



**innate** pharma

French *société anonyme* governed by an executive board and a supervisory board with a share capital 1,884,339.7 euros composed by 37,686,794 shares of a nominal value of 0.05 euros each.

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

# Interim Financial Report June 30, 2011

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Interim financial situation as of June 30, 2011

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The following interim consolidated financial statements have been prepared by the Executive Board of the Company, and have been subject to a limited review by our Statutory Auditors. They have been examined by the Supervisory Board of the Company on August 30, 2011.

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## Summary

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## Innate Pharma at a glance

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Innate Pharma S.A. (the “Company”) is a biopharmaceutical company developing first-in-class immunotherapy drugs for cancer and inflammatory diseases.

Its drug-candidates belong to a new class of therapeutic agents and consist of monoclonal antibodies aimed at immune regulatory checkpoints with a unique focus on the innate immunity compartment.

This approach has been validated by two major biopharmaceutical partners: Bristol-Myers Squibb in cancer and Novo Nordisk A/S in inflammation.

Incorporated in 1999 and listed on NYSE-Euronext in Paris in 2006, Innate Pharma is based in Marseilles, France, and had 78 employees as at June 30, 2011. Novo Nordisk A/S, the French Sovereign Fund (“FSI”) and Alta Partners are its major shareholders.

Learn more about Innate-Pharma at [www.innate-pharma.com](http://www.innate-pharma.com)

## I. Financial Highlights and Management Discussions and Analysis

The key elements of Innate Pharma's financial results for the first half of 2011 are as follows:

- **A decrease in the operating loss** to 5.7 million euros in the first half of 2011, compared with 6.7 million euros in the same period last year. This results from the combined effect of an increase in operating revenue (3.0 million euros for the six-month period ended June 30, 2011 vs. 2.5 million euros for the six-month period ended June 30, 2010) and a decrease in operating expenses (8.8 million euros for the six-month period ended June 30, 2011 vs. 9.2 million euros for the six-month period ended June 30, 2010).
- **A solid balance sheet:** 29.7 million euros in cash, cash equivalent and current financial instruments as at June 30, 2011, and 7.1 million in financial debt, of which 4.1 million euros are related to long term lease-financing. Cash flow absorbed by the operations amounted to 4.2 million euros in the six-month period ended June 30, 2011.

The table below summarizes the IFRS consolidated financial statements for the six-month period ended June 30, 2011, with a comparison to the same period in 2010:

In thousands of euros, except for data per share	6-month period ended June 30	
	2011	2010
<b>Operating revenue</b>	<b>3,036</b>	<b>2,476</b>
Research and development	(6,469)	(7,179)
General and administrative	(2,294)	(2,005)
<b>Net operating expenses</b>	<b>(8,763)</b>	<b>(9,184)</b>
<b>Operating income (loss)</b>	<b>(5,727)</b>	<b>(6,709)</b>
Interest income/(expenses), net	501	(21)
<b>Net loss</b>	<b>(5,226)</b>	<b>(6,730)</b>
<b>Average number of shares outstanding (in thousand)</b>	<b>37,687</b>	<b>37,184</b>
<b>Net loss per share</b>	<b>(0.14)</b>	<b>(0.18)</b>
	June 30, 2011	December 31, 2010
<b>Cash, cash equivalents and current financial instruments</b>	<b>29,654</b>	<b>34,581</b>
<b>Total assets</b>	<b>41,479</b>	<b>48,010</b>
<b>Shareholders' equity</b>	<b>28,187</b>	<b>33,516</b>
<b>Total financial debt</b>	<b>7,133</b>	<b>7,488</b>

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## Operating revenue:

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

In thousands of euros	6-month period ended June 30	
	2011	2010
Revenue from collaboration and licensing agreements	1,000	211
Government funding for research expenditures	2,036	2,264
<b>Operating revenue</b>	<b>3,036</b>	<b>2,476</b>

For the six-month period ended on June 30, 2011 and 2010, revenue from collaboration and licensing agreements came from agreements signed with Novo Nordisk A/S in March 2006 and in 2009. For the six-month period ended on June 30, 2011, revenue arises from a payment by Novo Nordisk A/S for IPH2201 (NN8765) reaching a clinical milestone in February 2011.

Government funding for research costs is mostly composed of the research tax credit (1.7 million euros as at June 30, 2011 vs. 1.9 millions euros as at June 30, 2010). The evolution in the research tax credit results from the decrease of the eligible R&D expenses (as a result of additional subcontracting costs in the US) and from a change in the methodology of calculation of the tax credit.

## Net operating expenses, by business function:

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

In thousands of euros	6-month period ended June 30	
	2011	2010
Research and development expenses	(6,469)	(7,179)
General and administrative expenses	(2,294)	(2,005)
<b>Net operating expenses</b>	<b>(8,763)</b>	<b>(9,184)</b>

Research and development ("R&D") expenses include mostly R&D staff costs, product manufacturing costs, subcontracting costs (research, pre-clinical and clinical development) and costs of materials (reagents and other consumables) and pharmaceuticals products.

The decrease in R&D expenses between the two periods under review (6.5 million euros for the six-month period ended June 30, 2011 vs. 7.2 million euros for the year-ago period, or -10%) mainly results from the absence in 2011 of manufacturing costs related to drug raw materials (0.6 million euros at June 30, 2010).

R&D expenses accounted for 74% of net operating expenses for the six-month period ended June 30, 2011 vs. 78% for the same year-ago period.

General and administrative ("G&A") expenses mostly comprises costs of the "support" staff as well as external expenses for the management and development of our business. The increase in these costs (2.3 million euros for the six-month period ended June 30, 2011 vs. 2.0 million euros for the six-month period ended June 30, 2010, or +14%) mainly results from the increase of the employee benefits other than share-based compensation (see below) as well as some advisory fees related to the deal signed with Bristol-Myers Squibb in July 2011 (see section "Key events since January 1, 2011").

G&A expenses accounted for 26% of net operating expenses for the six-month period ended June 30, 2011 vs. 22% for the six-month period ended June 30, 2010.

## Net operating expenses, by nature:

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

In thousands of euros	6-month period ended June 30	
	2011	2010
Costs of supplies and consumable materials	(902)	(1,491)
Intellectual property expenses	(258)	(446)
Other purchases and external expenses	(3,876)	(3,572)
Employee benefits other than share-based compensation	(3,183)	(3,014)
Share-based compensation	(10)	(20)
Depreciation and amortization	(525)	(489)
Other income and (expenses), net	(9)	(152)
<b>Net operating expenses</b>	<b>(8,763)</b>	<b>(9,184)</b>

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

- Costs of supplies and consumable materials: the decrease in these expenses between the two periods under review (0.9 million euros for the six-month period ended June 30, 2011 vs. 1.5 million euros for the six-month period ended June 30, 2010, or +40%) mainly results from the absence of manufacturing costs related to drug raw materials.
- Other purchases and external expenses: the increase in these expenses between the two periods under review (3.9 million euros vs. 3.6 million euros for the six-month period ended June 30, 2011 and 2010 respectively, or +8%) is mostly explained by the booking in 2011 of advisory fees related to the deal signed with Bristol-Myers Squibb and from the fees related to our Senior Advisor Finance (see section "Key events since January 1, 2011").
- Employee benefits other than share-based compensation: the increase of these expenses between the two periods under review (3.2 million euros for the six-month period ended June 30, 2011 vs. 3.0 million euros for the period ended June 30, 2010, or +6%) mainly results from the increase of the provision for bonuses. Indeed, the percentage of completion of the collective and individual objectives is better than at June 30, 2010.

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## Balance sheet items:

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Cash, cash equivalent and current financial instruments amounted to 29.7 million euros as at June 30, 2011, as compared to 34.6 million euros on December 31, 2010.

Since its inception in 1999, the Company has been primarily financed by issuing new securities. The Company also generated cash flow from its out-licensing activity (mostly in relation with the agreements with Novo Nordisk A/S), from research tax credit and from repayable government financing (Oséo). Repayable government financing amounted to 2.4 million euros on June 30, 2011, accounted as current or non-current financial liabilities. Among this amount, 1.2 million euros were initially refundable over the period 2017-2021 and were indeed classified as non-current financial liabilities at December 31, 2010. Following the signing of a licensing and collaboration agreement with Bristol-Myers Squibb in July 2011, this repayable funding will be reimbursed in March 2012. It has therefore been classified as a current financial liability at June 2011.

The other key balance sheet items as at June 30, 2011 were as follows:

- Receivables from the French government in relation to research tax credit of 1.7 million euros for the six-month period ended June 30, 2011.
- Shareholders' equity of 28.2 millions euros including the net loss for the period (5.2 millions euros).

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## Cash-flow items:

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The net cash flow absorbed over the six-month period ended on June 30, 2011 amounted to 2.2 million euros, compared to a net cash flow generated by the operations of 10.1 million euros for the same year-ago period.

This change is mostly explained by the improvement of the working capital by 4.2 millions euros (the 2010 research tax credit was paid in June 2011 whilst the 2009 one was paid in July 2010), the sale of financial assets for 2.8 millions euros and the improvement of the net result by 1.5 millions euros.

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## Other elements:

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As mentioned in note 7, on March 30, June 2011, the Company disposed of 50% of its participation into its subsidiary Innate Pharma Services (renamed later Platine Pharma Services) to the benefit of Transgene SA. The 50% participation into Platine Pharma Services is booked according to the equity method. The 0.4 million of euros gain generated by this operation is recognized below in the Operational result.

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## Key events since January 1, 2011:

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- Transformation on March 30, 2011, of the subsidiary Innate Pharma Services SAS into Platine Pharma Services SAS after the 50% participation of the company Transgene SA (see notes 1 and 7 for more details).
- Payment from Novo Nordisk A/S following the reaching by IPH2201 (NN8765) of a clinical milestone in February 2011.
- Appointment on May 5, 2011 of Catherine Moukheibir to the Executive Board as Senior Advisor Finance.
- Signing of a license agreement on July 6, 2011 with the American company Bristol-Myers Squibb (see note 21 for more details).

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#### Nota:

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The interim consolidated financial statements have been subject to a limited review by our Statutory Auditors and approved by the Executive Board of the Company on August 30, 2011. They have been reviewed by the Supervisory Board of the Company on August 30, 2011. They will not be submitted for approval to a general meeting of shareholders.

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#### Risk factors:

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Risk factors identified by the Company are presented in paragraph 4 of the “Document de Référence” submitted to the French stock-market regulator, the “Autorité des Marchés Financiers”, on April 29, 2011.

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#### Related party transactions:

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Transactions with related parties during the periods under review are disclosed in the Note 19 to the Interim consolidated financial statements prepared in accordance with IAS 34.

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## Forward-looking statements:

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Certain information contained in this presentation includes forward-looking statements. Forward-looking statements are not guarantees of future performance of the Company and its actual financial condition, actual results of operations and cash flows and the development of the industry in which it operates may differ materially from those made in or suggested by the forward-looking statements contained in this presentation. In addition, even if the Company's financial condition, results of operations and cash flows and the development of the industry in which the Company operates are consistent with the forward-looking statements contained in this presentation, those results or developments may not be indicative of results or developments in future periods. These statements are based on management's current expectations or beliefs and involve risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The Company does not undertake, nor does it have any obligation, to provide updates or to revise the forward-looking statements contained in this presentation to reflect events that occur or circumstances that arise after the date of this presentation. The Company takes no responsibility for the use of this information by any person.

## II. Statutory auditors' limited review report on interim consolidated financial statements

To the Shareholders,

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

- The review of the interim financial statements of Innate Pharma S.A. for the six-month period ended June 30, 2011 ;
- The verification of the information contained in the interim management report.

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

### 1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists in discussing with persons responsible for financial and accounting matters in the company as well as in conducting analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

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

### 2. Specific verification

We have also verified the information given in the interim management report on the interim consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the interim consolidated financial statements.

Marseilles, August 30, 2011

The Statutory Auditors

*French original signed by*

AUDIT CONSEIL EXPERTISE, SA  
Member of PKF INTERNATIONAL  
Guy CASTINEL

PRICEWATERHOUSECOOPER AUDIT  
François Callens

### III. Interim consolidated financial statements

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

	Note	June 30, 2011	December 31, 2010
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	29,654	31,818
Current financial instruments	3	-	2,763
Current receivables	4	4,055	6,083
<b>Total current assets</b>		<b>33,709</b>	<b>40,664</b>
<b>Non-current assets</b>			
Non current receivables	5		
Property, plant and equipment	6	6,770	7,335
Associates and joint ventures	7	1,000	-
Other non-current assets		-	11
<b>Total non-current assets</b>		<b>7,770</b>	<b>7,346</b>
<b>Total assets</b>		<b>41,479</b>	<b>48,010</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade payables	8	5,797	6,660
Financial liabilities	9	2,078	701
Provisions		8	13
<b>Total current liabilities</b>		<b>7,883</b>	<b>7,374</b>
<b>Non-current liabilities</b>			
Financial liabilities	9	5,055	6,786
Defined benefit obligations	10	354	334
<b>Total non-current liabilities</b>		<b>5,409</b>	<b>7,120</b>
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	11	1,884	1,884
Share premium		108,207	108,173
Retained earnings		(76,654)	(63,225)
Net loss for the year or the period		(5,226)	(13,658)
Other comprehensive income		-	173
Foreign exchange		(24)	167
<b>Total capital and reserves attributable to equity holders of the Company</b>		<b>28,187</b>	<b>33,516</b>
<b>Total liabilities and equity</b>		<b>41,479</b>	<b>48,010</b>

Consolidated Interim Income Statement  
(in thousands of euros)

		6-month period ended June 30	
	Note	2011	2010
Revenue from collaboration and licensing agreements	16	1,000	211
Other revenue		2,036	2,264
<b>Operating revenue</b>		<b>3,036</b>	<b>2,476</b>
Cost of supplies and consumable materials	12	(902)	(1,491)
Intellectual property expenses		(258)	(446)
Other purchases and external expenses	12	(3,876)	(3,572)
Employee benefits other than share-based compensation	13	(3,183)	(3,014)
Share-based compensation	14	(10)	(20)
Depreciation and amortization		(525)	(489)
Other income and (expenses), net	15	(9)	(152)
<b>Net operating expenses</b>		<b>(8,763)</b>	<b>(9,184)</b>
<b>Operating income / (loss)</b>		<b>(5,727)</b>	<b>(6,709)</b>
Financial income	16	401	255
Financial expenses	16	(289)	(276)
Net gain on de-recognition	1	390	-
Share of profit of associates and joint ventures	7	-	-
<b>Income / (loss) before tax</b>		<b>(5,226)</b>	<b>(6,730)</b>
Income tax expense		-	-
<b>Net income / (loss)</b>		<b>(5,226)</b>	<b>(6,730)</b>
<b>Net income / (loss) per share attributable to the equity holders of the Company:</b>			
(in per share)			
- basic	20	(0.14)	(0.18)
- diluted	20	(0.14)	(0.18)

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

	6-month period ended June	
	2011	2010
<b><u>Cash flows from operating activities:</u></b>		
Loss from operating activities	(5,226)	(6,730)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	497	489
Provisions for expenses and defined benefit obligations	15	(149)
Share-based compensation	10	20
Gain on the Platine Pharma Services operation	(390)	-
Profit / (loss) on asset disposals	-	23
<b>Net cash generated from / (used in) operating activities before changes in working capital:</b>	<b>(5,094)</b>	<b>(6,347)</b>
Changes in working capital:		
- Current receivables and prepayments	1,795	(1,294)
- Non-current receivables	-	-
- Trade payables	(875)	(1,821)
<b>Net cash generated from / (used in) operating activities:</b>	<b>(4,174)</b>	<b>(9,461)</b>
<b><u>Cash flows from investing activities:</u></b>		
Acquisition of property, plant and equipment	(185)	(227)
Acquisition of current financial assets	(7,980)	-
Sale of current financial assets	10,530	-
<b>Net cash generated from / (used in) investing activities:</b>	<b>2,365</b>	<b>(95)</b>
<b><u>Cash flows from financing activities:</u></b>		
Share buy-back (liquidity contract)	-	(29)
Debt repayment	(355)	(341)
<b>Net cash generated from financing activities:</b>	<b>(355)</b>	<b>(370)</b>
<b>Net increase / (decrease) in cash and cash equivalents:</b>	<b>(2,164)</b>	<b>(10,057)</b>
Cash and cash equivalents at the beginning of the period:	31,818	46,448
<b>Cash and cash equivalents at the end of the period (i):</b>	<b>29,654</b>	<b>36,391</b>
(i) Does not include current financial instruments:	-	2,751

Interim Statement Of Changes In Equity (in thousands of euros)

	Share capital	Share premium	Retained earnings	Net gain / (loss)	Other comprehensive income	Total attributable to equity holders of the Company
<b>Balance as at January 1, 2010</b>	<b>1,832</b>	<b>108,295</b>	<b>(48,597)</b>	<b>(14,626)</b>	<b>219</b>	<b>47,122</b>
Net loss appropriation for 2008	-	-	(14,626)	14,626	-	-
Net loss for the six-month period ended June 30, 2009	-	-	-	(6,730)	-	(6,730)
Share-based compensation	-	20	-	-	-	20
Unrealized gains on securities available for sale	-	-	-	-	5	5
Foreign exchange gain / (loss)	-	-	-	-	119	119
Owned shares	-	(29)	-	-	-	(29)
Capital increase, March 2010	52	(52)	-	-	-	-
Capital increase, April 2010	-	-	-	-	-	-
<b>Balance as at June 30, 2010</b>	<b>1,884</b>	<b>108,233</b>	<b>(63,223)</b>	<b>(6,730)</b>	<b>343</b>	<b>40,506</b>
Net loss for the six-month period ended December 30, 2009	-	-	-	(6,928)	-	(6,928)
Share-based compensation	-	15	-	-	-	15
Unrealized gains on securities available for sale	-	-	-	-	11	11
Foreign exchange gain / (loss)	-	-	-	-	(13)	(13)
Owned shares	-	29	-	-	-	29
BSAAR	-	8	-	-	-	8
Liquidity contract	-	(112)	-	-	-	(112)
<b>Balance as at December 31, 2010</b>	<b>1,884</b>	<b>108,173</b>	<b>(63,225)</b>	<b>(13,658)</b>	<b>341</b>	<b>33,516</b>
Net loss appropriation for 2010	-	-	(13,658)	13,658	-	-
Net loss for the six-month period ended June 30, 2010	-	-	-	(5,226)	-	(5,226)
Share-based compensation	-	10	-	-	-	10
Unrealized gains on securities available for sale	-	-	-	-	(173)	(173)
Foreign exchange gain / (loss)	-	-	229	-	(192)	38
Owned shares	-	23	-	-	-	23
<b>Balance as at June 30, 2010</b>	<b>1,884</b>	<b>108,207</b>	<b>(76,654)</b>	<b>(5,226)</b>	<b>(24)</b>	<b>28,187</b>

Statement of comprehensive income  
(in thousands of euros)

In thousands of euros	6-month period ended June 30	
	2011	2010
<b>Net loss for the period:</b>	<b>(5,226)</b>	<b>(6,730)</b>
Unrealized gains / (loss) on available-for-sale securities	(173)	5
Currency translation gain / (loss)	39	119
<b>Other comprehensive income for the period:</b>	<b>(134)</b>	<b>124</b>
<b>Comprehensive income for the period:</b>	<b>(5,360)</b>	<b>(6,606)</b>

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## Notes to the Interim Consolidated Financial Statements

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### 1) The Company

Innate Pharma is a biopharmaceutical company developing first-in-class immunotherapy drugs for cancer and inflammatory diseases. Based in Marseilles, France, it had 78 employees as at June 30, 2011. It was incorporated in 1999 and listed on NYSE-Euronext in Paris in 2006, Novo Nordisk A/S, the French Sovereign Fund ("FSI") and Alta Partners are its major shareholders.

The Company specializes in the development of new monoclonal antibodies targeting receptors and pathways controlling the activation of innate immunity cells. The mechanisms controlling these cells were described at the end of the 90's, notably by the teams of the scientists who founded Innate Pharma.

On the basis of this science, Innate Pharma develops drug candidates with immuno-stimulating properties in cancer and with immuno-blocking properties in inflammatory conditions. Furthermore, many of the ligands to the innate immunity receptors are expressed on tumor cells, opening the way to the development of directly cytotoxic antibodies.

Its most advanced drug-candidates are licensed to major biopharmaceutical groups. IPH2102, currently in Phase I trial in cancer, is licensed to Bristol-Myers Squibb, and two monoclonal antibody programs, developed in inflammation, are licensed to Novo-Nordisk A/S.

Innate Pharma's key expertise is in immunopharmacology and antibody technology. The Company has a large panel of molecular and cellular assays and in vivo models for assessing the pharmacodynamics, the pharmacotoxicology and efficacy of drug candidates. In addition, Innate Pharma has access to a very large set of unique research tools in cellular immunology through its worldwide network of scientific collaborations.

The Company owns participations into two companies. Innate Pharma, Inc., created in 2009, is a company registered in the Delaware, United States, to manage its business development activities in the United States. This company, consolidated using the full consolidation method, is dormant since January 1st, 2011. Platine Pharma Services SAS is a 50% owned company, created on 30 March, 2011 following the 50% participation of the company Trangène SA into the capital of the company Innate Pharma Services SAS, fully-owned subsidiary of Innate Pharma SA. The company changed its name on March 30, 2011.

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

The Executive Board has approved these interim consolidated financial statements presented under IFRS on August 30, 2011. They have also been examined by the Supervisory Board on the same day and subject of a limited review by the statutory auditors of the Company. They are not subject to approval by the General Meeting of shareholders.

## 2) Accounting policies

### a) Basis of preparation

The interim financial statements for the six-month period ended 30 June 2010 have been prepared in accordance with IAS 34, *Interim Financial Reporting*. They should be read in conjunction with the annual consolidated financial statements as at 31 December 2010 prepared in accordance with IFRS as adopted by the European Union and presented in paragraph 20.1 of the "Document de Référence" submitted to the French stock-market regulator, the "Autorités des Marchés Financiers", on April 29, 2011.

### b) Accounting policies

The accounting policies applied are the same as those adopted in the preparation of the annual financial statements in accordance with IFRS as adopted by the European Union as at December 31, 2010.

Application of the following existing standard amendment is mandatory for the first time for the financial period beginning on January 1, 2011 and, as such, has been adopted by the Company:

- Annual improvement procedure of the 2010 IFRS GAAP's;
- Revised IAS 24, Related Party Disclosures;
- Amendment regarding the definition of a related party and information to be published by the public companies;
- Amendment of IAS 32 on the classification of the right issues denominated in a foreign currency;
- Amendment of IFRIC 14, limit on a Defined Benefice Asset, minimum funding requirements and their interactions;
- IFRIC 19, Extinguishing financial liabilities with equity instruments.

None of these amendments and interpretations has impact on the financial statements of the Company at June 30, 2011.

As at June 30, 2011, estimate of the amount of research tax credit for the first half period is calculated on the basis of eligible expenses in the period (30% of these expenses).

### c) Treatment of the loss of exclusive control in Innate Pharma Services SAS (renamed Platine Pharma Services SAS)

Following the operation with Transgene SA, the Company lost the exclusive control over this subsidiary. The impacts of the operation are the following:

- De-recognition of the assets and liabilities of Innate Pharma Services at their book value at the date of the operation, that is to say March, 30 2011;
- Recognition of the residual investment corresponding to 50% of the subsidiary at the fair value on March 31, 2011, and of the remaining amount granted to the subsidiary;
- Recognition of a global result on the operation.

### d) Consolidation using the equity method

Following the disposal operation of 50% of its subsidiary Innate Pharma Services, jointly controlled since this date, the Company applies for the first time the consolidation using the equity method.

According to this method, the participation of the Company is booked at cost, adjusted by the cumulative impact of the post operation variances and reduced by the amount of the dividends

distributed. The net book value of Platine Pharma Services is presented in the balance sheet under the line "Associates and joint-ventures".

The share of the Company into the profits or losses of Platine Pharma Services is presented below the "Operational result".

### 3) Cash, cash equivalents and current financial instruments

	June 30, 2011	December 31, 2010
Cash and cash equivalents	29,654	31,818
Current financial instruments	-	2,763
<b>Cash, cash equivalents and current financial instruments</b>	<b>29,654</b>	<b>34,581</b>

Cash and cash equivalents are composed by bank accounts and available-for-sale marketable securities and are broken down as follows (in thousands of euros):

	June 30, 2011	December 31, 2010
Bank accounts	870	1,406
Short term money market mutual funds	4,930	4,638
AMUNDI money market mutual fund	23,854	25,774
<b>Cash and cash equivalents</b>	<b>29,654</b>	<b>31,818</b>

Bank accounts are denominated in EUR and USD and were opened with Société Générale, Crédit Lyonnais and TD Bank.

Available-for-sale marketable securities owned by the Company are mainly composed of Société Générale and Crédit Lyonnais money market mutual funds. These funds have money market objectives and the funds' management target is to yield a return close to that of EONIA, the EU inter-bank reference rate.

Current financial instruments are broken down as follows (in thousands of euros):

	June 30, 2011	December 31, 2010
AMUNDI – TRESO 9	-	2,763
<b>Current financial instruments</b>	<b>-</b>	<b>2,763</b>

The Company sold in March 2011 its only current financial instrument, CAAM — TRESO 9: 2,589 thousands of euros invested on December 26, 2006. The financial gain on the day of the sale was 177 thousands of euros (173 thousands of euros at December 31, 2010).

### 4) Current receivable

Current receivables are analyzed as follows (in thousands of euros):

	June 30, 2011	December 31, 2010
Prepayments made to suppliers	96	97
Trade account receivables	86	207
VAT refund	792	860
Grants and government subsidies	305	233
Prepaid expenses	1,116	879
Other receivables	26	21
Liquidity contract – Cash position	33	10
Research tax credit	1,603	3,776
<b>Current receivables and prepayments</b>	<b>4,055</b>	<b>6,083</b>

The amounts booked as current receivables and prepayments as at June 30, 2011 have a maximum maturity of twelve months.

### 5) Non current receivables

None.

### 6) Property, plant and equipment

Property, plant and equipment can be broken down as follows (in thousands of euros):

	Buildings	Equipment and machinery	In progress	Total
<b>Year ended December 31, 2010</b>				
<b>Net opening balance</b>	<b>6,237</b>	<b>1,706</b>	<b>-</b>	<b>7,943</b>
Reclassification	-	85	-	85
Acquisitions	35	346	26	408
Disposals	-	(1)	-	(1)
Depreciation	(376)	(724)	-	(1,100)
<b>Net closing balance</b>	<b>5,896</b>	<b>1,412</b>	<b>26</b>	<b>7,335</b>
<b>6-month period ended June 30, 2011</b>				
<b>Net opening balance</b>	<b>5,896</b>	<b>1,412</b>	<b>26</b>	<b>7,335</b>
Reclassification	-	39	(39)	-
Acquisitions	23	147	25	252
Disposals	-	-	-	-
Depreciation	(189)	(327)	-	(516)
IPH Services	-	(232)	-	(232)
<b>Net closing balance</b>	<b>5,730</b>	<b>1,038</b>	<b>3</b>	<b>6,771</b>

## 7) Associates and joint ventures

At June 30, 2011, the Group recognizes for the first time its 50% participation into the company Platine Pharma Services SAS (previously Innate Pharma Services SAS) using the equity method. Until March 30, 2011, the Group fully owned this subsidiary. At this date, the company Transgene SA took a 50% participation and Innate Pharma Services SAS changed its name to Platine Pharma Services SAS. The Group has a joint control with Transgene SA over Platine Pharma Services.

Information related to Platine Pharma Services are summarized in the following table:

	June 30, 2011	December 31, 2010
Total assets	1,841	-
Total liabilities	(923)	-
<b>Share of net assets</b>	<b>459</b>	-
Operational revenue	478	-
Net results	-	-
<b>Share of net results</b>	-	-

In the context of the entry of Transgene SA in the capital, the fair value of Platine Pharma Services SAS for 100% of the shares has been set to 1.3 million of euros at March, 30 2011 on the basis of the contribution evaluated by the parties. The valuation of the participation of the Group in Platine Pharma Services SAS at June, 30 2011 has been calculated on this basis. An amount of 0.7 million of euros has therefore been recognized in the balance sheet on the line Associates and joint-ventures. In addition to this amount, 0.3 million of euros corresponding to the amount of the intercompany account have been recognized on the same line. As of now, the Group did not yet allocate the fair value of the remaining participation to the identifiable assets and liabilities.

## 8) Trade payables

This line item is analyzed as follows (in thousands of euros):

	June 30, 2011	December 31, 2010
Suppliers	4,932	5,031
Tax and social liabilities	1,390	1,485
Other payables (subsidiaries)	15	144
<b>Trade payables</b>	<b>5,797</b>	<b>6,660</b>

## 9) Financial liabilities

This line item, per maturity, is analyzed as follows (in thousands of euros):

	June 30, 2011	December 31, 2010
Oséo	1,381	-
Other borrowings	697	701
<b>Total – Current financial liabilities</b>	<b>2,978</b>	<b>701</b>
Oséo	982	2,365
Other borrowings	4,073	4,421
<b>Total – Non current financial liabilities</b>	<b>5,055</b>	<b>6,786</b>
<b>Total financial liabilities</b>	<b>7,133</b>	<b>7,488</b>

The amounts presented in current liabilities as at June 30, 2011 are to be repaid within twelve months.

The table below details the repayment schedule of the principal for the aforementioned borrowings (in thousand of euros):

Repayment schedule	2011	2012	2013	2014	2015	Total
Oséo	1,382	572	410	-	-	2,364
Other borrowings	697	572	574	444	2,735	4,769
<b>Total</b>	<b>2,079</b>	<b>1,144</b>	<b>984</b>	<b>444</b>	<b>2,735</b>	<b>7,133</b>

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

Repayment schedule	2011	2012	2013	2014	2015	Total
Oséo	1,382	572	410	-	-	2,364
Other borrowings	879	728	706	555	2,735	5,603
<b>Total</b>	<b>2,261</b>	<b>1,300</b>	<b>1,116</b>	<b>555</b>	<b>2,735</b>	<b>7,967</b>

## 10) Pension benefits

The Company's pension benefits correspond to indemnities due to employees who leave the Company in the context of their retirement. The Company uses an external actuary firm so as to evaluate this provision.

## 11) Capital

### Share Capital

As at June 30, 2011, the share capital is composed by 37,686,794 common shares with a 0.05 euro par value, or a share capital amounting 1,884,339.70 euros. Compared to December 31, 2010, there is no change in the number of shares.

### Issuance of redeemable warrants ("BSAAR")

On June 18, 2010, the Company distributed 100 000 redeemable warrants ("BSAAR") to officers and certain employees, as per a delegation given by the General Meeting of shareholders dated June 23, 2009. All BSAAR were acquired by beneficiaries. Each BSAAR will give beneficiaries the option to acquire one new share of the Company at a price of 2.34 euros within the five years following their distribution.

The Company will have the right, at its sole option, to buy back the BSAAR from the beneficiaries at any given time after their distribution at a price of 0.01 euros per BSAAR. However, such a buy-back will only be possible if the average share price as calculated over ten working days within the twenty working days prior to the decision taken by the Company to use its right is above 3,51 euros, or 150% of the strike price.

### Fully diluted capital

The number of shares that could be issued from the warrants already distributed (234,998), the stock-options distributed and vested (535,800), the free shares already distributed but not yet vested (249,100) and the exercise of the distributed BSAAR (100,000) totaled 1,119,898, representing approximately 2.89% of the Company's share capital based on the existing number of shares at June 30, 2011 (i.e. 38,806,692 on a fully diluted basis).

This number does not take into account the authorized but not yet issued warrants ("BSA"; 350,000), nor the authorized but not yet distributed free shares (900).

## 12) Cost of supplies and consumable materials, other purchases and external expenses

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

Other purchases and external expenses are analyzed as follows (in thousands of euros):

	6-month period ended June 30	
	2011	2010
Subcontracting	(2,155)	(1,921)
Non-scientific advisory and consulting	(483)	(298)
Scientific advisory and consulting	(193)	(295)
Leasing, maintenance and utilities	(346)	(435)
Travel expenses and participation to congresses	(336)	(324)
Marketing, communication and public relations	(122)	(157)
Telecommunications and postal services	(39)	(44)
Insurance	(46)	(61)
Bank charges	(7)	(8)
Attendance fees *	(93)	--
Others, net	(55)	(28)
<b>Other purchases and external expenses</b>	<b>(3,876)</b>	<b>(3,572)</b>

\* At June 30, 2010, attendance fees were classified as "Other income and other expenses" (see note 15). This change was already implemented at December 31, 2010.

## 13) Employee benefits other than share-based compensation

The Company had 78 employees as at June 30, 2011, to be compared with 86 as at December 31, 2010. This decrease mainly results from the fact that 6 employees of the subsidiary Platine Pharma Services SAS are not included anymore in the employees of the Group (see note 7).

## 14) Share-based compensation

The share-based compensation expenses are broken down as follows (in thousands of euros):

	6-month period ended June 30	
	2011	2010
Warrants - BSA 2007	(8)	(16)
Warrants - BSA 2009	(2)	(4)
<b>Share-based compensation</b>	<b>(10)</b>	<b>(20)</b>

## 15) Other expenses

Other expenses are analyzed as follows (in thousands of euros):

	6-month period ended June 30	
	2011	2010
Taxes	(65)	(68)
Attendance fee	-	(57)
Loss on asset available to sale	-	(22)
Others	56	(5)
<b>Other expenses</b>	<b>(9)</b>	<b>(152)</b>

\* At June 30 2011, attendance fees are classified as "Cost of supplies and consumable materials, other purchases and external expenses"

## 16) Financial income (expenses), net

Financial income and expenses can be analyzed as follows (in thousands of euros):

	6-month period ended June 30	
	2011	2010
Net interests paid on borrowings, including lease-financing agreements	(102)	(201)
Gains / (losses) on foreign exchange	(130)	31
Interest income and gains on marketable securities	329	149
Net gain on de-recognition	390	-
Others	14	-
<b>Financial income (expenses), net</b>	<b>502</b>	<b>(21)</b>

Interest paid on borrowings, including lease-financing agreements; include notably the agreement for the lease-financing related to the acquisition and renovation of the Company's main premises.

## 17) Licensing revenue

For the six-month period ended June 30, 2011 the Company's licensing revenue relate to collaboration and licensing agreements with Novo Nordisk A/S, in relation with the reaching of clinical milestone by IPH 2201 (NN8765).

## 18) Commitments, contingencies and litigation

In the context of the lease-financing contract signed with SOGEBAIL for the financing of the acquisition and renovation of the main premises of the Company, a down-payment of 1,500 thousand euros was made to SOGEBAIL by the Company as a collateral to the lease-financing agreement. This deposit carries interests and is deducted (principal and interests) from the repayments of the lease-financing contract over its 12-year duration.

In January 2004, the Company has engaged into an exclusive license agreement with the German company Bioagency AG for all claims relating to two families of patents regarding the IPH 1201 drug candidate. Bioagency AG claims to have unilaterally terminated this agreement in August 2009. The Company has immediately contested this termination and considers this agreement as being still in force. Bioagency AG has then started legal action in France against Innate Pharma for counterfeiting and is requesting 10.7 million euros in damages to the Company.

The Company considers that there has been no counterfeiting. Innate Pharma has also engaged into a legal action against Bioagency AG considering that, by its action, it has had access to confidential information on research and development of IPH 1201 that could cause a serious prejudice to the Company. In this context, the Company is asking Bioagency AG for 6.0 million euros in damages.

The dispute is now in court. Considering the time taken by justice to resolve such disputes, the arguments developed by the Company and its advisors to contest the claims as well as the inherent uncertainty associated with such kind of dispute, the Company considers that this is a possible liability which has not been subject of a provision in the accounts.

## 19) Related party transactions

The following compensations were expensed to the benefit of the members of the executive committee of the Company (in thousands of euros):

	6-month period ended June 30	
	2011	2010
Salaries and short-term employee benefits other than share-based compensation	370	781
Extra pension benefits	6	6
Consultancy fees	154	47
Share-based compensation	-	-
<b>Key management compensation</b>	<b>530</b>	<b>834</b>

There were five members to the executive committee as at June 30, 2011.

## 20) Earnings per share

### Basic

Basic earnings per share are calculated by dividing the net earnings attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	6-month period ended June 30	
	2011	2010
Net loss for the period	(5,226)	(6,730)
Weighted average number of ordinary shares issued (in thousands)	37,687	37,184
Basic loss per share ( per share)	(0.14)	(0.18)

### Diluted

Diluted loss per share are calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at June 30, 2011 and 2010, warrants, stock options and free shares had a relative impact.

	6-month period ended June 30	
	2011	2010
Net loss for the period	(5,226)	(6,730)
Weighted average number of ordinary shares issued (in thousands)	37,687	37,184
Adjustment for warrants, stock options and free shares (in thousands)	-	-
Diluted loss per share ( per share)	(0.14)	(0.18)

## 21) Post balance sheet events

On July 6, 2011, the Company signed a license and collaboration agreement with the American company Bristol-Myers Squibb. This agreement concerns the development and commercialization of IPH2102, a novel antibody in Phase I development for the treatment of cancer. Under the terms of the agreement, Innate Pharma will grant to Bristol-Myers Squibb exclusive worldwide rights to develop, manufacture and commercialize IPH2102 and related compounds blocking KIR receptors. The agreement covers all potential indications for IPH2102. Innate Pharma will continue to develop IPH2102 in acute myeloid leukemia (AML) through to the end of Phase II. Innate Pharma will also provide pre-clinical support for the development of IPH2102. Bristol-Myers Squibb will fund the development of IPH2102. The agreement includes an upfront payment of 35 million dollars, non-refundable and non-creditable, except for 5 million dollars which could be creditable against future milestone payments. Additional payments of up to 430 million dollars, depending on the achievement of pre-specified milestones during the development and commercialization period, as well as pre-specified tiered double-digit royalty payments on worldwide net sales, are also included in the agreement.

## 22) Income statement by function

The income statement by function is set out below (amounts in thousands of euros):

	6-month period ended June 30	
	2011	2010
Revenue from collaboration and licensing agreements	1,000	211
Government financing for research expenditures	2,036	2,264
<b>Operating revenue</b>	<b>3,036</b>	<b>2,476</b>
Research and development expenses	(6,469)	(7,179)
General and administrative expenses	(2,294)	(2,005)
<b>Net operating expenses</b>	<b>(8,763)</b>	<b>(9,184)</b>
<b>Operating income / (loss)</b>	<b>(5,727)</b>	<b>(6,709)</b>
Financial income (expenses), net	501	(21)
<b>Net income / (loss)</b>	<b>(5,226)</b>	<b>(6,730)</b>

In accordance with IFRS 8 – Operating segments, the information presented above is based on the internal reporting presented to the Chief Operating Decision Maker. Segments defined by the Company are General and administrative (G&A) expenses and research and development expenses (R&D). The core activity of the Company consists in managing a portfolio of drug candidate (identification and development of drug-candidates). Costs related to this activity are merged in the R&D sector. Costs of the support activities (finance, human resources, legal...), are merged in the segment G&A.

#### IV. Declaration by the person responsible for this Interim Financial Report

I hereby declare, to the best of my knowledge, that the financial statements have been prepared in accordance with generally accepted accounting principles and give a true image of the assets, financial position and results of the company, and that the interim financial report reflects the changes in the Company's turnover, results and financial position and of all of the entities included within the consolidation scope as well as a description of the principle risks and uncertainties for the six months to come.

Chairman of the Executive Board

Mr. Hervé Brailly

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