair value or amortized cost. The valuation models used by Innate Pharma remain unchanged.

A. Revenue and other income

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

In thousands of euros	June 30, 2018	*June 30, 2017 restated*(*)	June 30, 2017
Revenue from collaboration and licensing agreements	16,879	*15,510*	15,554
Government funding for research expenditures	6,787	*5,720*	5,720
Revenue and other income	**23,666**	***21,230***	**21,274**

(*) This column is not part of the interim condensed consolidated financial statements as June 30, 2018. These financial statements present the impact of the first application of IFR 15 in Note 2.1. The Company opted for the cumulative effect approach. However, the information being available, the Company presents the items restated under IFRS 15 in order to present a comparison with comparable standards.

Revenue from collaboration and licensing agreements for the first half of 2017 and 2018 mainly stems from the agreement signed with AstraZeneca in relation to monalizumab. The related revenue increased by €1.4m in comparison with the first half of 2017 restated, resulting from the progress of the monalizumab program.

Government funding for research expenditures are mainly composed of research tax credit amounting (€6.2m) and €0.5m related to grants funded by the European Union and PACA region for the first half of 2018 compared to €5.7m for the first half of 2017 including only the research tax credit. This increase of the research tax credit results mainly from the rise in staff costs resulted from the increase of the R&D staff.

The collection of the research tax credit relating to the fiscal year 2017, amounting to €11.0m, is expected during the third quarter of 2018.

B. Operating expenses, by business function

The following table breaks down the operating expenses by function for the six-month period ended June 30, 2018, compared to 2017's first half:

In thousands of euros	June 30, 2018	*June 30, 2017 restated*(*)	June 30, 2017
Research and development expenses	(33,828)	*(29,219)*	(31,583)
General and administrative expenses	(5,576)	*(7,922)*	(7,922)
Operating expenses	**(39,404)**	***(37,141)***	**(39,505)**

(*) This column is not part of the interim condensed consolidated financial statements as June 30, 2018. These financial statements present the impact of the first application of IFR 15 in Note 2.1. The Company opted for the cumulative effect approach. However, the information being available, the Company presents the items restated under IFRS 15 in order to present a comparison with comparable standards.

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 variance in R&D expenses between the two periods under review (€33.8m as of June 30, 2018 compared to €29.2m as of June 30, 2017 restated) mainly resulted from contrary variations in subcontracting costs (+€6.5m), staff costs (€1.0m) and share-based compensation expenses (-€1.9m, non- cash item). Higher subcontracting costs were mainly driven by IPH5401 (+€4.2m).

R&D expenses accounted for 86% of operating expenses for the six-month period ended June 30, 2018 (2017: 80%).

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 decrease in costs mainly resulted from the decrease in share-based compensation (-€2.2m, non-cash item).

G&A expenses accounted for 14% of operating expenses for the six-month period ended June 30, 2018 (2017: 20%).

During the second 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 a vesting period (one or three years), their fair value is spread over the relevant period according to IFRS 2. During the second half of 2017, the instruments granted to employees with a vesting period of one year were definitively acquired and are no longer booked as expenses in the first half of 2018.

C. Operating expenses, by business nature

The following table breaks down the operating expenses by function for the six-month period ended June 30, 2018, compared to 2017's first half:

In thousands of euros	June 30, 2018	*June 30, 2017 restated*(*)	June 30, 2017
Costs of supplies and consumable materials	(1,847)	*(1,900)*	(1,900)
Intellectual property expenses	(607)	*(899)*	(899)
Other purchases and external expenses	(24,323)	*(19,263)*	(21,627)
Employee benefits other than share-based compensation	(8,875)	*(7,540)*	(7,540)
Share-based payments	(1,065)	*(5,177)*	(5,177)
Depreciation and amortization	(2,439)	*(2,128)*	(2,128)
Other income and (expenses), nets	(248)	*(234)*	(234)
Operating expenses	**(39,404)**	***(37,141)***	**(39,505)**

(*) This column is not part of the interim condensed consolidated financial statements as June 30, 2018. These financial statements present the impact of the first application of IFR 15 in Note 2.1. The Company opted for the cumulative effect approach. However, the information being available, the Company presents the items restated under IFRS 15 in order to present a comparison with comparable standards.

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

Other purchases and external expenses: the variance of the line item between the two periods was driven by the increase of the subcontracting costs (+€6.5m, see previous page); this rise is partially offset by the decrease in non-scientific fees.

Employee benefits other than share-based compensation: the increase of the line item mainly resulted from the rise in the employees (194 as of June 30, 2018 vs. 171 as of June 30, 2017);

Share-based payments: see comment above.

D. Financial result

Financial income is mainly composed of F/X gains (€2.9m) following the variance of the €/USD exchange rate and interest related to cash, cash equivalents and financial assets (€0.9m).

Financial expenses are mainly composed of F/X losses (€2.9m of which €1.3m resulting from the application of IFRS 15) and depreciation relating to our financial instruments (€1.5m).

E. Income tax

During the fiscal year 2018, the Company opted for the carry back mechanism (also called deferral of deficits). This accounting and tax mechanism consists in deferring the tax loss of a company over the profits of the three following years (maximum) and generates a receivable from the tax administration (€0.3m tax credit).

F. Balance sheet item

Cash, cash equivalents and financial assets (current and non-current) amounted to €141.6m as of June 30, 2018, as compared to €176.6m as of December 31, 2017. Net cash as of June 30, 2018 amounted to €95.6m (€114.8m as of December 31, 2017). Net cash is equal to cash, cash equivalents and current financial assets less current financial liabilities. Cash and cash equivalents do not include the reimbursement of the 2017 research tax credit which should be collected during the third quarter of 2018 yet (€11.0m).

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, 2018, these repayable advances amount to €1.0m, of which €0.4m classified as current financial liabilities and €0.6m as non-current financial liabilities.

The other key balance sheet items as of June 30, 2018 are as follows:

Deferred revenue of €59.8m (including €38.5m booked as 'Deferred revenue – non-current portion') and collaboration liabilities amounting to €40.6m (including €22.3m booked as 'collaboration liability-non-current) relating to the remainder of the initial payment from AstraZeneca not yet recognized as revenue or not yet refunded;

Receivables from the French government in relation to the research tax credit for 2017 and the six-month period ended June 30, 2018 (€17.2m);

Intangible assets for a net book value of €44.9m, mainly corresponding to the rights and licenses relating to the acquisition of the monalizumab, anti-CD39 programs and anti-C5ar;

Shareholders' equity of €87.2m including the net loss for the period (€16.2m).

G. Cash-flow items

The net cash flow consumed over the six-month period ended June 30, 2018 amounted to €19.9m, compared to a net cash flow of €19.9m consumed for the same year-ago period.

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

Net cash used in operating activities of €33.9m, mainly resulting from research and development activities and personnel expenses;

Net cash used in investing activities for an amount of €14.8m, mainly resulting from the purchase of tangible assets;

Net cash used in financing activities for an amount of €0.7m, mainly resulting from the reimbursement of finance-leases (principal and interest).

H. Key elements since January 1, 2018

On January 30, 2018, Innate Phama announced that it has entered into a 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 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

I. Nota

The interim consolidated financial statements for the six-month period ended June 30, 2018 have been subject to a limited review by our Statutory Auditors and were approved by the Executive Board of the Company on September 13, 2018. They were reviewed by the Supervisory Board of the Company on September 14, 2018. They will not be submitted for approval to the general meeting of shareholders.

J. 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 April 25, 2018 (AMF number D.18-0393). 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.

K. 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 2017 registration document.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

A. Statement of financial position (in thousand euros)

	Note	June 30, 2018	December 31, 2017
Assets			
Cash and cash equivalents	4	79,502	99,367
Short-term investments	4	17,379	16,743
Current receivables	5	25,761	21,412
Total current assets		**122,642**	**137,522**
Intangible assets	6	44,903	46,192
Tangible assets	7	10,674	10,729
Non-current financial assets	4	44,734	60,469
Deferred tax asset	2,16	2,879	-
Other non-current assets		85	111
Total non-current assets		**103,274**	**117,501**
Total assets		**225,916**	**255,023**
Liabilities			
Trade payables	8	26,235	24,657
Collaboration liabilities	2,8	18,309	-
Financial liabilities	9	1,355	1,343
Deferred revenue	13	21,317	47,909
Total current liabilities		**67,216**	**73,909**
Collaboration liabilities	2,8	22,321	-
Financial liabilities	9	3,879	4,521
Defined benefit obligations	10	3,811	2,621
Deferred revenue	13	38,450	87,005
Deferred tax liability	2,16	2,879	-
Provisions	17	189	1,012
Total non-current liabilities		**71,529**	**95,158**
Share capital	11	2,880	2,880
Share premium		235,939	234,874
Consolidated reserves		(134,003)	(103,595)
Net income (loss)		(16,191)	(48,385)
Other reserves		(1,455)	180
Total shareholders' equity attributable to equity holders of the Company		**87,171**	**85,956**
Total liabilities and equity		**225,916**	**255,023**

B. Statement of income (in thousand euros)

	Note	June 30, 2018	June 30, 2017
Revenue from collaboration and licensing agreements	13	16,879	15,554
Government financing for research expenditures	13	6,787	5,720
Revenue and other income		**23,666**	**21,274**
Research and development	14	(32,828)	(31,583)
General and administrative	14	(5,576)	(7,922)
Net operating expenses		**(39,404)**	**(39,505)**
Operating income (loss)		**(15,738)**	**(18,231)**
Financial income	15	3,961	1,216
Financial expenses	15	(4,748)	(6,344)
Net income (loss) before tax		**(16,524)**	**(23,359)**
Income tax expense	16	333	–
Net income (loss)		**(16,191)**	**(23,359)**
Net income (loss) per share attributable to the equity holders of the Company:			
Weighted average number of shares (in thousand):		57,600	53,955
(in € per share)			
– basic	19	(0,28)	(0.43)
– diluted	19	(0,28)	(0.43)

C. Statement of comprehensive income (in thousand euros)

In thousands of euros	June 30, 2018	June 30, 2017
Net loss for the period:	**(16,191)**	**(23,359)**
Elements which will not be recycled in the income statement		
Actuarial gains and (losses)	(966)	186
Elements which will be recycled in the income statement		
Change in fair value of current financial instruments	–	240
Currency translation gain / (loss)	(17)	43
Other comprehensive income for the period:	**(983)**	**469**
Comprehensive income for the period:	**(17,174)**	**(22,890)**

D. Statement of cash flows (in thousand euros)

	Note	June 30, 2018	June 30, 2017
Net income (loss)		**(16,191)**	**(23,359)**
Depreciation and amortization	6, 7	2,439	2,127
Provisions for defined benefit obligations	10	225	190
Provisions for charges	14	(823)	366
Share-based payments	14	1,065	5,177
Variance of depreciation on financial assets	4	1,432	(218)
Foreign exchanges (gains) / losses on financial instruments	4	(1,022)	2,682
Variance on accrued interests on financial instruments	4	(186)	(84)
Gains on assets and other financial assets	15	(906)	(421)
Net interests paid	15	55	58
Operating cash flow before change in working capital		**(13,912)**	**(13,482)**
Change in working capital		(37,339)	(9,591)
Impact of the application of IFRS 15		17,324	-
Net cash generated from / (used in) operating activities:		**(33,927)**	**(23,072)**
Purchase of intangible assets	6	(300)	(181)
Purchase of tangible assets	7	(709)	(1,314)
Variance on payables relating to the tangible assets		(43)	-
Disposal of tangible assets	7	10	39
Disposal of other non-current assets		26	-
Purchase of non-current financial assets	4	-	(500)
Disposal of non-current financial assets	4	14,874	4
Purchase of other non-current assets	4	-	(71)
Gains on other financial assets	15	906	421
Net cash generated from / (used in) investing activities:		**(14,764)**	**(1,601)**
Issue of own shares	11	-	450
Repayment of financial liabilities	9	(630)	(667)
Net interests paid	15	(55)	(58)
Net cash generated from financing activities:		**(685)**	**(274)**
Effect of the exchange rate changes		(17)	44
Net increase / (decrease) in cash and cash equivalents:		**(19,865)**	**(24,903)**
Cash and cash equivalents at the beginning of the period:		99,367	175,906
Cash and cash equivalents at the end of the period:		**79,502**	**151,003**

Change in working capital June 30, 2018	Note	June 30, 2018	December 31, 2017	Variance
Current receivables	5	25,761	21,412	(4,349)
Deferred revenue	13	(59,767)	(134,914)	(75,147)
Operational liabilities	8	(26,110)	(24,583)	1,527
Collaboration liability	8	(40,630)	–	40,630
Change in working capital		**(100,476)**	**(138,085)**	**(37,339)**

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)
Trade payables	8	(18,055)	(20,195)	(2,140)
Change in working capital		**(145,474)**	**(155,066)**	**(9,591)**

The IASB published amendments to IAS 7 "Statement of cash-flows" in order to clarify IAS 7 and to improve information provided to financial statement users about an entity's financing activities.

The amendments require that an entity disclose, as necessary, the following changes in liabilities arising from financing activities:

- changes from financing cash flows;
- losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchange rates;
- changes in fair values and;
- other changes.

Hereafter the reconciliation of the cash-flow statement (financing activities) with the financial statement's notes:

			Cash-flows		Non-cash variations			Current	Non-current	Notes
	In thousand euros	**Dec. 2017**	**(+)**	**(–)**		**June 2018**				
Borrowing	BPI's Interest-free loan	1,125	–	-0,150	–	0,975		*0,375*	*0,600*	
Leasing	Leasing- Property transaction	2,239	–	-0,444	–	1,795		*0,910*	*0,886*	
Leasing	Leasing- Property transaction (down-payment)	-0,386	–	0,076	–	-0,310		*-0,156*	*-0,154*	***Note 9***
Leasing	Leasing - Equipments	1,160	–	-0,086	–	1,074		*0,173*	*0,901*	
Borrowing	Borrowing - Equipments	0,426	–	-0,027	–	0,399		*0,530*	*0,346*	
Borrowing	Borrowing - Property transaction	1,300	–	–	–	1,300		*0,000*	*1,300*	
	Sub-total	***5,864***	***0***	***-0,631***	***0***	***5,233***		***1,832***	***3,879***	
Equity	Equity instruments	697	–	–	–	697		*N/A*	*N/A*	***Statement of changes in shareholder's equity***
	Sub-total	***697***	***0***	***0***	***0***	***697***		***N/A***	***N/A***	
Leasing	Interests	11	–	-55	–	-44		*N/A*	*N/A*	
	Sub-total	***11***	***0***	***-55***	***0***	***-44***		***N/A***	***N/A***	
	Total	**6,572**	**0**	**-0,686**	**0,0**	**5,886**				

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

	Number of shares A	Number of shares B	Share capital	Share premium	Retained earnings	Net gain / (loss)	Other comprehensive income	Total shareholders' equity
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	91	-	5	445	-	-	-	450
Share-based payment	-	-	-	5,177	-	-	-	5,177
Other	-	-	-	1	1	-	1	3
Total contributions by and contributions to owners of the Company, recognized directly in equity	**62**	**-**	**5**	**5,623**	**12,640**	**(12,640)**	**-**	**5,402**
Balance as of June 30, 2017	**54,013**	**-**	**2,701**	**193,194**	**(103,594)**	**(23,359)**	**(33)**	**68,909**
Net loss for the 6-month period ended December 31, 2017	-	-	-	-	-	(25,026)	-	(25,026)
Change in fair value of current financial instruments	-	-	-	-	-	-	197	197
Actuarial gains and losses	-	-	-	-	-	-	(8)	(8)
Foreign exchange gain / (loss)	-	-	-	-	-	-	25	25
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**(25,026)**	**214**	**(24,812)**
Exercise and subscription of equity	244	7	12	29	-	-	-	41
Share-based payment in the context of the acquisition of C5aR	3,344	-	167	36,999	-	-	-	37,166
Share-based payment	-	-	-	4,652	-	-	-	4,652
Others	-	-	-	-	(1)	-	-	(1)
Total contributions by and contributions to owners of the Company, recognized directly in equity	**3,588**	**7**	**179**	**41,680**	**(1)**	**-**	**-**	**41,858**
Balance as of December 31, 2017	**57,600**	**7**	**2,880**	**234,874**	**(103,595)**	**(48,385)**	**180**	**85,956**
Restatement related to the first application of IFRS 9	-	-	-	-	653	-	(653)	-
Restatement related to the first application of IFRS 15	-	-	-	-	17,324	-	-	17,324
Balance as of January 1, 2018	**57,600**	**7**	**2,880**	**234,874**	**(85,618)**	**(48,385)**	**(473)**	**103,277**
Net loss for the 6-month period, ended June 30, 2018	-		-	-	-	(16,191)		(16,191)
Actuarial gains and losses							(966)	(966)
Foreign exchange gain / (loss)							(17)	(17)
Total comprehensive income for the period						**(16,191)**	**(983)**	**(17,174)**
Net loss appropriation for 2017	-		-	-	(48 385)	48 385	-	-
Share-based payment	-	-	-	1 065	-	-	-	**1,065**
Total contributions by and contributions to owners of the Company, recognized directly in equity	**-**	**-**	**-**	**1 065**	**(48 385)**	**48 385**	-	**1,065**

	Number of shares A	Number of shares B	Share capital	Share premium	Retained earnings	Net gain / (loss)	Other comprehensive income	Total shareholders' equity
Balance as of June 30, 2018	57,600	7	2,880	235,939	(134,003)	(16,191)	(1,455)	87,171

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 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.

Innate Pharma's innovative approach has resulted in a broad and diversified portfolio of partnered and proprietary programs that may address a broad range of cancer indications. The Company's most advanced assets are monalizumab and IPH4102. Monalizumab is developed under a global co-development and commercialization agreement with AstraZeneca and is currently tested in a joint clinical programs of Phase I/II trials. IPH4102 is developed in T cell lymphomas and currently tested in a Phase I trial.

Incorporated in 1999 and listed on Euronext in Paris in 2006, Innate Pharma is based in Marseille, France, and had 194 employees as of June 30, 2018.As of June 30, 2018, 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 14, 2018. They were also examined by the Supervisory Board on September 13, 2018 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, 2018

On January 30, 2018, Innate Pharma announced that it has entered into a 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 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.

2. Accounting policies

2.1. Basis of preparation

The interim consolidated financial statements for the six-month period ended June 30, 2018 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, 2017 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 April 25, 2018 (D.18-0393).

The entry into force of IFRS 15 and IFRS 9 as of January 1, 2018 led the Company to amend the accounting principles relating to revenue and financial instruments.

- **IFRS 15**

Regarding revenue, Innate Pharma has reviewed the accounting treatment of its co-development and commercialization agreement with AstraZeneca, which is as of June, 30, 2018, its unique and not achieved collaboration contract, and concluded that the agreement will be treated as one single contract for IFRS 15 purpose; the research and development services are a single Performance Obligation to be recognized over time using a cost to cost measurement of progress. The main difference with the IAS 18 accounting treatment stems from the Transaction Price consideration. Indeed, under IFRS 15, when a portion of the proceed from a contract is paid back to the customer, this amount should not be recognized as revenue. In the context of the collaboration agreement with AstraZeneca, Innate Pharma contributes to the funding of R&D works performed by AstraZeneca. Consequently:

- The amount to be recognized as revenue (transaction price) is reduced by the amount expected to be paid to the partner;

- This expected amount is not recognized anymore in the statement of financial position as deferred revenue but as a liability;

- The invoices received from the partner are not recognized anymore as operating expenses but are deducted from the liability; and

- When the liability is in a foreign currency (which is the case in the context of this agreement), it is translated at each closing at the appropriate exchange rate, which generates foreign exchange gains or losses.

The accounting treatment under IAS 18 was consistent with the accounting treatment in French GAAP. The changes mentioned previously therefore generate temporary and permanent differences between IFRS GAAP and French GAAP. Consequently, an amount of deferred tax is calculated at each closing date, based on the amount of temporary differences. As of June 30, 2018, the temporary differences generate a deferred tax liability. Because of the tax losses to be carried forward from the previous fiscal years, the Company in such a situation recognized a deferred tax asset for the same amount.

The Company decided to apply the simplified transitional approach without any of the simplifying measures allowed by IFRS 15. Innate Pharma applied the simplified retrospective methodology without simplification authorized by IFRS 15. According to this approach, the comparative information is not restated and the cumulative impact of the first application is presented as an adjustment of the opening equity of the year of first application. The simplified transitional approach does not present comparative information, but requires a comparison for the first application year if the IFRS 15 figures with the figures according to the previous standard (IAS 18). This comparison is presented below.

- **IFRS 9**

Regarding financial instruments, IFRS 9 requires for non-derivative financial assets a change of name of the sub-categories of financial assets without, however, modifying the valuation principles of these assets, which remain either at fair value or amortized cost. The valuation models used by Innate Pharma remain unchanged.

The modification of the depreciation principles for financial assets measured at amortized cost, which now consists in adopting an approach based on expected losses, leads in practice not to recognize impairment and mainly concerns trade receivables which represent an insignificant amount as of June 30, 2018.

The only impact of IFRS 9 on the financial statements of the Company concerns the recognition of the variance in fair value of the mutual funds. Under IAS 32/39, the variance in fair value of these financial assets was recognized in other comprehensive income. Under IFRS 9, it will be recognized in the statement of income. Following the application of the standard using the retrospective method, the impact on the opening statement of financial position is a reclassification from other comprehensive income to consolidated reserves for an amount of €0.7 thousand.

Consequently, the variance in fair value of the mutual funds hold as of December 31, 2017 recognized in Other Comprehensive Income in the previous periods was reclassified in the consolidated reserves. The impact of the application of the new standard on the consolidated balance sheet as of December 31, 2017

is presented hereafter. These impacts do not represent cash inflows or outflows.

The consolidated income of statement for the first half of the fiscal year 2018 applying the standards IFRS 15 and IAS 32/39 would have been as follows:

	June 30, 2018 as published	Restatement IAS 18	Restatement IAS 32/39	June 30, 2018 restated
Revenue from collaboration and licensing agreements	16,879	14,778	-	31,657
Government financing for research expenditures	6,787	-	-	5,720
Revenue and other income	**23,666**	**14,778**	**-**	**38,444**
R&D expenses	(33,828)	(10,238)	-	(44,066)
G&A expenses	(5,576)	-	-	(75,576)
Net operating expenses	**(39,404)**	**(10,238)**		**(49,642)**
Operating loss	**(15,738)**	**4,540**	**-**	**(11,198)**
Financial income	3,691	-	(191)	3,770
Financial expenses	(4,748)	1,310	316	(3,122)
Net income (loss) before tax	**(16,725)**	**5,850**	**125**	**(10,550)**
Income tax	333	-	-	333
Net income (loss) before tax	**(16,191)**	**5,850**	**125**	**(10,217)**
(in € per share)				
-base	(0.28)			(0.18)
-diluted	(0.28)			(0.18)

The consolidated statement of financial position as of June 30, 2018 applying the standards IFRS 15 and IAS 32/39 would have been as follows:

	June 30, 2018 as published	Restatement IFRS 15	Restatement IFRS 9	June 30, 2018 restated
Asset				
Total current asset	**122,642**	-	-	**122,642**
Deferred tax asset	2,870	(2,879)	-	-
Total non-current asset	**103,274**	**(2,879)**	-	**100,395**
Total Asset	**225,916**	**(2,879)**	-	**223,036**
Liabilities				
Trade payables	26,235	8,460	-	34,695
Collaboration liabilities	18,309	(18,309)	-	-
Deferred revenue	21,317	57,784	-	78,901
Total current liabilities	**67,216**	**47,735**	-	**114,951**
Collaboration liabilities	22,321	(22,321)	-	-
Deferred revenue	38,450	(13,942)	-	24,508
Deferred tax liability	2,879	2,879	-	-
Total non-current liabilities	**71,529**	**(39,142)**	-	**32,387**
Consolidated reserves	(134,003)	(17,324)	-	(151,327)
Net result of the period	(16,191)	5,850	125	(10,217)
Other reserves	(1,455)	-	(125)	(1,580)
Total shareholders' equity attributable to equity holders of the Company	**87,171**	**(11,474)**	-	**75,696**
Total liabilities and equity	**225,916**	**(2,879)**	-	**223,036**

The impact of the IFRS 15 standard on the opening reserves as of January 1, 2018 amounts to €17.3m (positive impact). This estimated was refined compared to the estimated of €16.6m published in the consolidated financial statements as of December 31, 2017.

The impacts of the IFRS 9 and 15 standards on the consolidated statement of financial position as of December 31, 2017 are presented below. The estimated impact presented in the 2017 financial statements have been refined, the variances being as follows:

The impacts of the IFRS 9 and 15 standards on the consolidated income of statement for the first half of the fiscal year 2017 are presented below:

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, 2017 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, 2018 and, as such, they have been adopted by the Company:

IFRS 9 "Financial instruments", which supersedes IAS 39 "Financial instruments: recognition and measurement".

IFRS 15 "Revenue from contracts with Customers", which supersedes IAS 11 "Construction contracts", IAS 18 "Revenue" and the corresponding interpretations (IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31).

Impacts related to the first application of these two standards (IFRS 15 an IFRS 9) are detailed in the note 2.1 Basis of preparation.

The new standards, amendments to existing standards and subsequent interpretations have been published but are not applicable in 2018 or have not yet been adopted by the European Union and have not been applied early.

Amendments to IAS 40 "Transfers of investment property".

Amendments to IFRS 2 "Clarifications of classification and measurement of share based payment transactions".

Amendments to IFRS 4 following the issuance of IFRS 9.

IFRS 14 "Regulatory deferral accounts". The European Union has not launched the approval process for this standard.

IFRS 16 "Leases", mandatory for financial year beginning on or after January 1, 2019. IFRS 16 will replace IAS 17.

Work assessment of IFRS 16 impacts:

Standard	Work assessment	Impacts estimated
IFRS 16 « Leases » applicable as of January 1,2019	Innate Pharma has identified these commitments, which according to IFRS 16 should be recognized in the balance sheet.	Innate Pharma has carried out an analysis of the impacts of IFRS 16. The estimated impact of the new standard is not material. Items to be recognized in the balance sheet are currently identified in Note 17 « Commitments, contingent liabilities and litigation » which are real estate leasing, rental of photocopiers and company's cars).

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 2018 registration document.

4. Cash, cash equivalents and financial assets

(in thousand euros)	June 30, 2018	December 31, 2017
Cash and cash equivalents	79,502	99,367
Short-term investments	17,379	16,743
Cash, cash equivalents and short-term investments	*96,881*	*116,110*
Non-current financial assets	44,734	60,469
Cash, cash equivalents and financial assets	**141,615**	**176,578**

The variance of financial assets (current and non-current) for the first half of 2017 and 2018 is as follows:

(in thousand euros)	December 31, 2017	Purchases	Disposals	Variance in fair value by P&L	Variance in fair value by OCI[1]	Variance in accrued interests	F/X variance	June 30, 2018
Current	16,743	–	–	163	–	–	472	**17,379**
Non-current	60,469	–	(14,874)	(1,595)	–	186	550	**44,734**
Total financial assets	**176,578**	**–**	**(14,874)**	**(1,432)**	**–**	**186**	**(1,022)**	**62,113**

(in thousand euros)	December 31, 2016	Purchases	Disposals	Variance in fair value by P&L	Variance in fair value by OCI[1]	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**

[1] The total of the variance in fair value by OCI, as of December 31, 2017 have been reclassified as of June 30, 2018 according to the application of IFRS 9 as of January 1, 2018 (see Note 2.1)

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, 2018	December 31, 2017
Current accounts	9,646	29,829
Interest-bearing accounts	5,988	5,982
Fixed-term accounts	63,868	65,556
Cash and cash equivalents	**79,502**	**99,367**

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.

4.2. Short-term investments

(in thousand euros)	June 30, 2018	December 31, 2017
Mutual funds ("OPCVM")	17,379	16,743
Short-term investments	**17,379**	**16,743**

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, 2018	December 31, 2017
Mutual funds ("OPCVM")	21,902	32,392
Other non-current financial instruments	19,145	24,433
Negotiable medium-term notes	1,644	1,598
Capitalization contract for defined benefit obligations	2,043	2,046
Non-current financial assets	**44,734**	**60,469**

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.

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, 2018			December 31, 2017		
	€	$	Total	€	$	Total
Cash and cash equivalents	44,824	34,677	**79,501**	62,480	36,887	**99,367**
Current and non-current financial assets	43,090	19,024	**62,114**	54,751	22,461	**77,211**
Total	**87,914**	**53,701**	**141,615**	**117,231**	**59,348**	**176,578**

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.

5. Current receivables

Receivables and other current assets are analyzed as follows:

(in thousand euros)	June 30, 2018	December 31, 2017
Research tax credit and other tax credits (CICE* and carry-back)	17,900	11,273
Prepaid expenses	3,407	5,898
VAT refund	2,085	2,675
Prepayments made to suppliers	740	430
Credit notes to be received	698	730
Tax reimbursement to be received	-	267
Accounts receivables	195	-
Grants	675	-
Others	61	139
Current receivables and prepayments	**25,761**	**21,412**

* 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 2017 amounts to €11.0m and should be collected during the third quarter of 2018. This item also includes the research tax credit related to 2018 for an amount of €6.2m and the receivable resulting from the carry-back which results to an income for the first half 2018 amounting to €0.3m.

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, 2017				
Net opening balance	**9,022**	**44**	**9**	**9,075**
Purchases[1]	40,000	227	6	40,233
Transfers	–	9	(9)	–
Depreciation[2]	(3,009)	(101)	–	(3,110)
Net closing balance	**46,013**	**179**	**–**	**46,192**
6-month period ended June 30, 2018				
Net opening balance	**46,013**	**179**	**–**	**46,192**
Purchases[3]	–	300	94	394
Depreciation[2]	(1,593)	(92)	–	(1,685)
Net closing balance	**44,420**	**387**	**94**	**44,903**

[1] On June 2, 2017, Innate Pharma announces 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 €40m, of which €37.2m were paid in new Innate Pharma shares and €2.8m in cash. This amount was recognized as intangible asset. This asset is not amortized and is subject to an annual impairment test; its useful life is reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. As of June 30, 2018, Innate Pharma did not identify any loss values; consequently Innate Pharma did not perform an impairment test.

[2] Depreciation of the purchased licenses entirely relates to the depreciation of the anti-NKG2A intangible asset. The rights of this antibody were acquired in 2014 from Novo Nordisk A/S. This asset is amortized since its acquisition date since the intended use of the asset, at the time of its acquisition, was the out-licensing of the development and commercialization rights of anti-NKG2A, more specifically signing an agreement with a large pharmaceutical company.

[3] Purchases are mainly related to R&D licences.

7. Tangible assets

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

(in thousand euros)	Lands and buildings[1]	Laboratory equipment and other tangible assets	Tangible assets in progress	Total tangible assets
Year ended December 31, 2017				
Net opening balance	**3,900**	**5,164**	**30**	**9,094**
Purchases	491	2,446	34	2,971
Disposals	–	(50)	–	(50)
Depreciation	(297)	(987)	–	(1,284)
Transfers	–	30	(30)	–
Net closing balance	**4,093**	**6,602**	**34**	**10,729**
6-month period ended June 30, 2018				
Net opening balance	**4,093**	**6,602**	**34**	**10,729**
Purchases [2]	–	504	208	712
Disposals	–	(10)	–	(10)
Depreciation	(149)	(607)	–	(756)
Transfers	–	29	(29)	–
Net closing balance	**3,944**	**6,518**	**212**	**10,675**

[1] The Company owns two lands. The one on which stands the buildings purchased in 2008 (gross value €0.8m thousand euros), and a second one, adjacent to the first one, acquired in December 2017 (gross value €0.5m thousand euros). They are not amortized.

[2] Purchases mainly represent laboratory equipment including a cytometer for €0.2m and an incucyte for €0.1m.

8. Trade payables and collaboration liabilities

Trade payables are analyzed as follows (in thousands of euros):

(in thousand euros)	June 30, 2018	December 31, 2017
Suppliers (excluding capex)	21,828	19,970
Tax and social liabilities	4,095	4,404
Other payables	187	209
Operational liabilities	*26,110*	*24,583*
Capex suppliers	125	74
Trade payables	**26,235**	**24,657**

Collaboration liabilities amount to €40.6m as of June 30, 2018, of which €18.3m classified as current liabilities and €22.3m classified as non-current liabilities.

9. Financial liabilities

(in thousand euros)	December 31, 2017	Subscriptions	Reimbursements	June 30, 2018
BPI PTZI IPH41	1,125	–	(150)	975
Finance leases – Real estate transaction	2,239	–	(444)	1,795
Down payment	(386)	–	76	(310)
Finance leases – Laboratory equipment	1,160	–	(86)	1,074
Borrowing R&D material	426	–	(27)	399
Borrowing –Real estate transaction	1,300	–	–	1,300
Total financial liabilities	**5,864**	**–**	**(630)**	**5,234**

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 €0.3 as of June 30, 2018 (€0.4m as of December 31, 2017). In the schedule above, financial liabilities relating to this real-estate transaction do not include this down-payment.

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 PTZI IPH41	375	600	-	975
Finance leases – Real estate transaction	754	1,087	944	2,785
Finance leases – Laboratory equipment	226	922	326	1,474
Total	**1,355**	**2,609**	**1,270**	**5,234**

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 PTZI IPH41	375	600	-	975
Finance leases – Real estate transaction	788	1,178	1,027	2,993
Finance leases – Laboratory equipment	236	944	313	1,493
Total	**1,399**	**2,722**	**1,340**	**5,461**

10. Defined benefit obligations

(in thousand euros)	June 30, 2018	December 31, 2017
Provision for retirement benefits	3,416	2,255
Provision for seniority awards	395	366
Defined benefit obligations	**3,811**	**2,621**

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 changes compared to December 2017 is:

- The wage growth rate (4.5% vs. 3.0% as of December 31, 2017). The impact of this change amounts to €0.9m, recognized in the statement of comprehensive income. This change results from the compliance of this actuarial assumption with the Company's salary policy. Previously, this assumption was based on a sectoral benchmark

of practices related to salary increases. As of June 30, 2018, the Company carried out an analysis in order to have a critical perspective of the Company's practices relating to the rate of increase in salaries, and consequently has real data allowing to have a better estimation of the future salary increases in line with the Company's long-term vision (see Note 10 of the 2017 DDR for all of the assumptions used).

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 €0.4m as of June 30, 2018.

11. Capital

11.1. Share capital

As of December 31, 2017, the share capital was composed of 57, 600,100 common shares with a 0.05 euro per value ("Shares A", and 6,931 preferred shares with a 0.05 per value ("Shares B").

There was no change in the share capital between December 31, 2017 and June 30, 2018.

11.2. Potential capital

As of June 30, 2018, the number of shares that could be issued in case of:

(i) exercise of warrants: 384,500;

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

(iii) conversion of preferred shares 2017: 812,500 and;

(iv) definitive acquisition of free shares: 439,479;

representing 4,385,757, approximately 6.79% of the Company's share capital based on the existing number of shares on a fully diluted basis (i.e. 61,985,851).

11.3. Treasury shares

As of June 30, 2018, the Company held 18,575 treasury shares for an amount of 87 thousand (€88 thousand as of December 31, 2017).

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.

Innate Pharma has applied IFRS 9 as of January 1, 2018 (replacing IAS 39), the table in Note 2.1 summarizes the impact of the transition to IFRS 9 on opening reserves.

As of June 30, 2018	Book value on the statement of financial position	Fair value through profit and loss(1)	Fair value through comprehensive income(2)	Receivables(3)	Fair value
Financial assets					
Other non-current assets.....	44,734	42,691	-	2,043	44,734
Current receivables	25,761	-	-	25,761	25,761
Short-term investments	17,379	17,379	-	-	17,379
Cash and cash equivalents	79,502	79,502	-	-	79,502
Total financial assets	**167,376**	**139,572**	**-**	**27,804**	**167,376**
Financial liabilities					
Non-current financial liabilities.....	3,879	-	-	3,879	3,879
Current financial liabilities.....	1,355	-	-	1,355	1,355
Trade payables.....	26,235	-	-	26,235	26,235
Collaboration liability (current).....	22,321	-	-	22,321	22,321
Collaboration liability (non-current).....	18,309	-	-	18,309	18,309
Total financial liabilities	**72,099**	-	-	**72,099**	**72,099**

As of December 31, 2017	Book value on the statement of financial position	Fair value through profit and loss[1]	Fair value through comprehensive income[2]	Receivables[3]	Fair value
Financial assets					
Other non-current assets.....	60,469	26,030	32,392	2,046	**60,469**
Current receivables	21,412	-	-	21,412	**21,412**
Short-term investments	16,743	-	16,743	-	**16,743**
Cash and cash equivalents	99,367	99,367	-	-	**99,367**
Total financial assets	**197,990**	**125,397**	**49,135**	**23,458**	**197,990**
Financial liabilities					
Financial liabilities- non-current	4,521	-	-	4,521	**4,521**
Financial liabilities- current	1,343	-	-	1,343	**1,343**
Trade payables	24,657	-	-	24,657	**24,657**
Total financial liabilities	**30,521**	**-**	**-**	**30,521**	**30,521**

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 AstraZeneca ("AZ") in 2015 and from the clinical collaboration with MedImmune as announced on January 30, 2018 (see Note G).

(in thousand euros)	June 30, 2018	June 30, 2017
AZ: recognition of the initial payment collected in 2011 related to the NKG2A-monalizumab agreement	16,725[1]	15,554
AZ: re-invoicing of R&D costs related to the anti-C5ar agreement	154	-
Revenue from collaboration and licensing agreements	**16,879**	**15,554**

[1] See Note 2.1 for the impacts of the first application of IFRS 15

(in thousand euros)	Initial payment AZ	Total
As of December 31, 2017	**134,914**	**134,914[1]**
Impact of the application of IFRS 15 as of January 1, 2018	(60,217)	(60,217)
Recognition in the statement of income	(16,725)	(16,725)
Transfer to liability	1,795	1,795
As of June 30, 2018	**59,767**	**59,767[2]**

[1] Including €47,909 thousand of current and €87,005 thousand of non-current liabilities.

[2] Including €21,317 thousand of current and €38,450 thousand of non-current liabilities.

(in thousand euros)	Initial payment AZ	Total
As of December 31, 2016	**167,261**	**167,261[3]**
Recognition in the statement of income	(15,554)	(15,554)
As of June 30, 2017	**151,708**	**151,708[4]**

[3] Including €54,912 thousand of current and €112,348 thousand of non-current liabilities.

[4] 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, 2018, 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, 2018 and 2017, a limitation representing 50% of the annual limitation was applied.

(in thousand euros)	June 30, 2018	June 30, 2017
Research credit tax	6,212	5,673
Grants	575	48
Government financing for research expenditures	**6,787**	**5,721**

14. Operating expenses

(In thousand euros)	June 30, 2018			June 30, 2017		
	G&A	R&D	Total	G&A	R&D	Total
Other purchases and external expenses	(2,205)	(22,118)	**(24,323)**	(2,814)	(18,813)	**(21,627)**
Employee benefits other than share-based compensation	(2,238)	(6,637)	**(8,875)**	(1,903)	(5,637)	**(7,540)**
Share-based compensation[1]	(811)	(254)	**(1,065)**	(2,993)	(2,184)	**(5,177)**
Depreciation and amortization	(249)	(2,190)	**(2,439)**	(127)	(2,001)	**(2,128)**
Cost of supplies and consumable materials	-	(1,847)	**(1,847)**	–	(1,899)	**(1,899)**
Intellectual property expenses	-	(607)	**(607)**	–	(899)	**(899)**
Other income and (expenses), net	(73)	(175)	**(248)**	(85)	(150)	**(235)**
Total operating expenses	**(5,576)**	**(33,828)**	**(39,404)**	**(7,922)**	**(31,583)**	**(39,505)**

[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 a vesting period (one or three years), their fair value is spread over the relevant period according to IFRS 2. During the first half of 2017, the expense related to share-based payments was €5.2m, these instruments were definitively acquired during the second half of 2017. Therefore, in the first half of 2018, the expense related to this line of free shares is nul; the expense related to the second half of 2018, comes from the 2016 shares with a vesting period of three years and from the new line of free shares granted in April 2018 with also a vesting period of one year.

(In thousand euros)	June 30, 2018			June 30, 2017		
	G&A	R&D	Total	G&A	R&D	Total
Subcontracting[1]	-	(20,903)	**(20,903)**	–	(16,812)	**(16,812)**
Travel expenses and congress attendance	(210)	(315)	**(525)**	(195)	(529)	**(724)**
Non-scientific advisory and consulting[2]	(1,082)	(89)	**(1,171)**	(1,939)	(260)	**(2,199)**
Leasing and maintenance	(556)	(522)	**(1,078)**	(221)	(634)	**(855)**
Scientific advisory and consulting[3]	-	(220)	**(220)**	–	(431)	**(431)**
Marketing, communication and public	(213)	(52)	**(265)**	(202)	(28)	**(230)**
Attendance fees	(121)	-	**(121)**	(125)	–	**(125)**
Others	(23)	(17)	**(40)**	(131)	(120)	**(251)**
Other purchases and external expenses	**(2,205)**	**(22,118)**	**(24,323)**	**(2,814)**	**(18,813)**	**(21,627)**

(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. Innate Pharma has applied as of January 1, 2018 IFRS 15 (see Note 2.1).

(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.

14.1. Employee benefits other than share-based compensation

The line item amounted to €9.2m and €7.6m for the six-month periods ended June 30, 2018 and June 30, 2017 respectively. The Company had 194 employees as of June 30, 2018, compared to 171 as of June 30, 2017.

14.2. Depreciation and amortization

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

14.3. 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, 2018	June 30, 2017
Gains on financial assets	720	505
Variance of fair value of financial assets	161	278
Foreign exchange gains	2,880	405
Other financial income	201	28
Financial income	**3,961**	**1,216**
Foreign exchange losses (1)	(2,920)	(6,157)
Variance of fair value of financial assets	(1,498)	(68)
Interests on borrowings and finance-leases	(55)	(58)
Other financial expenses	(275)	(61)
Financial expenses	**(4,748)**	**(6,344)**
Financial income and expenses, net	**(787)**	**(5,128)**

(1) This item includes €1.3m of losses following the application of IFRS 15 (see Note 2.1)

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 gains for the six-month period ended June 30, 2018 results from the strengthening of the Euro versus the $ USD over the period. The average spot for the first half of 2018 was €1 for $1.2108 versus €1 for $1.0825 for the first half of 2017.

16. Income tax

Taking into account its stage of development which prevents management from making sufficiently financial forecasts, the Group does not recognize deferred tax assets, except for the amount corresponding to the potential deferred tax liability relating to the application of IFRS 15. This deferred tax liability amounts at €3.2m at June 30, 2018.

It results from the temporary difference relating to revenue recognition between IFRS GAAP and French GAAP.

Temporary differences mainly result from finance leases, provision for defined benefit obligation and tax loss carry forward.

At June 30, 2018, the net amount of deferred tax liability excluding tax loss carry forward was €02.m (€0.1m as of December 31, 2017).

Taking into account the tax regulations, the Company had tax losses to be carried forward with no time limit for a total amount of €220m at December 31, 2017.

Tax proof

(in thousand euros)	June 30, 2018	June 30, 2017
Income before taxes	**(16,191)**	**(23,359)**
Statutory tax rate	33.33%	33.33%
Theoretical tax benefit	5,396	7,786
Increase/decrease in tax expense arising from:		
Research tax credit	2,070	1,891
Provision for defined benefit obligations	(397)	(1)
Share-based payment	(355)	(1,726)
Revenue from contracts with customers	(1,514)	-
Non recognition of deferred tax assets related to tax losses and temporary differences	(5,218)	(7,765)
Other differences	17	(185)
Carry-back	333	-
Effective tax expense	333	-
Effective tax rate	(2.06)%	0%

17. Commitments, contingencies and litigation

17.1. Real property lease

Due to the increase in employees, the Company signed at June 30, 2017 a lease to rent a new building. The lease covers a period of nine years with possibility for termination after three and nine years. At June 31, 2018, the commitment related to the rent until June 30, 2020 amounts to €0.6m.

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 €0.4m for the period July 2018 to June 2020.

17.3. Renting of copiers and company cars

The Company subscribed to renting contracts for its copiers and company cars. As of June 30, 2018, the global amount of these commitments amounts to €36 thousand.

17.4. Loans

As of July 17, 2017, the Company took out a loan amounting to €15.2m in order to finance the acquisition of a land and the construction of its future headquarters. As of June 30, 2018, the Company raised this loan to €1.3m. The commitment as of June 30, 2018 therefore amounts to €13.9m.

17.5. Litigations

On April 4, 2012, Platine Pharma Services SAS, our former subsidiary, received a proposed adjustment following a tax audit. The adjustment amounts to €0.1m. 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, 2018	June 30, 2017
Salaries and short-term employee benefits	1,109	873
Extra pension benefits	12	-
Consultancy fees	-	111
Share-based payments[1]	425	2,462
Key management compensation	**1,547**	**3,446**

[1] See comment in Note 14.

There were six members of the executive committee as of June 30, 2018 and seven members as of June 30, 2017.

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, 2018	June 30, 2017
Net loss for the period	(16,191)	(23,359)
Weighted average number of ordinary shares issued (in thousands)	57,600	53,955
Basic loss per share (€ per share)	(0.28)	(0.43)

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, 2018 and 2017, 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, 2018	June 30, 2017
Net loss for the period	(16,191)	(23,359)
Weighted average number of ordinary shares issued (in thousands)	(57,600)	53,955
Adjustment for warrants, stock options and free shares (in thousands)	–	–
Basic loss per share (€ per share)	(0.28)	(0.43)

20. Post balance sheet events

None to be reported.

STATUTORY AUDITORS' REVIEW REPORT ON THE HALF-YEARLY FINANCIAL INFORMATION

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, 2018,
- 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.

Without qualifying our conclusion, we draw your attention to the note 2.1 of the interim condensed consolidated financial statements, which discloses the effects of the application of IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial instruments", new standards adopted in the European Union and applicable for financial years beginning on or after January 1st, 2018.

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 14, 2018

The Statutory Auditors

French original signed by

AUDIT CONSEIL EXPERTISE, SA	**DELOITTE & ASSOCIES**
Member of PKF International	
Guy Castinel	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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