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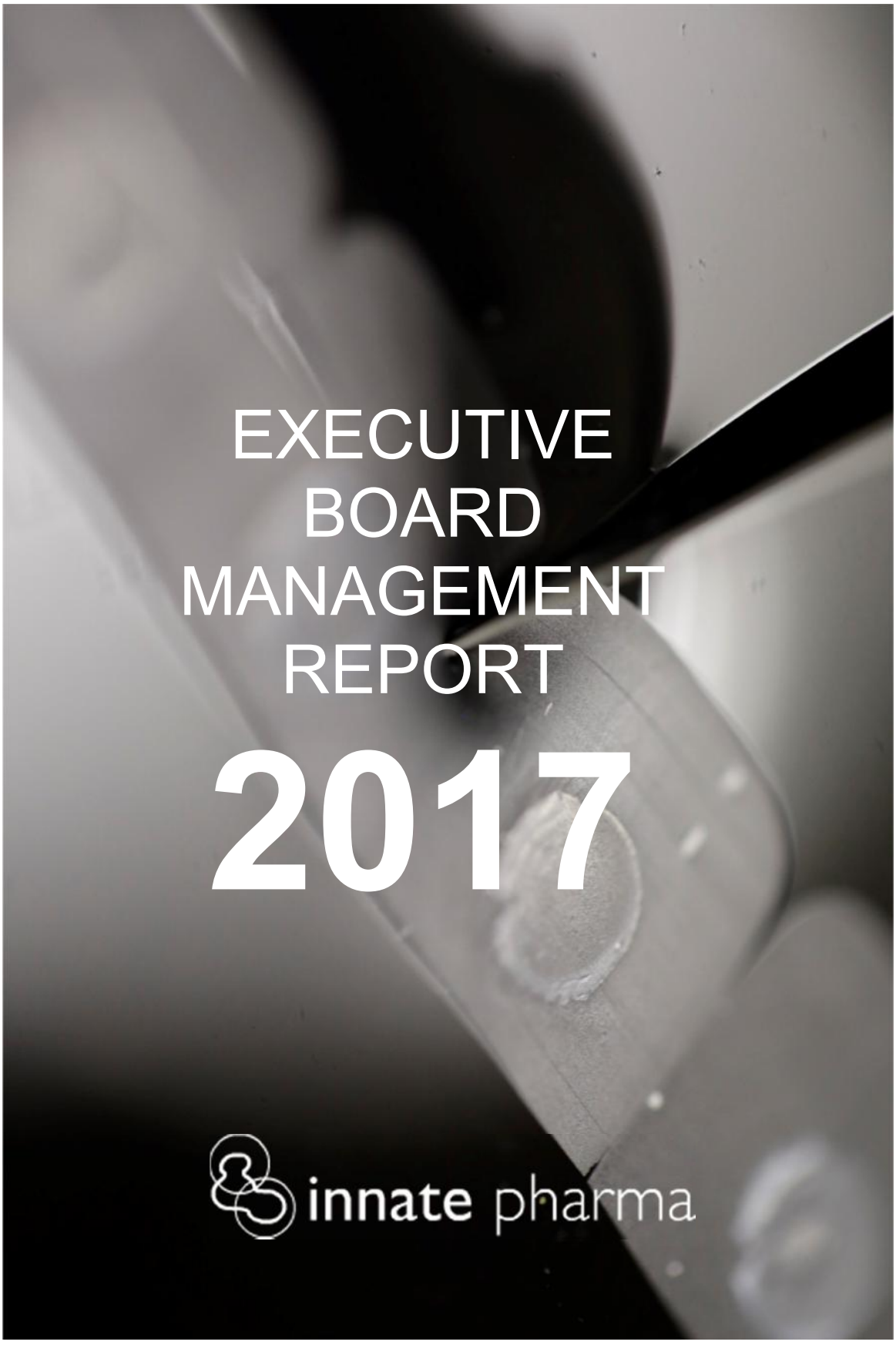

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EXECUTIVE BOARD MANAGEMENT REPORT

ANNUAL CONSOLIDATED AUDITED ACCOUNTS FOR THE FISCAL YEAR

ENDED DECEMBER 31, 2017

INNATE PHARMA
French limited liability company with an Executive board and a Supervisory board (société anonyme à directoire et conseil de surveillance)
With share capital of €2,880,351.55
Divided into 54 010 754 shares with a nominal value of €0.05
Registered office: 117 Avenue de Luminy 13009 Marseille
Marseille Company and Trade Register under number 424 365 336

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Ladies, Gentlemen,

Shareholders,

In accordance with Articles L.225-100 and L.225-100-2 of the French Commercial Code, our report on the audited accounts for the fiscal year ended December 31, 2017 is given below, together with the other information that must be provided in the context of the annual management report.

The consolidated accounts for the fiscal year ended December 31, 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted in the European Union.

This report, those of the external auditors, the consolidated audited accounts under IFRS, the Company accounts under French rules and the additional reports which are referred to in this report have been provided in line with the conditions and timescales stipulated in the by-laws and with applicable law.

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PART 1 - ANALYSIS OF CHANGES IN THE BUSINESS, FINANCIAL RESULTS AND CASH POSITION OF THE COMPANY

Innate Pharma S.A. (Innate Pharma / the Company is a clinical-stage biotechnology company dedicated to improving cancer treatment and clinical results for patients through first-in-class therapeutic antibodies that harness the innate immunity.

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.

With a unique expertise and understanding of Natural Killer cell biology, Innate Pharma has pioneered the discovery and development of checkpoint inhibitors. 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.

1.1. Main achievement of the R&D programs, progress made and difficulties encountered

In 2017, Innate Pharma continued to advance its strategic pillars, and particularly in strengthening and developing its portfolio of proprietary clinical-stage antibodies:

- the Company acquired IPH5401, an anti-C5aR antibody, which belonged to Novo Nordisk A/S and
- the data presentation for IPH4102 also marked the advancement of its clinical plan.

The development of monalizumab, an antibody partnered with AstraZeneca that targets NKG2A receptors expressed on NK and CD8 T-cells, also progressed in 2017 through the completion of the dose-escalation part and the beginning of cohort expansions in trial evaluating monalizumab in combination AstraZeneca's anti-PD-L1, durvalumab.

During the first quarter, the Phase I/II trial evaluating lirilumab, led by Bristol-Myers Squibb, has been expanded to include a randomized cohort exploring nivolumab with or without lirilumab in squamous cell carcinoma of the head and neck (SCCHN). At the year's end, the assessment of efficacy from the ongoing exploration of doublet combinations with lirilumab did not provide clear evidence of benefit to patients or an obvious development path. Discussions are ongoing regarding next steps.

The Company also continues to advance its pipeline of preclinical candidates and to develop its innovative technologies.

During the first quarter of 2018, Innate Pharma announced the appointment of Professor Eric Vivier, a world-renowned immunologist, as Chief Scientific Officer.

1.1.1. MONALIZUMAB (ANTI-NKG2A ANTIBODY), CO-DEVELOPMENT AND COMMERCIALIZATION AGREEMENT WITH ASTRAZENECA:

Monalizumab is currently tested in an exploratory program of Phase I and I/II clinical trials in monotherapy and combination in multiple cancer indications.

- Monalizumab is tested in combination with cetuximab, in a Phase Ib/II trial, in patients with refractory or metastatic SCCHN. In the dose escalating part of the study, the combination was well tolerated with no additional safety concerns compared to monalizumab or cetuximab alone. (AACR[1] 2017).
- Monalizumab is also tested in combination with durvalumab (anti-PD-L1). This trial, led by AstraZeneca, started in February 2016. The dose escalation part ended. The cohort expansion part has begun in four indications.

[1] *American Association for Cancer Research*

- In September 2017, the Company presented new preclinical data at the third CRI-CIMT-EATI-AACR International Cancer Immunotherapy conference that reinforce monalizumab rationale, showing that combined NKG2A/HLA-E and PD-1/PD-L1 blockade enhance CD8+ T Cell-mediated killing of tumors.

1.1.2. 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 June 2017, the dose-escalation part of a Phase I trial was presented during an oral session in a lymphoma-specialized medical congress, the ICML[2], in Lugano. IPH4102 was evaluated in elderly and heavily pretreated patients with advanced cutaneous T-cell lymphomas (CTCL), mostly with Sézary syndrome. IPH4102 was well tolerated: no dose-limiting toxicity was reported and the maximum tolerated dose (MTD) was not reached.

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 lymphomas (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[3] 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 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.

1.1.3. IPH5401 (ANTI-C5AR ANTIBODY), ACQUIRED FROM NOVO NORDISK A/S:

In June 2017, Innate Pharma 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 (now IPH5401). The terms of the transaction provide for a total upfront payment of €40m, of which €37.2m has been paid in new Innate Pharma shares and €2.8m in cash. Novo Nordisk A/S is eligible for €370m in development, regulatory and sales milestone payments. Novo Nordisk A/S will also be eligible for double digit royalties on net sales.

The acquisition has been closed on July 13th 2017. 3 343 748 ordinary shares have been issued to Novo Nordisk A/S at a price of €11.12. Novo's stake in the share capital of Innate Pharma increased from 10.3% to 15.5%.

In September 2017, at the third CRI-CIMT-EATI-AACR[4] International Cancer Immunotherapy conference, Innate Pharma has presented preclinical data that reinforce IPH5401 rationale. This data show the selective expression of C5aR on myeloid-derived suppressor cells (MDSC) and neutrophils. These immune 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 the poster presented during this conference, the data demonstrate that IPH5401 selectively inhibits the activation of neutrophils. Moreover, the data show that the combined administration of anti-C5aR with an anti-PD-1 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.

1.1.4. LIRILUMAB (ANTI-KIR ANTIBODY), LICENSED TO BRISTOL-MYERS SQUIBB:

[2] International Conference on Malignant Lymphoma

[3] *European Organization for Research and Treatment of Cancer, Cutaneous Lymphoma Task Force*

[4] *Cancer Research Institute – Association for Cancer Immunotherapy – European Academy of Tumor Immunology – American Association for Cancer Research*

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In January 2017, Innate Pharma, per the licensing agreement for lirilumab has received a US$15 million milestone payment from, Bristol-Myers Squibb for the continued exploration of lirilumab in combination with nivolumab. This milestone payment follows the presentation at the SITC[5] annual meeting (November 2016) of encouraging preliminary activity results from the cohort of patients with Squamous Cell Cancer of the Head and Neck (SCCHN) of a Phase I/II trial.

In February 2017, the Company announced top-line results from the EffiKIR trial, a randomized, double-blind, placebo-controlled Phase II trial testing the efficacy of lirilumab as a single agent maintenance treatment in elderly patients with acute myeloid leukemia (AML) in first complete remission. The study did not meet its primary efficacy endpoint of leukemia-free survival. In December 2017, full data 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[6] 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.

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.

1.1.5. PRECLINICAL PORTFOLIO:

Innate Pharma owns several preclinical proprietary programs of which IPH4301, IPH52 and IPH53 are the most advanced.

IPH4301 (anti-MICA/B):

IPH4301 is a first-in-class anti MICA/B therapeutic antibody which acts with a dual mechanism of action: targeting MICA/B tumor antigen and ADCC-mediated tumor killing (ADCC for antibody-dependent cell-mediated cytotoxicity) on the first hand, and immunomodulation by restoring the expression of immune cells' activating receptor NKG2D, on the other hand.

Preclinical studies of this program are still ongoing.

IPH52 (anti-CD39) and IPH53 (anti-CD73):

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.

1.1.6. PATENTS *ACQUIRED AND DEVELOPED:*

In 2017, the Company filed nine new proprietary patent applications as well as eighty-three applications extending its existing proprietary patents (including six PCTs (Patent Cooperation Treaties) and seventy-seven national applications).

The Company has also filed nine new patent applications co-owned with academic or industrial partners and thirteen patent applications for extensions to patents co-owned with academic or industrial partners, including two PCT and seven national applications. The Company has also filed twelve patent applications for an extension to a patent held solely by its academic or industrial partners.

1.1.7. POST PERIOD EVENTS:

In January 2018, Innate Pharma has also announced that it has entered into 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

[5] *Society for Immunotherapy of Cancer*

[6] *American Society of Hematology*

efficacy of durvalumab, an anti-PD-L1 immune checkpoint inhibitor, in combination with Innate Pharma's investigational anti-C5aR monoclonal antibody, IPH5401, as a treatment for patients with selected solid tumors.

1.2. Future prospects and strategic directions

The Company's medium-term priorities are as follows:

- Mature and expand its portfolio of proprietary products while maintaining its scientific focus on targeting immune regulation checkpoints and clinical activities in broad therapeutic fields with major medical needs (cancer) relying on its proprietary antibody technology platform;
- Progressively incorporate downstream steps in the value chain while keeping certain development rights and possibly marketing rights when they are compatible with the Company's financial and human capabilities;
- Search for partnerships to access development capabilities in order to maximize the potential of its products and to fund the Company's proprietary assets.

In the short term, the Company's revenue should come mainly from payments received under existing or newly signed collaboration and licensing agreements or capital increases. The Company also expects to continue to receive grants, mainly from France and Europe, as well as research tax credits to support its operations. The Company's expenses should comprise research and development expenses, overhead and milestone payments to third parties that it is required to make under the terms of collaborative research, option or licensing agreements.

In the medium to long term, the Company's revenue should come from sales from proprietary or partnered products along with royalties on sales generated by partnered products. The Company's expenses should comprise research and development expenses, overhead and milestone and royalty payments to third parties which it is required to make under the terms of collaborative research, option or licensing agreements.

The Company's short-term financing requirements will depend on:

- The progress and success of its partnered programs which could trigger milestone payments from its partners;
- Progress made in the development of the Company's proprietary products, which could significantly affect the Company's research and development expenditures;
- Acquisition of intellectual property rights, assets or companies;
- Its ability to enter into collaboration and licensing agreements for its other products with other companies in its sector.

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1.3. Business results during the fiscal year 2017

1.3.1. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the fiscal year ended December 31, 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted in the European Union.

In addition to the Company's financial statements, the consolidated financial statements include those of the Company's wholly owned subsidiary, Innate Pharma Inc., registered in the United States.

Changes to the business and the assets and liabilities

The Company is still at the product development stage. Its business is still consuming cash. This situation is expected to continue until the first drugs are marketed.

The 2016 fiscal year was the first period in which the net result was profitable,amounting to EUR12.6 million . As of December 31, 2017, the Company's net result is a loss amounting to EUR 48.4 million . This variance is due to:

i. The EUR 23.5 million decrease in revenue resulting from the collaboration and licensing agreements (EUR 32.6 million for the period 2017 in comparison with EUR 56.2 million for the period 2016). This variance mainly results from the decrease in upfront payment received following the agreement signed with AstraZeneca in April 2015 recognized as revenue (EUR 32.3 million and EUR 41.6 million for the fiscal years 2017 and 2016, respectively). As a reminder, this payment was recognized as revenue following the progress of the clinical trials as required by the agreement. This variance is due to the decrease in costs of monalizumab's clinical program in 2017 compared to 2016; and on the other hand to the recognition in 2016 of a milestone payment received from Bristol-Myers Squibb relating to the agreement signed in July 2011 amounting to USD 15.0 million (EUR 13.8 million). This milestone payment was collected in January 2017 and generated an exchange gain of EUR 0.3 million for the period 2017.

ii. The EUR 25.9 million increase in operating expenses (EUR 84.0 million as of December 31, 2017 and EUR 58.2 million as of December 31, 2016), this variance mainly resulting from the increase in subcontracting costs due to the development and progress of the preclinical and clinical portfolio (increase by EUR 9.0 million), the rise in share-based payments (increase by EUR 9.0 million), expenses without impact on cash except the payment of the employer's contribution related to share-based instruments for an amount of EUR 0.3 million, and staff costs (increase by EUR 2.4 million).

Cash, cash equivalents and financial instruments decreased from EUR 197.7 million as of December 31, 2016 to EUR 116.1 million as of December 31, 2017. This variance is consistent with the amount of operational cash flow used in the activity of the Company but also with the purchase of non-current financial instruments which is part of the investment strategy of the Company. The non-current financial instruments increase by EUR 27.5 million .

At the same time, the indebtedness (mainly due to the finance-lease for the Company's headquarters) increased from EUR 5.3 million as of December 31, 2016 to EUR 5.9 million as of December 31, 2017. This rise results from the fact that the purchase of R&D materials and the acquisition of a land were financed through loans.

Details of the business results

1.3.1.1 Operating revenue

Revenue from collaboration and licensing agreements respectively amounted to EUR 32.6 and 56.2 million for the fiscal years ended December 31, 2017 and 2016. The 2017 revenue entirely results from the co-development and commercialization agreement signed with AstraZeneca in April 2015).

For the fiscal year ended December 31, 2017 and 2016 the, recorded grants involve two grants, one related to the FP-7 European program and another one as part of the FEDER plan. The cumulative amount is EUR 0.5 million and EUR 0.4 million for the years 2016 and 2017.

For the fiscal years ended December 31, 2016 and 2017, the calculation of the research tax credit was based on 30% of the amount of eligible expenses for the fiscal year. As a reminder, since the 2015 fiscal year, the Company has reached the spending limits of subcontracting costs. This tax credit respectively amounted to EUR 11.0 and 9.1 million for the fiscal years ended December 31, 2017 and 2016. This rise results from the increase in the depreciation expense relating to the anti-NKG2A intangible asset and in R&D staff costs.

1.3.1.2 Operating expenses

The cost of supplies and consumable materials amounted to EUR 4.3 million and EUR 2.9 million for the fiscal years ended December 31, 2017 and 2016. This line item is mainly composed of consumable materials for the laboratory activities.

Intellectual property expenses amounted to EUR 1.5 million and EUR 1.2 million for the fiscal years ended December 31, 2017 and 2016. These expenses include the cost of filing and protecting patents (including patents 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.

Innate Pharma filed 113 and 66 patent applications respectively during the years ended December 31, 2017 and 2016 (initial applications or applications for extension, for patents held solely or in collaboration with others).

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

	Year ended December 31,	
In thousands of euros	**2017**	**2016**
Subcontracting	(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)**

Subcontracting expenses involve discovery research costs (financing research conducted externally, particularly academic research, antibody humanization technologies, manufacturing process development, etc.), pre-clinical development (pilot manufacturing, tolerance and pharmacology studies, etc.) and clinical costs (clinical trial management, etc.) outsourced to third parties. The increase in these costs between 2016 and 2017 mainly results from the rise and development 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 for their assistance in negotiating collaboration and licensing agreements and general counselling assistance, to business strategy of development consultants and in recruitment fees. The increase in these expenses between 2016 and 2017 mainly results from architect fees in relation with the construction of the future headquarters.

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

Travel and conference costs mainly include expenses for employees to travel to and attend conferences, particularly scientific, medical, business development and financial conferences. The purpose of the Company's participation in these meetings is to maintain its visibility, expertise, and credibility within these different communities.

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 Committee.

Marketing, communications and public relations costs cover fees for our communication and public relations consultants, costs of developing and producing communication tools.

1.3.1.3 Employee benefits other than share-based remuneration

Employee benefit expense other than share-based remuneration came to EUR 15.2 million and EUR 12.8 million for the fiscal years ended December 31, 2017 and 2016.

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

The average amount of staff costs per employee was EUR 89.0 and EUR 96.0 thousand for fiscal years ended December 31, 2017 and 2016.

1.3.1.4 Share-based compensation

In accordance with IFRS 2, these costs correspond to the fair value of the equity instruments allocated to directors and employees. During the fourth quarter 2016, the Company issued warrants for shares including a condition requiring presence (acquisition periods of one or three years according to the instruments). As a result, the booking of the estimated fair value of the instruments was spread on a straight-line basis over a period of one to three years. The expense for the 2017 and 2016 fiscal year amounts to EUR 10.0 million and EUR 1.0 million respectively. This amount of EUR 10.0 million includes a disbursement of EUR 0.3 million for the employer's contribution following the definitive acquisition in 2017 of equity-instruments granted in 2016.

1.3.1.5 Depreciation and amortization

Depreciation and amortization amounted to EUR 4.4 and 3.3 million for the fiscal years ended December 31, 2017 and 2016 respectively. This variance mainly results from the increase in the amortization of the intangible asset anti-NKG2A acquired from Novo Nordisk A/S (respectively EUR 3.0 and 2.4 million for the fiscal years 2017 and 2016)

1.3.1.6 Net financial income

The net financial result amounted respectively to a EUR 8.0 million in losses and EUR 5.4 million in income for the fiscal years ended December 31, 2017 and 2016. This variance mainly derives from the gains and losses resulting from the variations of the EUR/USD exchange rate.

The Company's cash investment policy favors the minimum risk and, whenever possible, seeks guaranteed minimum performance on capital. Only a small fraction if 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 current and non-current short-term investments was EUR 176.6 million and EUR 230.7 million for the fiscal years ended December 31, 2017 and 2016, respectively.

1.3.1.7 Net result of the year

Under international accounting principles (IFRS), the net consolidated losses amounted to EUR 47.8 million for the fiscal year ended December 31, 2017 compared to a gain of EUR 12.6 million for the fiscal years ended December 31, 2016.

1.3.2. STATUTORY FINANCIAL STATEMENTS (FRENCH GAAP)

The 2017 financial statements of the Company have been prepared in accordance with generally accepted accounting principles in France following the principles of conservatism, cut-off and going concern.

The main differences with the consolidated financial statements mainly relate to the valuation of the share-based payments, which do not exist under French GAAP, the finance lease operations, considered as simple leasing expenses under French

GAAP, recognition of the unrealized foreign currency gains and losses. The actuarial gains and losses relating to defined benefit obligations. At last, the consolidated financial statements include the result and the activity of all subsidiaries or participations.

The analysis of the accounting variances presented in the paragraph 1.1.1.3 of this document can be used for the analysis of the statutory financial statements of the Company.

Under French accounting principles, the result net loss amounts to EUR 38.8 million for the year ended December 31, 2017, compared to a net loss of EUR 13.1 million as of December 31, 2016.

The Company proposed to allocate the 2017 loss amounting to EUR 38.8 million to the account «Retained earnings». After allocation of this loss, the account « Retained earnings » will represent losses totaling EUR 136.8 million.

1.3.3. SCHEDULE OF TRADE PAYABLE TO SUPPLIERS AND PAYMENT DEADLINES

The following tables present the breakdown of the Company's trade payables by due date at December 31, 2016 and 2017:

Fiscal year ended December 31, 2016:

	Balance December 31, 2016	Overdue	Due in Jan-2017	Due in Feb-2017	Due > Feb 2017
Trade payables	2 667	152	2 074	442	0
Advances and debt towards suppliers	**-513**				
Accruals	12 807				
Trade payables and related accounts	**14 961**				

Fiscal year ended December 31, 2017

	Article D. 441 1-1 : Unpaid invoices *received* at the end of the closing period and which term is expired						**Article D. 441 1-2 : Unpaid invoices *issued* at the end of the closing period and which term is expired**					
	0 day *(indicative)*	1 to 30 days	31 to 60 days	61 to 90 days	91 days and more	Total (1 day and more)	0 day *(indicative)*	1 to 30 days	31 to 60 days	61 to 90 days	91 days and more	Total (1 day and more)
(A) Payment delays												
Number of invoices concerned	**163**					**132**						
Total amount of concerned invoices	**5 359 007€**	**2 872 733€**	**73 801€**	**2 479€**	- **€**	**2 949 013€**						
Percentage of purchases related to the closing period (excluding tax)	**8,28%**	**4,44%**	**0,11%**	**0,00%**	**0,00%**	**4,55%**						
Percentage of the turnover (excluding tax) related to the closing period												
(B) Invoices excluded from (A) related to litigious debts and receivables or not accounted												
Number of invoices excluded	**3**											
Total amount of the invoices excluded	**92 166€**											
(C) Payment delays of reference used (contractual or legal delays - article L.441-6 or article L.443-1 of « code de commerce »)												

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1.3.4. SCHEDULE OF REPAYMENT OF FINANCIAL LIABILITIES (IFRS)

The following table shows the simplified schedule of repayment of financial liabilities in IFRS (principal only) for the fiscal year ended December 31, 2017 (in thousand of EUR):

	1 year	From 2 to 5 years	> 5 years	Total
PTZI BPI	375	750	0	**1,125**
Borrowing BNP 2017	54	219	153	**426**
Borrowing SG 2017	0	340	960	**1,300**
Financial Lease- Property 2009 (excluding down-payment)	665	1,011	0	**1,676**
Down-Payment	-153	-233	0	**-386**
Financial Lease 2016 - Property	229	334	0	**563**
Financial Lease 2016 BNP 1 - Equipment	70	284	102	**455**
Financial Lease 2016 BNP 2 - Equipment	103	417	186	**705**
Total	**1,343**	**3,122**	**1,401**	**5,864**

1.4. Table of the results of the last five fiscal years

The following table presents the Company's results under IFRS GAAP as adopted in the European Union, over the last five fiscal years:

	Years ended December 31,				
In thousands of EUR	**2017**	**2016**	**2015**	**2014**	**2013**
Net result (loss)	(48,385)	12,640	(6,706)	(19,647)	(2,892)
Equity	(85,956)	86,169	72,067	74,626	40,286

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The following table presents the Company's results (in French GAAP) over the last five fiscal years:

	2017	2016	2015	2014	2013
I. – Financial situation at year-end:					
a) Capital	2,880	2,696	2,692	2,649	2,287
b) Number of issued shares (in thousand)	57,607	53,921	53,834	52,970	45,736
c) Number of bonds convertible into shares	6,931	0	0	0	0
II. – Global result of the operations:					
a) Turnover excluding VAT	32,358	56,159	17,909	907	12,469
b) Net result before taxes, amortizations and provisions	(44,022)	7,274	(10,317)	(23,933)	(6,391)
c) Corporate tax	(368)	(301)	0	0	0
d) Net result after taxes, amortizations and provisions	(38,761)	13,071	(6,833)	(19,769)	(3,253)
e) Distributed profits	0	0	0	0	0
III. – Result of the operations for one share:					
a) Net result after taxes, but before amortizations and provisions	(0.58)	0.13	(0.06)	(0.32)	(0.14)
b) Net result after taxes, amortizations and provisions	(0.67)	0.24	(0.13)	(0.37)	(0.07)
c) Dividend paid per share	0	0	0	0	0
IV. – Personnel:					
a) Number of employees	188	154	118	99	84
b) Staff costs	9,667	8,201	6,851	5,315	4,644
c) Fringe benefits	4,889	3,918	3,353	2,600	2,302

Companies or group of companies	Capital	Reserves	Share of capital held (as a percentage)	Balance sheet value of the shares held	Loans and advances granted by the Company and not reimbursed
1. – INFORMATION TO BE PROVIDED WHEN THE COMPANY HAS NOT APPENDED TO ITS BALANCE SHEET A CONSOLIDATED BALANCE SHEET AND FINANCIAL STATEMENTS DRAWN UP IN ACCORDANCE WITH ARTICLE R. 233-3					
Not applicable					
"II. – INFORMATION TO BE PROVIDED WHEN THE COMPANY HAS APPENDED TO ITS BALANCE SHEET A CONSOLIDATED BALANCE SHEET AND FINANCIAL STATEMENTS DRAWN UP IN ACCORDANCE WITH ARTICLE R. 233-3					
"1. Subsidiary: Innate Pharma Inc.	1	(566,395)	100	0	566,510

PART 2 - RISKS AND UNCERTAINTIES

The main risks and uncertainties to which the Company is exposed are described in paragraph 1.9 ("Risk Factors") of the Company's 2017 reference document, which will be filed with the French securities regulator, and will be available free of charge from the Company's website (www.innate-pharma.com) or the French securities regulator's website (www.amf-france.org). This document will include a description of the risks connected with the Company's activity, the financial risks, the legal risks, the risks associated with the environment in which it operates, and the market risks. It will also contain a description of the policy providing insurance and coverage against risks.

It is hereby stated that due to its low exposure to foreign exchange risk, the Company has not made any provision for coverage in this respect.

This is a free translation into English of the report issued in French and provided solely for the convenience of English speaking users.

PART 3 – EMPLOYEES' EQUITY INTERESTS

3.1. Definitions

	AGA Employees	AGAP Employees
Instrument	Free shares	Preferred shares
Beneficiaries	Eligible employees	
Definitive acquisition period (as from attribution)	One year	One year
Retention period (as from attribution)	Two years (2016) and one year (2017)	Two years
Terms	Presence on the definitive acquisition date	Presence at the definitive acquisition date until the conversion of the AGAP.
Authorized by	AGM of June 2, 2016 (resolution 22) and AGM of June 23, 2017 (resolution 28)	AGM of June 2, 2016 (resolution 25 and AGM of June 23, 2017 (resolution 31)
Number of ordinary shares in case of maximum conversion	-	AGAP 2016: 200 AGAP 2017: 100
Performance criteria assessed over a three-year period	-	AGAP 2016: Operational and stock value criteria AGAP 2017: Stock value criteria

3.2. EMPLOYEES EQUITY INTERESTS

Company employees generally benefit from instruments giving them a proprietary interest in the form of AGA Employees and/or AGAP Employees and/or BSAAR attributed between 2003 and 2016.

No new equity instrument was attributed to employees during fiscal year ended on December 31, 2017.

According to the definition given in article L.225-102 of the French Commercial Code, employee proprietary interest (with shares in registered form, not including company's Executive board members) in the Company's share capital, came to 716,374 shares on December 31, 2017, which was 1.24 % of the shares (of the undiluted company shares) issued as of December 31, 2017 (554,123 shares, representing 1,024% of the undiluted company shares issued on December 31, 2016). Such increase results from the definitive acquisition, on October 21 and December 30, 2017 of the AGA Employees 2016-1 and 2016-2.

The eligible employee's equity interest's policy is divided into two parts:

- distribution of AGAP Employees to motivate and retain the eligible employees and interest them to the long term value development of the Company.
- distribution of AGA Employees to motivate and retain the eligible employees and associate them with creation of company worth. The distribution of AGA Employees is subject to the same performance criteria than those applicable to the collective bonus.

The number of instruments attributed to the eligible employees is decided by the Supervisory board, upon recommendation of the Compensation and nomination committee. The type of instrument (AGA Employees/AGAP Employees) and the quantum of the instruments are based on a percentage of the annual total cash out.

For 2017, the Executive board, authorized by the Supervisory board upon recommendation of the Compensation and nomination committee, contemplates distributing AGA and AGAP employees (voted by the Annual General Meeting of June 23, 2017 and authorized by the Supervisory board in 2017) during the first half of 2018.

This is a free translation into English of the report issued in French and provided solely for the convenience of English speaking users.

PART 4 –CORPORATE SOCIAL RESPONSIBILITY REPORT OF THE COMPANY

For almost 20 years, Innate Pharma develops first-in-class therapeutic antibodies to improve cancer treatment and clinical outcomes for patients. Due to its research and development activities in the fight against cancer, Innate Pharma's has always had a strong commitment to the society.

This report discloses Innate Pharma's corporate social responsibility indicators for the year 2017, in compliance with Article 225 of the Grenelle II law.

Innate Pharma's communication toward its stakeholders is transparent, precise and relevant. Innate Pharma's Corporate Social Responsibility report has been reviewed, the results of which can be consulted on the Company's website (www.innate-pharma.com, Investors section / Regulated information and publications / Corporate Social Responsibility).

It should be noted that the information in this chapter only concern Innate Pharma SA, not its subsidiary[7], for the period from January 1st to December 31st 2017.

4.1. Social responsibility

Innate Pharma is a biotechnology company. As such, it aims to produce intellectual property, and its staff members are considered to be its main resource. The Company has identified its ability to attract, retain and motivate its employees as a major strategic priority.

4.1.1. EMPLOYMENT

The "headcount" (defined according to the French Labor Code) comprises those individuals, bound by an employment contract and in employment as of December 31, excluding temporary employees on fixed-term replacement contracts, trainees and apprentices.

The table below summarizes the statistical indicators used to describe employment within Innate Pharma over the last three years.

	2015	2016	2017
Total workforce and distribution of employees by gender and age			
Headcount	118	154	188
Full Time Employee (FTE)	114	151	183
Permanent contracts	92%	94%	96%
Distribution by gender M/F (%)	31/69	35/65	34/66
Average age	37	36	37
Staff aged 45 years or older	21%	19%	19%
Turnover			
Net new hires	19	36	34

[7] The CSR reporting applies to Innate Pharma SA, which has interests in one company:
- Innate Pharma, Inc., a wholly owned company incorporated under American law, the purpose of which is to represent the Company in the United States. This subsidiary is currently dormant. This subsidiary is not included in the scope of this procedure.

Number of young graduates hired	6	8	10
Rate of employee departure[8]	3.6%	5.2%	2.3%

Compensation and changes in compensation

Average compensation (average annual gross compensation, including bonuses, including Executive Committee)	€59,661	€57,392	€60,180
Percentage annual collective increase	1.8%	1.5%	1.5%

4.1.1.1. Total workforce and distribution of employees by gender and age

Innate Pharma's activities increased significantly (increase in the number of drug-candidates in clinic and preclinical development, increase in the number of clinical trials, increase of pharmaceutical operations activities etc.), resulting in a significant workforce growth (+22%) in 2017.

Changes in the workforce are part of a Strategic Workforce Planning approach:

- New individual development tracks have been set up in 2017. These tracks have been designed along three lines: team management, project management and technical and scientific expertise. New status and new positions have been created upon that.
- The Company estimates its skills requirements regularly according to its strategic guidelines. Reassignment and internal mobility are managed by the HR Department, together with management. They enable employees to expand their areas of activity and to develop new skills. In 2017, the structuring of Innate Pharma's activities in program/projects mode has been reinforced, notably by gathering Program Leaders in a unique team. The management team has been trained to undertake professional interviews. Their format has been revised. They now include a career development section in order to identify employees' evolution wishes as soon as possible and their match with the Company needs as well as facilitate their implementation through personalized development plans.

The percentage of staff aged 45 years or older is relatively stable and in line with the Company's seniors' plans objectives (between 20 and 25% of all staff). This reflects the numerous hires of people younger than 45 years-old in 2017.

The staff is highly qualified: managers account for 65% of the workforce. The workforce includes 50 employees with PhDs in science, medicine or pharmacy, i.e. 27% of the total number of employees.

On December 31, 2017, 77% of the workforce, excluding the Executive Committee, was devoted to research and development activities. It remains stable between 2016 and 2017.

4.1.1.2. Staff turnover

The net job creation resulted in thirty-four new hires in 2017. Other employees joined the Company with contracts that are not recorded in the headcount (work-training contracts for example). Six employees hired with a fixed-term contract in 2016 and in 2017 were hired with a permanent contract in 2017. Ten employees hired in 2017 were young graduates when they joined the Company. Two students have a work-study contract. As of December 31st 2017, six employees are working on a fixed-term contract to cover a temporary period of increased activity.

The Company welcomed sixteen interns in 2017. All those having an internship lasting one month or more will be paid an allowance and can be given meal vouchers on request. For all interns who are hired at the end of the internship, their internship period is taken into account when calculating seniority.

[8] Calculated based on permanent contracts only

Four employees with permanent contracts left the Company during the year, which explains the low rate of employee departure in 2017.

4.1.1.3. Compensation and its evolution

In 2017, in line with its activities development, the Company recruited several high experienced profiles, including its Chairman of the Executive Board[9], leading to an increase of the average compensation.

The Company favors a remuneration system based on collective performance. A collective bonus calculated based on one month's salary, in proportion to the employee time spent at work, is given to staff according to the achievement of collective objectives. For the year 2017, a collective bonus, accounting to 90.5% of a month's salary, has been paid in February 2018.

Members of the Executive Committee are qualified to receive an individual bonus linked to the achievement of specific objectives the middle management is qualified to receive an individual bonus.

Several collective compensation measures in relation with the Company's performance occurred in 2017: a collective 1.5% pay increase and a collective bonus accounting to 120% of a month's salary have been paid in January 2017 in relation with 2016 collective performance and an exceptional bonus of €500 paid in July 2017 to reward collective performance for the first semester of 2017.

In 2017, objective settings and performance evaluation calendars have been aligned with the budget calendar. Hence, the individual performance evaluation, usually organized in the middle of the year, has been shifted to the end of the year 2017. Thus, only 2% of staff (excluding Executive Committee members) received individual salary incentives in 2017, essentially for salary revisions.

Staff on fixed-term contracts received a "job insecurity" allowance when their contracts were renewed, whether their contract was renewed as fixed-term or permanent.

4.1.2. WORK ORGANIZATION

The "working time" agreement dated April 14, 2003 (with retroactive effect to July 1, 2002) sets the reference working week at 37.5 hours and allows employees to take compensatory days off (for extra time in connection with working time reduction). This agreement is still in effect. An amendment was signed in 2007 which essentially refers to the establishment of a Working Time Account. A company agreement on work organization was signed in December 2013. It provides for flexibility of working hours, the use of Working Time Account days for personal reasons, and teleworking.

The working time organization of the Company under the working time reduction agreement provides for 1,600 hours a year for full-time employees. These provisions apply prorata temporis to part-time employees (50%, 80% or 90%). The table below summarizes the indicators used to describe work organization within Innate Pharma over the last three years:

	2015	2016	2017
Organization of working time			
Percentage of part-time employees	17%	12%	13%
Absenteeism			
Absenteeism rate	2.7%	2.1%	1.6%

The percentage of part-time staff is stable. As of December 31, 2017, seven employees work part-time at 90%, fifteen employees at 80% and two employees at 50%.

[9] The Chairman of the Executive Board is not paid by the way of an employment contract but by a social mandate. His compensation is taken into account for the annual average compensation calculation.

The absenteeism rate decreased slightly in 2017. Absences are mainly days off work due to sickness (84%). The absenteeism rate is calculated according to the total number of working days absent during the financial year for employees included in the workforce headcount during this period. It does not take maternity, paternity or parental leave into account.

4.1.3. EMPLOYEE RELATIONS

4.1.3.1. Relations with the Employee Representative Institutions

Employee relations are centered on the Employee Representative Institutions: Works Committee, Staff Representatives, Health Safety and Working Conditions Committee, trade unions and employer organizations.

Members' of the Works Committee and staff representatives' current mandate ends in early 2017 and new elections have been organized on March 23rd, 2017. The three unions within the Company are represented. The members of the Works Committee and staff representatives have elected the new Health Safety and Working Conditions Committee. Meetings of the Works Committee, the Staff Representatives and the Health, Safety and Working Conditions Committee are held regularly, in accordance with the legal conditions. The minutes are distributed as they are produced to the staff and to the various bodies (Labor Inspectorate, Occupational Medicine, etc.).

The Mandatory Annual Negotiations were conducted on the basis of a plan developed in consultation between the Management and the Trade Union Organizations around a Quality of Life at Work or "Great Place to Work" theme:

- In order to strengthen employees' engagement, a reflection was initiated on compensation practices in the private and public research sectors, while continuing to involve staff in the share capital, through the allocation of free shares.
- Compensation and benefits negotiations resulted in the application of a general salary increase of 1.24% in January 2018 and a revaluation of restaurant vouchers of 25%.
- Reflection is also being made on the flexibility of working time and will be continued in 2018.
- The plan also includes the strengthening of solidarity initiatives in the Company. The aim is to coordinate and develop the existing actions implemented by employees to mark Innate Pharma's local presence and strengthen the Company's culture of solidarity
- Regarding social protection, an amendment to the Health Expense Business Agreement was signed on November 21, 2017 for the implementation of a new "responsible" contract that came into effect on January 1, 2018.
- The actions initiated during the 2017 annual negotiations will be continued in 2018.

4.1.3.2. Internal communication

Employees are regularly informed of the Company's news, strategy and developments through general information meetings and the receipt of all press releases issued by the Company.

With the increase in staff, structured internal communication has become necessary. An internal survey was conducted among all employees in October 2017 to raise the communication needs. As a result of this investigation, an internal communication plan has been developed and will be implemented in 2018.

4.1.3.3. Employee benefits and other advantages

The amounts paid in respect of fringe and cultural benefits by the Works Committee for the 2017 financial year increased by approximately 30%. The amount was €92,000 (as against €70,000 in 2016). These amounts are above the legal requirements. The 2017 budget increased to cope with the significant increase of workforce, in order to maintain an equivalent level of

advantages and to develop cultural and sport activities. The aim was also to host more events to facilitate the integration of new hires, cohesion and exchanges.

The Works Committee offered employees numerous benefits such as holiday vouchers, theatre and cinema vouchers, gift vouchers for family events, or even the provision of a special kind of for short-term loan to employees who need it. In 2017, the Works Committee organized cultural outing (theatre). Upon receipts presentation and based on a fixed price, it also contributed to staff cultural and sportive activities.

Interns who work in the company for three months or more also receive the Works Committee benefits

The Company and the Works Committee pay particular attention to life within the company with the organization of a number of annual social events to facilitate the integration of new employees and group.

To facilitate work/life balance, the Company offers co-financed CESUs (Chèque Emploi Service Universel, Universal Service Employment Vouchers) and saved two additional cradles in Luminy's intercompany day nursery. The staff has now access to four cradles.

To broaden catering solutions, the Works Committee suggested welcoming food-trucks in the Company parking lot. This solution has been developed in 2017. Several food-trucks are currently taking shifts twice or three times a week.

4.1.4. HEALTH AND SAFETY – WORKING CONDITIONS

4.1.4.1. Health and Safety

Definitions:

Distinction between "Workplace accident" and "Workplace incident": in the case of a "Workplace accident", medical care is required and given according to the injury sustained. Accidents are systematically reported to the Social Security services. "Workplace incidents" concern minor injuries which do not require medical care. These do not have to be reported to the Social Security services.

All "Workplace Accidents" and "Workplace Incidents" are recorded in-house in a dedicated register.

The table below summarizes the indicators used to monitor health and safety within Innate Pharma over the last three years:

	2015	2016	2017
Health and safety conditions			
Number of planned preventative actions	30 (33 incl. 3 which were not necessary)	29 (32 incl. 3 which were not necessary)	30
Number of preventative actions implemented	20	21	23
Preventative action implementation rate stipulated in the Annual Risk Prevention Program	66.7%	72.4%	76.7%
Number of Health and Safety (H&S) training actions planned	7 (8 incl. 1 which was not necessary)	8 (10 incl. 2 which were not necessary)	7 (8 incl. 1 which was not necessary)
Number of H&S training actions implemented	4	6	5
H&S training action implementation rate stipulated in the Annual Risk Prevention Program	57.1%	75.0%	71.4%

Workplace accidents, in particular their frequency and severity, and occupational illnesses	2015	2016	2017
Number of workplace accidents with absence from work	4	3	5
Frequency rate* of workplace accidents with absence from work	22.54	14.12	17.77
Severity rate** of workplace accidents	0.82	0.44	0.18
Number of workplace accidents with no absence from work	2	4	4
Frequency rate* of workplace accidents with no absence from work	11.27	18.82	14.22
Number of incidents	9	4	6
Frequency rate* of incidents	50.72	18.82	21.32
Number of occupational illnesses	0	0	0

* Frequency rate = (Number of events) x 1,000,000/ (Annual number of hours theoretically worked)

** Severity rate = (Number of days' absence from work associated with workplace accidents) x 1,000/ (Number of hours worked)

4.1.4.2. Health and safety policies

Staff safety and management of working conditions are key factors for the Company's durable development.

The Company has met the mandatory notification requirements for its installations and has the relevant approvals for carrying out its activities. The installations undergo technical inspections and checks in accordance with the applicable regulation. The staff has the necessary accreditations and training to use the equipment and do so in accordance with Health and Safety. The staff is subject to medical monitoring by the occupational health physician (enhanced monitoring when necessary), with whom a psychosocial risk-warning mechanism has been set up. The registers are kept up to date.

The Annual Mandatory Negotiations did not lead to set up new agreements on health and safety in 2017.

4.1.4.3. Annual risk prevention program

During the year, the annual risk prevention program was introduced and followed-up on during the Health, Safety and Working Conditions Committee quarterly meetings. The occupational health physician attended to every meeting. The minutes of each meeting are distributed to the entire workforce, the occupational health physician and the health and safety inspection.

The Health and Safety team implemented the annual risk prevention program (76.7% completed). All regulatory and required actions have been achieved; only additional improvement actions at the Company's initiative could not be entirely achieved. All partly completed actions or those actions not yet carried out will be carried forward to the 2018 annual risk prevention program.

The 2017 Health and Safety training plan was 71.4% completed.

Incidents and accidents that occurred during 2017 were analyzed both when they were recorded and during meetings of the Occupational Health & Safety Committee, and the necessary corrective and preventive actions were defined and implemented. Workplace accidents with absence from work increased in 2017. Most workplace accidents with absence from work are commuting accident (three). The two other accidents with absence from work happened on site: loss of consciousness of an

employee and a minor injury during a team-building sporting event. Workplace accidents with no absence from work were commuting accidents as well as minor injuries, such as cuts or pricks occurred during laboratory operations.

An annual risk prevention report is produced each year giving a detailed account of all this information.

4.1.4.4. Working conditions

The Company is located in a wooded area on a site that it owns. The building dates back to 1969 and was refurbished in 2008, before Innate Pharma moved. The staff has access to a private car park and a local bus service.

Following the increase in staff numbers and since the end of September 2017, the Company's staff is now based at two sites in Marseille. Tertiary functions (support functions, a part of preclinical development and clinical development) have been gathered together in rented offices in the city center. The main building accommodate R & D and especially laboratory activities

An investment budget and a building & working conditions improvement budget are voted on each year. In 2017, the Company refitted several offices and laboratories to accommodate new equipment.

A direct bus line connects the two sites.

In addition, studies for the facilities expansion project continued to welcome new employees and allow the Company's development. A building permit was obtained on March 6, 2017 for the construction of a new building on around 2.47 acres land, next to the current building. The land was purchased by the Company in December 2017 and another building permit was obtained on October 12, 2017 for the construction of a new building of 750 square meters on the current location. These projects take into account environment issues and are part of reflection to minimize the Company's environmental impact.

At the same time, discussions are being conducted on a proposed expansion of the premises to help accommodate future employees. A construction permit has been submitted in 2016 to build a new facility on a site neighboring Innate Pharma's main building. This project takes into consideration environmental issues and includes reflection on minimizing the Company's environmental impact.

4.1.5. TRAINING

The table below summarizes the indicators used to describe training within Innate Pharma over the last three years:

Total number of hours of training	**2015**	**2016**	**2017**
Total number of hours of training (hours realized)	2,105	3,698	2,980
Average number of hours of training per employee per year	18.8	27.6	16.8
Percentage of staff that received training	90%	103%[10]	85%
Percentage of senior staff (45 years and older) who received training	80%	97%	75%

4.1.5.1. Training policies implemented

The priority areas and training policy of the Company remained unchanged for the year 2017. Several training actions, such as language learning, scientific and professional techniques, regulatory training in health and safety, are renewed every year. These training programs aim to strengthen skills and thus enable employees to better control the business and its evolution.

[10] 2016 percentage is over 100% because it is based on average workforce.

The percentage of staff that benefited from training actions decreased by 18% in 2017. This drop is due to the large number of recruited employees who increase the number of employees. These new employees must be integrated and internally trained to their position, the internal operations of the Company and the various tools. This set of actions that represents a significant volume is not counted in the overall volume of training. The proportion of staff aged 45 or older who have received training is 75%; the decrease is due to the significant recruitment of new employees in this category and the special attention paid to their internal training during the integration period

In 2017, the Company continued to support development and personal projects. She has also participated financially in qualifying and diploma courses.

4.1.6. EQUAL TREATMENT

Innate Pharma is committed to applying the principle of non-discrimination in its recruitments. This principle seeks to ensure equal treatment between individuals irrespective of nationality, gender, race or ethnic origin, religion or belief, disability, sexual orientation or age. The Company is committed to youth employment, the employment of people with disabilities, the continued employment of older workers and equal treatment of women and men.

The table below summarizes the indicators used to describe equal treatment within Innate Pharma over the last three years:

	2015	2016	2017
Measures to support gender equality			
Percentage of women in management[11]	61%	59%	66%
Measures to support the employment and integration of disabled people			
Percentage of people with Disabled Worker status in the workforce	0.9%	1.3%	1.6%

4.1.6.1. Measures taken to support equal treatment for women and men

The Executive Committee, the management and the HR department are mindful of equal treatment for men and women during discussions on individual pay raises and professional development.

The rate of women with a management position is stable. Several women have been promoted to team management, one of whom held an executive position integrated the Executive Committee this year.

In 2016, the rate of men/women recruitment is balanced.

Employees are making increasingly frequent use of government measures: adjustment of daily working hours to the end of the school day or for children's events and part-time working at 90% of full-time. Staff also made use of the company's flexibility on the use of Working Time Account days for family reasons. In 2017, four employees were able to benefit from cradles reserved by Innate Pharma at the company nursery at the Luminy site.

4.1.6.2. Measures taken to support the employment and integration of disabled people

The percentage of disabled workers employed increased in 2017 and this is noteworthy as the workforce is growing significantly. To allow the Hand'Innate team (created 2016 and composed by three employees who hold functions in different areas of the Company) to continue the work to raise the awareness of staff and managers on disability issues, Management has allocated a budget of €3,000 in 2017.

[11] Le taux inclut les femmes qui assurent une responsabilité de management (au niveau d'une équipe et/ou d'une activité) par rapport à l'effectif Management. En 2017, il inclut également les femmes qui assurent une responsabilité de management au niveau d'un budget.

This year, the Hand'Innate team met the team "TSA (Autism Spectrum Disorder) Défi Pro", an experimental medico-social service that offers support for professional integration in the ordinary environment to support and develop the autonomy of people with a TSA.

They also organized a "Disability Week", which allowed thirty-eight employees, on both sites, to benefit from massages carried out by Assamma's team, which offers visually impaired people the opportunity to develop their talent in the of touch crafts.

4.1.7. PROMOTION OF AND COMPLIANCE WITH THE STIPULATIONS OF THE FUNDAMENTAL CONVENTIONS OF THE INTERNATIONAL LABOR ORGANIZATION (ILO) CONCERNING RESPECT OF THE FREEDOM OF ASSOCIATION AND THE RIGHT TO COLLECTIVE BARGAINING, ELIMINATION OF DISCRIMINATION IN RESPECT OF EMPLOYMENT AND OCCUPATION, ELIMINATION OF FORCED OR COMPULSORY LABOR, AND EFFECTIVE ABOLITION OF CHILD LABOR

All Innate Pharma's employees are based in France. The Company complies with all applicable regulations.

Furthermore, France has ratified the eight fundamental conventions of the ILO. The ILO has qualified the «fundamental agreements» as the conventions concerning the following principles and fundamental labor rights: freedom to unionize and effective recognition of the right of collective bargaining, elimination of forced or compulsory work, effective abolition of child labor and elimination of discrimination in the area of employment and profession.

Innate Pharma shares these principles, which are implemented in the Company's social relations and its policy regarding recruitment and equality of opportunity.

4.2. Environment

4.2.1. GENERAL ENVIRONMENTAL POLICY

Due to its activity (R&D of drug candidates), the Company considers its environmental impact to be low. Most of the research activities are carried out in its laboratories while the development activities are mostly assigned to service providers.

These activities do not include either industrial production or distribution, and do not therefore use raw materials. Therefore, there are no significant releases into the environment or greenhouse gas emissions. The Company's activities do not require the use of domestic gas, but very small quantities of special gases are used. In addition, given its activity, the adaptation to climate change consequences is not an issue for the Company at this stage. The activities do not produce any particular noise nuisance for staff or local residents.

The Company does not have a staff canteen which could offer an on-site institutional catering service. It is not able to control potential food wastage in its premises. This indicator is not included in the Company's reporting. Nonetheless, given that most employees bring their own lunch, food wastage may be limited.

Innate Pharma's main premises are located near to the Calanques National Park. The Company's R&D activities have a limited impact on biodiversity. However, to protect the area's fauna, the Company is enclosed. Innate Pharma acquired and refurbished its building in 2008. It occupies 3,000 square meters of the 10,650-square-meter land, which hosts a 100-space parking lot. Since the building existed when the Company took over it, land use was not a relevant indicator for the Company until 2016. Nevertheless, workforce growth has led to consider premises' extension. Studies will be carried out according to current obligations (land, biodiversity, etc.). Green spaces are maintained in line with the current regulation's standards (notably regarding wildfire hazard).

The offices of the Prado site are rented in a new building, certified Breeam (Building Research Establishment Environmental Assessment Method). The heating / cooling system is powered by the heat loop set up with the nearby wastewater treatment plant. It is easily accessible by public transport.

Given its business area, the Company has not undertaken preventative initiatives for environmental and pollution risks, or provisions and guarantees regarding environmental risks. This is not relevant at this stage.

In relation to its research work, the Company operates within an extremely tight regulatory framework, with which it complies. The Company has obtained all the approvals required for carrying out is activities.

In this context, only the following indicators have been chosen as being relevant:

- Sustainable use of resources:
  - Energy consumption
  - Annual volume of water consumption
- Pollution and waste management
  - Quantity of laboratory waste sent to a special waste management center
  - Business travel

4.2.2. SUSTAINABLE USE OF RESOURCES

Annual electricity and water consumption are reported for Innate Pharma's main building. The consumption of additional rented buildings is monitored by the respective administrators and is not included.

4.2.2.1. Energy consumption annual electricity consumption

The only energy source used by Innate Pharma is electricity, apart from an oil-fueled backup generator. The following table gives the change in Innate Pharma's annual electricity consumption for the last three years:

	2015	2016	2017
Consumption	1,299,857 kWh	1,261,520 kWh	1,374,821 kWh

The annual consumption increased in 2017. The increase in equipment and workforce, are the cause of this rise. For information only, the 1,374,821 kWh consumed in 2017 equates to 45.52 metric tons of CO2 (versus 33.14 metric tons in 2016).

Innate Pharma's building, which dates back to the late 1960s, underwent refurbishment work when the Company moved in. Each year, work is carried out to improve its energy performance. Following the energy audit performed on twelve months (between 2015 and 2016), the Company realized a recommissioning of its network in 2017. In 2018, several actions will be planned to improve the performance of installations, based on the recommissioning report.

4.2.2.2. Annual volume of water consumption

Apart from domestic hot water, the building's water consumption is mainly associated with laboratory activities. Water that is discharged after use is mainly from the washing machines and sinks in the various laboratories.

The following table gives the annual comparison of water consumption for the last three years:

	2015	2016	2017
Consumption	1,358 m^3	1,732 m^3	2,999 m^3

The overall increase in water consumption is due to the increase in staff and the dense development of laboratories activities. Arrangement work for new laboratories completed in the second half of 2016 and new developments completed in 2017 have increased the laboratory space and have enabled new equipment which consumes water to be added. In addition, the change

of autoclaves and washing machines for larger equipment has resulted in an increase in water consumption. Moreover, in order to ensure the operation of laundry equipment and in accordance with its mode of use, a continuous cooling of the steam generator must be ensured by the flow of a trickle of water and also generates an increase in water consumption. Finally, the increase in staff also had an effect on the use of sanitary water (in particular the use of showers by the staff practicing regularly a sport activity in Luminy).

4.2.3. POLLUTION AND WASTE MANAGEMENT

4.2.3.1. Quantity of laboratory waste sent to a special waste management center

The following table gives the annual comparison of the quantity of laboratory waste sent to a special waste management center:

	2015	2016	2017
Quantity	121,680 liters	132,430 liters	204,520 liters

The significant increase in laboratory activity had a direct impact on the volume of waste generated.

Waste from research work is treated by a specialist company which removes it from the site and takes it to an incineration center. The volume of this waste increases regularly due to the increase in the laboratories' activities.

Staff members contribute to the continuous improvement of waste management through paper and box recycling in waste sorting bins arranged for this purpose. A collection system of aluminum coffee capsules has also been set up. Employees can drop their professional and personal used capsules off there.

4.2.3.2. Business travels

Given that the Company is based in Marseille but has international activities, the Company encourages teleconferencing. When business travel is required, the Company favors, wherever possible, travel by train, which has lower CO2 emissions than air travel. However, many contacts of the Company are based in the United States (regulatory agencies, investigators, investors, industrial partners, scientific meetings…), which limits the opportunities for reducing CO2 emissions apart from teleconferencing.

The following table gives the annual comparison of the quantity of metric tons CO2 equivalent emissions during business travels using trains or planes:

	2015	2016	2017
Metric tons CO_2 equivalent	699	807	662

CO2 emissions are calculated and made available to the Company by the travel agency. The Company does not have sufficient information to assess the amount of CO2 emitted during business trips by car.

There is a significant reduction in CO2 emissions related to business travel. This reflects the Company's efforts to limit travel and their optimization

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4.3. Corporate Commitments in Support of Sustainable Development

4.3.1. TERRITORIAL, ECONOMIC AND SOCIAL IMPACT OF THE COMPANY'S ACTIVITY

Innate Pharma's location in the Marseille area is the result of its scientific foundations. The Company grew out of local academic research, in particular at the Marseille-Luminy Immunology Center (CIML), one of the largest immunology centers in Europe and a leading contributor to the scientific field in which the Company has developed. From a clinical viewpoint, Marseille is home to several leading hospital cancer research infrastructures (Paoli Calmette Institute – IPC, and the Marseille Public University Hospital System – APHM) which are active in the fields of immuno-oncology, solid tumors and hematology. The city of Marseille is a real hub for training in life sciences at all levels (technicians, engineers and researchers).

To continue benefiting from this environment, one of Innate Pharma's major strategic priorities is to consolidate and harness the benefits of its innovation ecosystem. In this context, Innate Pharma is active on a number of levels:

- The Company is actively involved in the promotion and development of the Luminy science and technology park through development and infrastructure programs (services, sport, transport), job centers, training courses and the sharing of services between companies (with the Association Grand Luminy Technopole – Luminy science and technology park association – and AMU – Aix-Marseille University campus plan committee). More generally, the Company raises important issues concerning the attractiveness of the area with institutional players and local and regional authorities including the question of schooling in Marseille for the children of English-speaking families, which is a limiting factor for international recruitment and exchanges.

- In conjunction with the educational institutions in the area (schools and universities), the Company contributes to the education of young people and students (career days, taking on trainees, presentations of jobs and careers to students as part of their university courses, involvement in university teaching, contribution to the structuring of the initial and continuing education offering in immunology). The Company is a host laboratory for the Aix-Marseille University life sciences PhD program (Ecole Doctorale des Sciences de la Vie d'Aix-Marseille-Université).

  As part of its social and solidarity action, Innate Pharma has been welcoming students from priority education network colleges (REP+) for their internship in the Company. These four students thus had the opportunity to become familiar with the professional environment and more specifically with a highly technical environment.

- In 2017, the Company set up a partnership with KEDGE Business School, based in Luminy. Innate Pharma and the school, convinced of the pools of professionalism and innovation that constitute school / business relations, have signed a partnership agreement. Since September 2017, Innate Pharma has been co-opting the Specialized Master in Management of Innovative Structures and Activities in Health (MSIS Course). This Master, created at the request of the health and care industries, aims to train managers in the challenges of innovation in the health ecosystem. This partnership provides the Company with the innovative collaboration capabilities of an institution whose training quality is recognized and, conversely, to provide KEDGE Business School and its students with Innate Pharma's environment and know-how. This partnership made it possible to welcome a student on an "alternating internship" for a six-month assignment, within the Pharmaceutical Operations team, and to entrust a student work mission around the Great Place to Work theme.

- In addition, Innate Pharma was involved in the reflection on the evolution of the Master Immunology program proposed by Aix-Marseille University. The participation of the companies of the territory is expected for the reception of trainees (internship-worker in first year of License, and internship of end of studies in year of Master 2), for the realization of courses within the framework of certain Units d 'Teaching' (UE) and the setting up of practical work in their laboratories. Partnerships at the European level are also envisaged within the framework of this Master.

The Company plays a leading role in its field in structuring the "Marseille-Immunopôle" immunology research and innovation ecosystem, which is part of the Eurobiomed competitive cluster led by Professor Eric Vivier (ex-Director of the CIML, appointed Chief Scientific Officer of Innate Pharma on January 1st, 2018) and Hervé Brailly, Chairman of the Company's Supervisory Board.

The Marseille Immunopole cluster focuses exclusively on the research and development of immunotherapeutic antibodies and cell therapies. At the crossroads of talents, technologies and applications, more than 2,000 researchers, clinicians, engineers

and industrialists work hand in hand to accelerate the development of these treatments, facilitate patient access to these innovations and position the metropolis at the heart of the world competition.

On the initiative of Marseille Immunopole, Aix-Marseille University (AMU), Inserm and CNRS, five of their research centers (CIML, CRCM, CRO2) and technologies (CIPHE, MI-mAbs), Assistance Public Hospitals of Marseille, the Center Léon-Bérard of Lyon, the Oncopôle of Toulouse, the biotechnology company ImCheck Therapeutics, the specialist in clinical trials in silico Novadiscovery, Innate Pharma (therapeutic) and HalioDx (diagnosis) and one of world leaders in the field, the AstraZeneca biopharmaceutical group, have joined forces to study resistance to immune checkpoint inhibitors PD-(L)1, the main current challenge of immuno-oncology.

Laureate of the 3rd call for projects Hospital-University Health Research of the Investments for the Future program, the project called PIONEER (Precision Immuno-Oncology for Advanced Non-Small Cell Lung Cancer Patients with PD-(L)1 ICI Resistance), is directed by Fabrice Barlesi, Professor of Medicine at AMU, Head of the Department of Multidisciplinary Oncology and Therapeutic Innovations of the AP-HM, Coordinator of the Marseille Center for Early Cancer Testing CLIP2 and co-founder of Marseille Immunopole

Led over 5 years, the project is structured around 3 axes:

- A program of exploratory clinical trials to evaluate the efficacy and safety of new combinations of immunomodulatory molecules simultaneously targeting multiple checkpoints and cells involved in the anti-tumor immune response.
- Comparative analysis of patient biological specimens (blood and biopsies) to identify and validate predictive biomarkers of response to immunotherapy treatments and develop associated diagnostic tests.
- The validation of new-generation immunomodulatory antibodies on in vivo and in silico models of the disease.

4.3.2. SUBCONTRACTING AND SUPPLIERS

A substantial part of Innate Pharma's activities are carried out by service providers, in particular those activities requiring a regulatory viewpoint on specific approvals (for example, Good Manufacturing Practice and Good Laboratory Practice). The service providers used by Innate Pharma mainly provide intellectual services. These include CROs (clinical research organizations managing regulatory clinical or preclinical trials) in charge of drug candidate production and control. The main suppliers also include financial bodies with which the Company has taken out leases, in particular for the acquisition of its head office, and laboratory equipment suppliers.

Rigorous selection of suppliers and subcontractors of the Company is carried out based on multiple criteria, consideration of competition and an audit of qualifications when necessary. All service providers selected must comply with the applicable regulatory requirements and the expectations of Innate Pharma at the operating and quality levels. Furthermore, the inspections carried out by the competent authorities in connection with issuance of the agreements constitute additional assurance.

Each year, the Company re-appraises all of its critical suppliers and subcontractors, conducts periodical follow-up audits and ensures that their accreditations are maintained.

4.3.3. FAIR PRACTICES

4.3.3.1. Preventing corruption

Several actions to prevent corruption within the Company are in place to help employees work according to the standards of behavior applicable to Innate Pharma's activities. The Company demands from its employees an integrity attitude in its management and commercial practices as well as in its relations with its stakeholders (service providers, partners, patients, regulatory authorities, etc.). The Company does not tolerate corruption. Each employee undertakes not to influence a decision-making in return for favors obtained from a third party and conversely not to submit to a form of corruption that may favor the Company with third parties.

Actions undertaken to prevent corruption:

- Existence and distribution of a fraud prevention memorandum;
- Existence and distribution of a code of ethics;
- Policy on accepting or offering gifts;
- Existence and distribution of rules concerning insider trading (financial code of ethics);
- Existence of and information on the control and limitation of expenses;
- Implementation of the legal obligations on public disclosure (French "Bertrand" law);

4.3.3.2. Animal Experimentation

In the context of these R&D activities, the Company carries out pre-clinical studies which are conducted within a strict regulatory framework. In accordance with Directive 2010/63/EU, the Company has set up an Ethical Committee on Animal Experimentation which has been affiliated to the National Ethics Committee since 2012. It approves all the protocols that are implemented, considering the scientific relevance of experiments conducted and animal well-being. For studies that are assigned to external service providers, Innate Pharma ensures that the same regulatory framework is adhered to. For experiments using genetically modified organisms, the regulatory framework requires authorization from the Ministry of Higher Education and Research regarding the scientific relevance of the projects, the protection of staff handling the organisms and measures to prevent any spread of these organisms by the use of appropriate containment procedures and equipment. The Company also complies with these regulations and implements all relevant measures for the protection of staff and the environment.

4.3.4. MEASURES TAKEN TO SUPPORT THE HEALTH AND SAFETY OF CONSUMERS

None of the Company's drug candidates is currently on the market or has marketing authorization. Those that are furthest advanced are being tested on humans in the context of clinical trials that are governed by stringent regulations. They are in particular subject to prior authorization not only by the regulatory authorities but also by ethical committees consisting of a medical team and patient representatives.

4.3.5. OTHER ACTIONS UNDERTAKEN TO PROMOTE HUMAN RIGHTS

4.3.5.1. Measures taken to promote patient safety

The Company invents and develops drug candidates making it possible to treat diseases with a high medical need. The Company undertakes to respect patients participating in its clinical trials.

The Company's practices aiming to produce reliable, pertinent and traceable data are controlled through our quality system, which draws on everything from exploratory research to clinical development. All of our activities are managed by the Innate Pharma Quality Charter.

Product reliability is controlled throughout the development process for the drug candidate, and the Company is committed to maintain the highest levels of quality requirements:

- Through its service providers, by ensuring compliance with the regulatory requirements in effect.
- Internally, by setting up procedures based on quality standards for controlling data reliability, particularly through internal audits making it possible to verify their traceability and reliability.

In connection with the clinical trials, the Company complies with Good Clinical Practices: clinical research is carried out only following authorization by the competent authorities and the favorable opinion of an Independent Ethics Committee. The

inclusion of a patient in a clinical trial follows his enlightened and signed consent. Company employees endeavor to treat individual medical information confidentially and protect it from reprehensible uses.

The corollary of these commitments is transparency, particularly with regard to patients. Publication of scientific and especially clinical data is a practice shared by all players in the industry, particularly through presentations during specialized conferences, publication on dedicated sites (for example, clinicaltrials.gov) and articles in peer-reviewed journals.

PART 5 – SHARE CAPITAL

5.1. SHARE CAPITAL ALLOCATION

The table below shows the distribution of the Company's shares and voting rights as of March 6, 2018, to the knowledge of the Company:

Shareholders	Number of shares	Percentage	Number of shares	Percentage
Company Officers including :				
Members of the Executive Board	54 937,00	0,10%	54 937,00	0,10%
Members of the Supervisory Board including :	14 386 232,00	24,98%	14 386 232,00	24,98%
Novo Nordisk A/S	8 908 456,00	15,47%	8 908 456,00	15,47%
Bpifrance Participations	4 396 682,00	7,63%	4 396 682,00	7,64%
Employees without Company Officers (1)	472 626,00	0,82%	472 626,00	0,82%
Wellington Management Group LLP	3 471 789,00	6,03%	3 471 789,00	6,03%
Treasury shares	18 575,00	0,03%	0,00	0,00%
Other shareholders	39 195 941,00	68,05%	39 195 941,00	68,07%
Total	57 600 100,00	100,00%	57 581 525,00	100,00%

The number of shares used to calculate the share capital and votes allocation are only the ordinary shares belonging to the category A of shares. The B shares (AGAP attributed in 2016 and acquired in 2017), have no right to vote and to dividends and are not transferable, that's why they are not included into such calculation.

On the date of this report, to the Company's knowledge, there were no other shareholders holding more than 5% of the share capital.

The table below shows the distribution of the Company's shares and voting rights as of February 10, 2017 to the knowledge of the Company:

Shareholders	**Number**	**%**	**Number**	**%**
Company Officers including:	6,819,340	12.63%	6,819,340	12.63%
- Members of the Executive board	*113,537*	*0.21%*	*113,537*	*0.21%*
- Members of the Supervisory board	*6,705,803*	*12.42%*	*6,705,803*	*12.42%*
- including Novo Nordisk A/S	*5,564,708*	*10.3%*	*5,564,708*	*10.3%*
Employees (excluding Company officers) [1]	498,276	0.92%	498,276	0.92%
Bpifrance Participations	4,396,682	8.14%	4,396,682	8.14%
Perceptive Advisors LLC	2,735,842	5.06%	2,735,842	5.06%
Treasury shares	18,575	0.34%	0	0.00%
Other shareholders	39,542,039	73.22%	39,542,039	73.22%
Total	54,010,754	100.00%	53,992,179	99.96%

1 Employees recorded in nominative accounts

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The table below shows the distribution of the Company's shares and voting rights as of January 31, 2016, to the Company's knowledge:

Shareholders	**Number**	**%**	**Number**	**%**
Company Officers including:	6,682,340	12.41%	6,682,340	12.42%
- Members of Executive board	*1,198,321*	*2.22%*	*1,198,321*	*2.23%*
- Members of Supervisory board	*5,484,019*	*10.19%*	*5,484,019*	*10.19%*
- including Novo Nordisk A/S	*5,422,708*	*10.07%*	*5,422,708*	*10.08%*
Employees excluding Company Officers[1]	459,596	0,85%	459,596	0,85%
Bpifrance Participations	4,396,682	8.17%	4,396,682	8.17%
Taube Hodson Stonex Partners LLP (THS)	2,710,623	5.03%	2,710,623	5.03%
Treasury shares[2]	18,639	0.03%	0	0.00%
Other Shareholders	39,568,834	73.50%	39,568,834	73.50%
Total	53,836,714	100.00%	53,818,075	100.00%

[1] Employees holding their shares in registered form

[2]Through the liquidity contract

5.2. CROSSING OF INVESTMENT THRESHOLDS

Threshold changed of Novo Nordisk A/S

On July 19, and July 20, 2017, Novo Nordisk A.S sent two letters declaring that on July 13, 2017, it passed above the threshold of 15% of Innate Pharma's share capital and voting rights, holding 8,908,456 shares of Innate Pharma.

Such passing of threshold results from the subscription to Innate Pharma's capital increase.

Threshold changed of Wellington Management Group LLP

On April 11, 2017 Wellington Management Group LLP, acting for the account of clients and funds that it manages, sent a letter declaring that on April 7, 2017, it passed above the threshold of 5% of Innate Pharma's share capital and voting rights and holding, for the account of said clients funds, 2,706,918 shares of Innate Pharma.

Such passing of thresholds resulted from an acquisition of Innate Pharma shares on the market.

Threshold changed of Perceptive Advisors LLC

On February 28, 2017, Perceptive Advisors LLC, acting for the account of funds that it manages sent a letter to the Company, declaring that on February 27, 2017, it fell below the threshold of holding 5% of Innate Pharma's share capital and voting rights (holding, for the account of said funds, 2,615,134 shares of Innate Pharma).

The fall below the 5% threshold resulted from a sale of Innate Pharma shares on the market.

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5.3. EXECUTIVE AND SUPERVISORY BOARD TRANSACTIONS

During the fiscal year ended December 31, 2017, the Company's directors made the following declarations concerning transactions that had been carried out, as specified in article L621-18.2 of the French Monetary and Financial Code:

Date of Declaration	Director	Date and nature of the transaction	Price per share in €	Total amount in €
July 19, 2017	Novo Nordisk A/S	Subscription of shares on July 13, 2017	11.12	36,166,667
April 10, 2017	Hervé Brailly	Donation on April 10, 2018	11.9	714,000
March 19, 2017	Jérôme Tiollier	Sale of shares on March 16, 2017	11.59	347,700

5.4. SUBSIDIARIES AND EQUITY INTEREST

- As of December 31, 2017, Innate Pharma holds 100% of the share capital and voting rights of Innate Pharma, Inc., its subsidiary.

- On June 2, 2017, Innate Pharma entered into a contribution in kind agreement with Novo Nordisk A/S under which Novo Nordisk A/S undertook to make a contribution in kind, to the benefit of Innate Pharma, representing 100% of the share capital and voting rights held by Novo Nordisk A/S into NN C5aR, holding company incorporated for the purpose of acquiring the exclusive development and commercialization rights of anti-C5aR antibody. On July 13, 2017, Innate Pharma's Executive board recorded the completion of the contribution in kind an issued, in return of the said contribution of 100% of the shares of NN C5aR by Novo Nordisk A/S. Thus, 3,343,748 ordinary shares newly issued to the benefit of Novo Nordisk A/S. To simplify the management of NN C5aR, 100% subsidiary of Innate Pharma, the Executive board of September 12, 2017 decided to merge NN C5aR with Innate Pharma. The simplified merger was completed on October 31, 2017. Following such simplified merger, 100% of NN C5aR assets and liabilities were transferred to Innate Pharma and NN C5aR was wound up without liquidation.

5.5. THE COMPANY'S PURCHASING ITS OWN SHARES

In accordance with an authorization of the Ordinary and Extraordinary General Meeting of the Company's shareholders' on June 2, 2016, the Executive board is authorized to implement a program to purchase Company shares, under the provisions of article L. 225-209 of the French Commercial Code and in accordance with the General Regulations of the AMF.

Under such share purchase program, the maximum purchase price is limited to €20 and the maximum amount of the funds dedicated to the implementation of this program was €1,000,000.

In addition, the authorization capped the maximum number of shares that could be purchased to 10% of the Company's share capital. The authorization of implementation of the share purchase program was granted to the Executive board for an 18-month period as from the General Meeting of June 2, 2016.

A liquidity contract was entered into on July 27, 2012 with the company Gilbert Dupont with effect on August 31, 2012. Such contract was terminated on May 16, 2016. Following such termination, the Company held, on December 31, 2016, 18,575 treasury shares.

5.6. dividends paid during the last three fiscal years

None.

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CHAPTER 6. TAX INFORMATION

6.1. Non-deductible expenses

Sumptuary expenses, as defined in article 39, paragraph 4 of the French General Tax Code, incurred by the Company during fiscal year ended December 31, 2017 consist of €124,774 of attendance fees and €18,463 euros of excess depreciation on the passenger vehicles.

6.2. Overhead giving rise to tax adjustment of the taxable income

The Company has not incurred any excessive overheads or overhead that is not included in the specific schedule giving rise to tax adjustment as specified in article 39, (5) of the French General Tax Code during fiscal year ended December 31, 2017.

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CHAPTER 7. INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURE

The internal control mechanism set up by the Company is based on the recommendations set out in "risk management and internal control reference framework: implementation guidelines for small and mid-cap companies", updated and published by the French Financial Markets Authority (AMF) on July 22, 2010.

As a reminder, the scope of internal control is not limited solely to procedures for making financial reporting more reliable.

The mechanism applies to both the parent company, Innate Pharma, and its wholly-owned subsidiary, Innate Pharma Inc.. Internal control procedures specific to each subsidiary may be put in place in the future, based on their specific operations and risks.

7.1. Definition and objectives of internal control

Within the Company, internal control is a process set up by the Supervisory board, the Executive board, the Executive committee, the intermediate management and the employees.

It comprises a range of resources, behaviors, processes and actions adapted to the specificities of the Company and contributes to the control of its activities, the efficiency of its operations and the efficient use of its resources. It must also take into account the significant risks, whether operational, financial or compliance risks.

The internal control system aims at providing the Company with reasonable assurance that:

- It is complying with the applicable laws and regulations;
- It is applying instructions and strategic orientations such as determined by the management;
- Its internal processes work well, notably those related to the protection of its assets; and
- Its financial information is reliable.

The Company's internal control process contributes to the management of the risk that the Company will not achieve the objectives that it has self-imposed. The purpose of controlling risks related to the Company's operations and to accounting and financial information is aimed at: (i) providing managers with tools necessary for managing the business, (ii) providing shareholders and the public with reliable accounting and financial information and (iii) enabling the Company to comply with applicable laws and regulations.

The Company's internal control process is nevertheless essentially based on human operation. Thus, while it provides a reasonable degree of assurance, it cannot provide an absolute guarantee that the risks the Company faces are fully controlled.

7.2. Company policy regarding internal control

The internal control policy is based on the Company's objectives.

One of Innate Pharma's significant concerns is to ensure that its activities are controlled. The Executive management has therefore supported the installation and retention of a quality system (certified ISO 9001) since 2005, a mechanism of internal control risk management.

Because of its business model (which relies on capital increases), and the nature of its activity, (i.e. research and development of drug candidates in the immunotherapy field), the Company is highly exposed to various financial, legal, strategic and operational risks. Innate Pharma is therefore especially committed to identifying and controlling these risks and aims to be able to give its shareholders an accurate view of its risk environment. The implementation of actions aiming at reducing the risk is integrated to the quality system or the system of internal control based on the nature of the risks.

The Company considers its internal control mechanism to be a process of continuous and progressive improvement with the objective of complying with the internal control recommendations published by the AMF.

In order to formalize the control process, an internal control manual has been drafted and is regularly updated. It defines the Company's policy regarding internal control, defines responsibilities (as well as all the decisions contributing to the control of the relevant activity) and to internal control.

7.3. Internal control responsibilities

By virtue of its mission, the Supervisory board is the primary participant in the Company's internal control system.

The Audit committee, the Compensation and Nomination committee and the Transaction committee are the key tools the Supervisory board has at its disposal in relation to internal control tasks.

Members of the Executive board, of the Executive committee, the intermediate management and the employees are the key players of the internal control process.

The Quality System and the Risk Management Mechanism are monitored by the Director of Quality & Compliance in collaboration with the Director of Accounting & Finance, for aspects related to internal control and financial risks. The Director of Accounting & Finance is in charge of implementing, formalizing and monitoring the mechanism of internal control within the Company. He reports to the Executive board, to the President of the Audit committee and to the President of the Supervisory board.

7.4. Distribution of relevant information

6.4.1. EXTERNAL COMMUNICATION

As a listed company, the Company complies with strict rules relating to the distribution of information. A code of ethics stipulates that all staff have a duty of confidentiality with regard to certain information, and a code of stock market deontology defines the confidentiality and secrecy obligations relating to so-called inside information. A list of permanent insiders was drawn-up and a list of occasional "insiders" (who are party to certain inside information) is drawn-up whenever specific information is considered to be privileged.

Press announcements are released on a regular basis by the Company. They are drafted internally and subject to a reviewing process involving the Executive board and the Supervisory board for strategic and financial information. Press releases comprising half-year or full-year financial accounts are also reviewed and discussed by the Audit committee.

The Reference Document provides the main financial information and notably a discussion on the Company's financial situation and results, the main risk factors, an overview of the activities as well as the governance rules. This document is updated on yearly basis.

Information about the Company can be accessed on its website www.innate-pharma.com.

6.4.2. INTERNAL COMMUNICATION

Internally, the Company has set up certain tools to distribute and share information.

Information regarding the Company's policies and objectives are discussed during an annual "strategic goals" meeting with all of the employees. The Executive committee members share information regarding the Company and their own field with their teams through various ad hoc forums.

On a monthly basis, Executive committee reviews the strategic, budgeting and accounting information and reports to the Executive board and the Supervisory board.

For operational use, an Electronic Document Management (EDM) system is used to manage Quality System procedures, documentation related to the Company's activities and ensure that they are accessible.

7.5. Mapping and analysis of risks

The operational risks identified as of today are presented in Section 1.9 "Risk factors" of the Reference Document.

Risk mapping is one of the first and major steps for setting up and optimizing the internal control system and operational control. Indeed, identifying and evaluating the risks enables to identify actions to be defined for better risk and operation control:

The macro risk map has currently identified the following families of risks:

- Strategic;
- Operational;
- Financial;
- Related to fraud;
- Related to communication;
- Regulatory legal and related to intellectual property;
- Related to human resources;
- Related to hygiene, security of technical installations and environment;
- Related to IT systems

The risk mapping was updated in 2016 following a detailed review.

The residual risks as well as new control actions proposed are presented and discussed at the Audit committee.

- In terms of financial and accounting information, the Company distinguishes three types of risks:
  - Risks related to establishing the accounts and producing financial data, which could result from different dysfunctions arising from the accounting and financial processes themselves;
  - Risks related to the disclosure and communication of financial information, with regards to the selection of indicators, the drafting of documents and the financial communication itself; and
  - Market-related risks linked to foreign exchange risks on operating expenses and to variations of interest rates concerning cash flow and financial instruments.

In order to complete the approach described above, which directly derives from the control actions already in place, the Company also takes into account the conclusions given by its Statutory Auditors as well as their recommendations, which are discussed each year with the Audit committee and the Supervisory board. The matrix of key controls is currently being updated. The results of this external evaluation by the Statutory Auditors are presented and discussed with the Audit committee and with the Supervisory board.

7.6. Control environment

7.6.1. INTERNAL CONTROL PROCEDURES RELATING TO OPERATIONAL PROCESSES

Since its inception, the Company has adopted a quality approach which led to the ISO 9001 certification in 2005 for its research and development activities in the field of immunotherapy medication. Since then, the certification has been renewed every year.

The Quality System is one of the major mechanism in place for monitoring the operational risks.

The application of strategic direction and orientations given by the Executive board is partly defined in the context of the strategic goals process.

The functioning and the control of the operations are described in the Quality System, which covers the following processes:

- Policies and strategic goals;
- Management of the quality system;
- Human resources and skills management;
- Research and development (pre-clinical and clinical);
- Pharmaceutical operations;
- Procurement;
- Animal facilities;
- Management of scientific equipment;
- Management of buildings and facilities; and
- Information systems.

The organization of the Quality System is the first element of the operational risk management. The implementation of the procedures as described in the Quality System is subject to regular internal control audits.

Compliance with laws and regulations is the responsibility of the participants in the various processes (process pilots, program managers and project managers).

7.6.2. INTERNAL CONTROL PROCEDURES RELATING TO ACCOUNTING AND FINANCIAL INFORMATION

The Company considers that risks regarding financial management are currently limited, for the following reasons:

- In general, the Company's Senior Management and more particularly the personnel of the Accounting and Finance Department are trained and experienced, and thus familiar with internal control matters and respond positively to the recommendations of the Audit committee and the Statutory Auditors,
- The Company utilizes independent experts for the evaluation of accounting entries that are complex or require significant management estimates (for instance for the free preferred shares allocated during the 2016 period);
- The half-year and annual accounts are reviewed by an external chartered accountant prior to the account's presentation to the Statutory Auditors;
- Independent consultants are retained to calculate provisions for retirement compensation and seniority awards;
- Payroll management is subcontracted to the external chartered accountant; and
- Responsibility for external financial communication is entrusted exclusively to the members of the Executive committee and to the department of Financial Communication and Investor Relations.

Catherine Moukheibir was a member of the Executive committee since March 1, 2011 and provided the financial strategy of the Company under a consultancy contract; she was also a member of the Executive board. Catherine Moukheibir resigned from her functions within the Executive committee on December 14, 2016 (with effect on December 30, 2016), retaining her consultancy contract, which terminated in June 2017.

Laure-Hélène Mercier was appointed to the Executive committee as EVP Finance in 2016.

The Company has a regular dialogue with its Statutory Auditors, its Audit committee and/or with third-parties for the interpretation or adoption of new accounting standards be they French or IFRS adoption of new accounting as well as for measures related to internal controls.

The book of accounting and financial procedures defines the accounting principles, responsibilities of the personnel of the Accounting and Finance Department, as well as the main processes performed in the Company's operations.

As part of the annual closing 2017, the accounting team has been strengthened with the arrival of a new person as accountant and a student as training contract.

7.6.3. INTERNAL CONTROL SYSTEM IN PLACE

Through the yearly update of risk, which mapping enabled risks and control actions to be reviewed and evaluated, and also through the work performed by the Statutory Auditors on internal control as part of their legal assignment, the Company believes that it possesses the necessary means for the implementation of appropriate control tools. This system complements the active role played by the Audit committee in this respect.

The Company also created a proprietary management information system, IP Center, which is gradually integrating the various management procedures likely to represent a risk in view of their economic significance for the Company. For example, a module for procurement was introduced in 2006 to ensure that no purchase order is issued by the Company without prior verification and authorization by the persons possessing the appropriate delegation. The computerization of this process has also improved accounting cut-offs between periods (separation of accounting years).

A dedicated purchasing function was also created. This person is responsible for price negotiation with suppliers as well as the verification of services performed before payment is made to the suppliers.

The management of contracts has been gradually integrated into the IP Center. The management module of the contracts enables the Company to gain a better appreciation of its commitments by providing a rapid and convenient overview of agreements signed or awaiting signature, and by matching the contractual information with the resulting accounting elements.

The IP Center, which operates as a database management system and extracts elements from various software programs, including the Company's own accounting software, is also the tool used for formalizing the budget process and monitoring this budget during the year. This monitoring was further improved through the installation of a module specific to the clinical activity, used to monitor the progress of current clinical trials based on two criteria: the number visits made by the patients included and the duration of the trial.

Time and activity management software was implemented in order to improve resource management and notably the identification of needs and the calculation of the allocation of resources per project. This software also contributes to improving the documentation relating to subsidies and research tax credit.

Risk matrices were formalized for the following accounting cycles of the Company: "Purchasing", "Payroll" and "Fixed Assets". These matrices identify, for each risk, the appropriate implemented risk control(s) covering this risk. In addition, in order to ensure the absence of conflicting functional responsibilities, a matrix of tasks across the organization has been set up. A matrix of controls on the closing process has also been formalized.

7.7. Monitoring and supervision of the internal control process

The Executive board monitors and supervises the internal control process and ensures that it is relevant and appropriate for the Company's objectives.

The continuous monitoring is part of the day to day activities and comprises regular checks conducted by the Executive committee. The existence of a quality management system contributes to the supervision of the process: it enables to control the changes related to the process and the documentation, to identify non-conformities, and to analyze the efficiency indicators of the defined processes. A formal review of the quality system takes place once a year to evaluate its effectiveness.

Periodic supervision has also been set up, entailing an internal audit program. The internal audits program involves "quality" audits, allowing the evaluation of the implementation of the procedures which have been set up.

The Supervisory board is informed regularly and as needed, by the Executive board on the processes related to risk management and internal control. In addition, the results of each significant update of the risk mapping and the conclusions of the auditors, under their audit mission, on the past period are presented to the Audit committee. The main conclusions of this evaluation are then reported to the Supervisory board by the Chairman of the Audit committee.

Despite the procedures and mechanisms stated previously, we identified during the 2017 period a significant deficiency of our internal control related to subcontracting clinical costs. This deficiency resulted from the use of two erroneous data in relation to a clinical study (date of the termination of the study and number of expected visits). Therefore, at the beginning of the year

2018, the Company modified its internal controls aiming to identify this type of issues in order to strengthen the appropriateness and effectiveness of its controls.

7.8. Summary of actions taken in 2017

During the year 2016, the Company:

- initiated a project of dematerialization and automation of data entries related to purchase invoices. This project was finalized during the year 2017 and the dedicated software is operational since September 2017.
- implemented a new functionality of the IP Center aiming at recording the staff's participation in the various scientific congresses. This module allows to accurately track costs related to these conferences (registration, travel and stay expenses) but also to formalize the process of authorization of travel for these events. In 2017, the scope of this functionality was widened to general travels (non-scientific congress, board meetings, international supplier visits, FDA visits, etc.)

In addition to this, in 2017, the Company initiated a work aiming to migrate the functionality of IP Center named « Clinique » into web format. Furthermore, a recovery test was implemented in order to ensure third parties would be able to solve issues related to IP Center (in case of unforeseen unavailability of our usual provider).

Finally, the Company drew up an Audit committee charter that should be approved in March 2018.

7.9. Outlook

As part of its continuous improvement process, the Company aims to continue the work of convergence of the system of management of quality and the systems of internal control and risk management.

7.10. Conclusions on the internal control and risk management processes

In the light of the arrangements presented in this report, the level of formalization of the internal control mechanism is deemed to be satisfactory.

The manner in which the various management bodies are involved in internal control work provides a separation between the management activities of the Executive board and the Executive committee and the control functions of the Supervisory board and its various sub-committees.

The quality system, the internal control system as well as the meetings of the Executive board and of the Executive committee enables the Company to monitor and control its risks appropriately as they result from the macro risk map.

The Company is committed to continuing the use of the risk analysis methodology associating it with an integrated system of management of quality and internal control so it can become a proper tool for management and decision-making.

Innate Pharma also intends to continue to comply with regulations and market recommendations and to review market practices in order to maintain an appropriate standard in this area.

Regarding the financial risks related to the climate change, the Company did not identify a significant risk likely to have an impact on its activities.