innate pharma

French *société anonyme* governed by an executive board and a supervisory board with a share capital of 2,694,782.70 euros composed of 53,895,654 shares with 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.

Half-year financial report
June 30, 2016

Interim financial situation as of June 30, 2016

The following interim consolidated financial statements have been prepared by the Executive Board of the Company, and have been subject to a limited review by our Statutory Auditors. They have been examined by the Supervisory Board of the Company on September 7, 2016.

Summary

Innate Pharma at a glance

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

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

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

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

Incorporated in 1999 and listed on Euronext in Paris in 2006, Innate Pharma is based in Marseille, France, and had 127 employees at June 30, 2016.

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

1. Half-Year Management Review

The key elements of Innate Pharma's financial results for the first half of 2016 are as follows:

- Cash, cash equivalents and financial assets (current and non-current) amounting to €243.6m (million euros) as of June 30, 2016 (€273.7m as of December 31, 2015). At the same date, the financial liabilities amounted to €4.1m, including €3.2m of non-current liabilities (€3.8m as of December 31, 2015, including €3.1m of non-current liabilities).
- Revenue and other income amounting to €20.7m (€4.6 million for the first half of 2015). This amount results from licensing revenue (€16.7m) and from research tax credit (€4.0m). Revenue related to the licensing agreements mainly results from spreading of initial payment received by Innate Pharma in the context of the agreement signed in April 2015 with AstraZeneca/MedImmune (€16.1m).
- Operating expenses amounting to €23.6m (€15.5m for the first half of 2015), of which €20.3m (or 86%) related to research and development. The variance of the research and development costs (€20.3m compared to €12.8m for the first half of 2015) mainly results from the rise of the subcontracting costs, increasing by €6.3m to €10.9m (+€4.6m). This increase mainly results from the monalizumab program (+€4.3m).
- As a consequence of the items mentioned previously, the net loss for the first half of 2016 amounts to €3.2m (€8.0m for the first half of 2015).

Restatement of the comparative financial statements

As mentioned in Note 21 to the interim consolidated financial statements as of and for the six-month period ended June 30, 2016, the prior-year financial statements have been restated to reflect the correction of the effective date of the AstraZeneca/MedImmune agreement.

The table below summarizes the IFRS consolidated financial statements for the six-month period ended June 30, 2016, including 2015 comparative information:

In thousands of euros, except for data per share	June 30, 2016	June 30,2015(1)
Revenue and other income	**20,685**	**4,640**
Research and development	(20,273)	(12,754)
General and administrative	(3,339)	(2,728)
Operating expenses	**(23,612)**	**(15,482)**
Operating income/(loss)	**(2,927)**	**(10,842)**
Financial income	1,835	3,114
Financial expenses	(2,080)	(298)
Net loss	**(3,171)**	**(8,026)**
Weighted average number of shares outstanding (in thousands)	53,853	53,160
Net loss per share	(0.06)	(0.15)

	June 30, 2016	December 31, 2015
Cash, cash equivalents and financial instruments[1]	243,597	273,704
Total assets	282,356	305,956
Shareholders' equity	69,204	72,067
Total financial debt	4,084	3,754

(1) See Note 21 Restatement of the comparative financial statements

[1] Current and non-current

Revenue and other income

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

In thousands of euros	June 30, 2016	June 30, 2015(1)
Revenue from collaboration and licensing agreements	16,659	1,296
Government funding for research expenditures	4,025	3,344
Revenue and other income	**20,685**	**4,640**

(1) See Note 21 Restatement of the comparative information

The rise in revenue and other income mainly results from the partial recognition of the initial payment in relation to the co-development agreement signed with AstraZeneca in April 2015. This revenue is spread over the costs of the clinical trials the Company is in charge of. The amount recognized for the first half of 2016 amounts to €16.1m (€0.7m for the first half of 2015).

Government funding for research costs is mainly composed of the research tax credit (€4.0m for the six-month period ended June 30, 2016 compared to €3.3m for the same period last year). This rise, mainly resulting from the increase of the subcontracting costs, is however limited for the following reasons:

- A significant amount of the subcontracting costs for the first half of 2016 is not eligible for the research tax credit because they are related to clinical trials performed in the U.S.;
- Since 2015, the subcontracting costs expensed by the Company exceed the limitation set by the Tax Administration for the calculation of the research tax credit.

The 2015 research tax credit was received in August 2016 (€7.0m).

Operating expenses, by business function

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

In thousands of euros	June 30, 2016	June 30, 2015
Research and development expenses	(20,273)	(12,754)
General and administrative expenses	(3,339)	(2,728)
Operating expenses	**(23,612)**	**(15,482)**

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

The variance in R&D expenses between the two periods under review (€20.3m as of June 30, 2016 compared to €12.8m as of June 30, 2015, or +59%) mainly results from the subcontracting costs (+€6.3m). This rise mainly results from the monalizumab program (+€4.3m).

R&D expenses accounted for 86% of operating expenses for the six-month period ended June 30, 2016 (2015: 82%).

General and administrative ("G&A") expenses mostly comprise costs of the "support" staff as well as external expenses for the management and development of our business. The rise of these costs mainly results from an increase in non-scientific costs (+€0.3m).

G&A expenses accounted for 14% of operating expenses for the six-month period ended June 30, 2016 (2015: 18%).

Operating expenses, by business nature

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

In thousands of euros	June 30, 2016	June 30, 2015
Costs of supplies and consumable materials	(1,568)	(1,179)
Intellectual property expenses	(654)	(566)
Other purchases and external expenses	(13,885)	(7,202)
Employee benefits other than share-based compensation	(5,363)	(5,147)
Share-based payments	-	(272)
Depreciation and amortization	(1,563)	(977)
Other income and (expenses), net	(580)	(139)
Operating expenses	**(23,612)**	**(15,482)**

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

- Costs of supplies and consumable materials: the rise in these expenses between the two periods (+€0.4m, or +33%) mainly results from the increase in discovery activities;
- Other purchases and external expenses: the variance of the line item between the two periods results from the increase of the subcontracting costs (+€6.3m, see previous page);
- Employee benefits other than share-based compensation: the increase of the line item results from the rise in the employees (127 as of June 30, 2016 vs. 110 as of June 30, 2015). This variance is however limited by an exceptional bonus arising from the execution of the AstraZeneca/MedImmune, which was granted during the first half of 2015 (€0.6m).
- Depreciation and amortization: the rise of the line item mainly results from the amortization relating to the anti-NKG2A intangible asset (€1.2m for the first half of 2016 vs. €0.5m for the first half of 2015). This increase results from the recognition during the first half of 2015 of additional consideration following the AstraZeneca/MedImmune.
- Other income and expenses, net: the increase of the other income and expenses mainly results from the "contribution sociale de solidarité[2]" based on the turnover of the fiscal year 2015 (€0.3m).

Financial result

Financial income is mainly composed of interest related to cash, cash equivalents and financial assets. The decrease of the line item mainly results from the recognition during the first half of 2015 of an exchange gain relating to the collection of the initial payment from AstraZeneca/MedImmune (€2.5m).

Financial expenses for the first half of 2016 are mainly composed of exchange losses (€1.9m), resulting from the recovery of the Euro versus the U.S. dollar as of June 30, 2016 compared to December 31, 2015. This variance had an adverse variance on the valuation in Euro of the cash, cash equivalents and financial assets held in U.S. dollar.

[2] The "contribution sociale de solidarité" (or "C3S") is a tax based on the revenue collected during the fiscal year. Under IFRS GAAP, this tax is recognized the following year (IFRIC 21 - Levies), that is when the obligation is triggered.

Balance sheet item

Cash, cash equivalents and financial assets (current and non-current) amounted to €243.6m as of June 30, 2016, as compared to €273.7m as of December 31, 2015. Cash and cash equivalents do not include the reimbursement of the 2015 research tax credit which was received in August 2016 (€7.0m). Consequently, the amount of net cash[3] as of June 30, 2016 amounted to €203.1m (€235.3m as of December 31, 2015).

Since its incorporation in 1999, the Company has been primarily financed by revenue from its licensing activities (mostly in relation to the agreements with Novo Nordisk A/S and Bristol-Myers Squibb) and by issuing new securities. The Company also generated cash from government financing for research expenditure and repayable advances (BPI France). As of June 30, 2016, these repayable advances amount to €1.5m booked in non-current financial liabilities, of which €0.3m classified as current financial liabilities and €1.2m as non-current financial liabilities.

The other key balance sheet items as of June 30, 2016 are as follows:

- Deferred revenue of €192.7m relating to the remainder of the initial payment from Astra-Zeneca not yet recognized as revenue (including €128.2m booked as 'Deferred revenue – non-current portion');
- Receivables from the French government in relation to the research tax credit for 2015 and the six-month period ended June 30, 2016 (€11.0m);
- Intangible assets for a net book value of €10.0m, mainly corresponding to the rights and licenses relating to the acquisition of the monalizumab and anti-CD39 programs;
- Shareholders' equity of €69.2m including the net loss for the period (€3.2m).

Cash-flow items

The net cash flow generated over the six-month period ended June 30, 2016 amounted to +€7.0m, compared to a net cash flow of +€210.5m generated for the same year-ago period. Net cash flows generated during the first half of 2015 mainly resulted from the initial payment related to the agreement signed with AstraZeneca/MedImmune on April 25, 2015 (€223.5m).

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

- Net cash used in operating activities of €22.1m, mainly resulting from research and development activities and personnel expenses;
- Net cash generated from investing activities for an amount of €29.2m, mainly resulting from:
    - The disposal (net of acquisition) of financial assets for an amount of €37.2m;
    - Acquisition of intangible assets for an amount of €7.7m, mainly corresponding to the additional consideration relating to monalizumab paid to Novo Nordisk A/S following the agreement signed with AstraZeneca/MedImmune in 2015;
- Net cash used in financing activities for an amount of €0.2m, mainly resulting from the reimbursement of finance-leases (principal and interest).

[3] Net cash is equal to cash, cash equivalents and current financial assets less current financial liabilities.

Key elements since January 1, 2016

- On January 10, 2016, Innate Pharma and OREGA Biotech announced that they have entered into an exclusive licensing agreement by which OREGA Biotech grants Innate Pharma full worldwide rights to its program of first-in-class anti-CD39 checkpoint inhibitors. This license agreement arose from a fruitful research collaboration between the two companies initiated in 2014. The accounting treatment of this operation is explained in Note 6 to the interim consolidated financial statements.

- On January 11, 2016, Sanofi and Innate Pharma announced that they have entered into a research collaboration and licensing agreement to apply Innate Pharma's new proprietary technology to the development of innovative bispecific antibody formats engaging natural killer (NK) cells to kill tumor cells through the activating receptor NKp46. Innate Pharma will be eligible to receive up to €400m in development and commercial milestone payments as well as royalties on net sales.

Nota

The interim consolidated financial statements for the six-month period ended June 30, 2016 have been subject to a limited review by our Statutory Auditors and were approved by the Executive Board of the Company on September 6, 2016. They were reviewed by the Supervisory Board of the Company on September 7, 2016. They will not be submitted for approval to the general meeting of shareholders.

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

Risk factors identified by the Company are presented in paragraph 1.8 of the registration document ("Document de Référence") submitted to the French stock-market regulator, the "Autorité des Marchés Financiers", on April 25, 2016 (AMF number D.16-0397). The main risks and uncertainties the Company may face in the six remaining months of the year are the same as the ones presented in the registration document available on the internet website of the Company. These risks and uncertainties may occur not only during the six months remaining in the financial year but also in the years to come.

Related party transactions

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

No material transaction was concluded with a member of the executive committee or the supervisory board following the date of the 2015 registration document.

2. Interim consolidated financial statements

Statement of financial position (in thousand euros)

	Note	June 30, 2016	December 31, 2015
Assets			
Cash and cash equivalents	4	159,852	152,870
Short-term investments	4	44,075	83,040
Current receivables	5	20,944	16,216
Total current assets		**224,871**	**252,126**
Intangible assets	6	9,995	9,732
Tangible assets	7	7,820	6,304
Non-current financial assets	4	39,670	37,794
Total non-current assets		**57,485**	**58,830**
Total assets		**282,356**	**305,956**
Liabilities			
Trade payables	8	13,622	18,631
Deferred revenue – Current portion	13	64,765	40,910
Financial liabilities – Current portion	9	852	622
Total current liabilities		**79,239**	**60,163**
Deferred revenue – Non-current portion	13	128,238	168,854
Financial liabilities – Non-current portion	9	3,232	3,132
Defined benefit obligations	10	2,430	1,740
Provisions	17	13	-
Total non-current liabilities		**133,913**	**173,726**
Share capital	11	2,695	2,692
Share premium		186,489	186,337
Consolidated reserves		(116,234)	(109,525)
Net income (loss)		(3,171)	(6,706)
Other reserves		(574)	(730)
Total shareholders' equity attributable to equity holders of the Company		**69,204**	**72,067**
Total liabilities and equity		**282,356**	**305,956**

Statement of income (in thousand euros)

	Note	June 30, 2016	June 30, 2015(1)
Revenue from collaboration and licensing agreements	13	16,659	1,296
Government financing for research expenditures	13	4,025	3,344
Revenue and other income		**20,685**	**4,640**
Research and development	14	(20,273)	(12,754)
General and administrative	14	(3,339)	(2,728)
Net operating expenses		**(23,612)**	**(15,482)**
Operating income (loss)		**(2,927)**	**(10,842)**
Financial income	15	1,835	3,114
Financial expenses	15	(2,080)	(298)
Net income (loss) before tax		**(3,171)**	**(8,026)**
Income tax expense	16	-	-
Net income (loss)		**(3,171)**	**(8,026)**
Net income (loss) per share attributable to the equity holders of the Company:			
(in € per share)			
- basic	19	(0.06)	(0.15)
- diluted	19	(0.06)	(0.15)

(1) See Note 21 Restatement of the comparative financial statements

Statement of comprehensive income (in thousand euros)

In thousands of euros	June 30, 2016	June 30, 2015(1)
Net loss for the period:	**(3,171)**	**(8,026)**
Elements which won't be recycled in the income statement		
Actuarial gains and (losses)	(243)	(33)
Elements which will be recycled in the income statement		
Change in fair value of current financial instruments	388	19
Currency translation gain / (loss)	11	(47)
Other comprehensive income for the period:	**156**	**(61)**
Comprehensive income for the period:	**(3,015)**	**(8,087)**

(1) See Note 21 Restatement of the comparative financial statements

Statement of cash flows
(in thousand euros)

	Note	June 30, 2016	June 30, 2015(1)
Net income (loss)		**(3,171)**	**(8,026)**
Depreciation and amortization	6, 7	1,563	977
Provisions for charges and defined benefit obligations	10, 17	460	76
Share-based payments		-	272
(Gains) / losses on disposal of fixed assets		-	13
Foreign exchanges (gains) / losses on financial instruments		1,027	-
Variance of provision on financial assets		(600)	-
Gains on assets and other financial assets	15	(748)	(351)
Net interests paid	15	65	72
Variance on accrued interests on financial instruments		(152)	
Operating cash flow before change in working capital		**(1,555)**	**(6,967)**
Change in working capital		(20,513)	215,557
Net cash generated from / (used in) operating activities:		**(22,067)**	**208,590**
Acquisition of property, plant and equipment	7	(234)	(233)
Acquisition of intangible assets	6	(7,740)	-
Acquisition of current financial assets	4	(9,469)	-
Variance of assets in progress		(784)	-
Disposal of current financial assets	4	48,198	800
Acquisition of non-current financial assets		(1,527)	-
Gains on other financial assets	15	748	351
Net cash generated from / (used in) investing activities:		**29,193**	**918**
Transactions on treasury shares	11	14	101
Issue of own shares	11	141	1,213
Repayment of financial liabilities	9	(240)	(223)
Net interests paid	15	(65)	(72)
Net cash generated from financing activities:		**(150)**	**1,020**
Effect of the exchange rate changes		7	(47)
Net increase / (decrease) in cash and cash equivalents:		**6,982**	**210,481**
Cash and cash equivalents at the beginning of the period:		152,870	64,286
Cash and cash equivalents at the end of the period:		**159,852**	**274,767**

(1) See Note 21 Restatement of the comparative financial statements

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

Change in working capital June 30, 2015	Note	June 30, 2015[1]	December 31, 2014	Impact
Current receivables	5	15,525	10,075	(5,450)
Deferred revenue	13	(221,779)	(1,326)	220,453
Trade payables	8	(9,991)	(9,437)	554
Change in working capital		**(216,245)**	**(688)**	**215,557**

(1) See Note 21 Restatement of the comparative financial statements

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

	Share capital	Share premium	Retained earnings	Net gain / (loss)(1)	Other comprehensive income	Total shareholders' equity
Balance as of January 1, 2015	**2,648**	**181,746**	**(89,881)**	**(19,647)**	**(241)**	**74,626**
Net loss for the 6-month period ended June 30, 2015	-	-	-	(8,026)	-	(8,026)
Change in fair value of current financial instruments	-	-	-	-	19	19
Actuarial gains / losses)	-	-	-	-	(33)	(33)
Foreign exchange gain / (loss)	-	-	-	-	(47)	(47)
Total comprehensive income for the period	**-**	**-**	**-**	**(8,026)**	**(61)**	**(8,087)**
Net loss appropriation for 2014	-	-	(19,647)	19,647	-	-
Exercise and subscription of equity instruments	28	1,186	-	-	-	1,214
Share-based payments	2	271	-	-	-	272
Liquidity contract – Treasury shares	-	101	-	-	-	101
Total contributions by and distributions to owners of the company, recognized directly in equity	**27**	**1,558**	**(19,647)**	**19,647**	**-**	**1,585**
Balance as of June 30, 2015	**2,676**	**183,306**	**(109,527)**	**(8,026)**	**(303)**	**68,126**
Net loss for the six-month period ended December 31, 2015	-	-	-	1,320	-	1,320
Change in fair value of financial assets AFS	-	-	-	-	(184)	(184)
Actuarial gains / losses)					(227)	(227)
Foreign exchange gain / (loss)	-	-	-	-	(16)	(16)
Total comprehensive income for the period	**-**	**-**	**-**	**1,320**	**(427)**	**893**
Exercise and subscription of equity instruments	17	2,267	-	-	-	2,284
Share base payments	-	740	-	-	-	740
Liquidity contract – Treasury shares	-	24	-	-	-	24
Others	-	-	2	-	-	2
Total contributions by and distributions to owners of the company, recognized directly in equity	**17**	**3,031**	**2**	-	-	**3,050**
Balance as of December 31, 2015	**2,692**	**186,337**	**(109,525)**	**(6,706)**	**(730)**	**72,067**
Net loss for the 6-month period ended June 30, 2016	-	-	-	(3,171)	-	(3,171)
Change in fair value of current financial instruments	-	-	-	-	388	388
Actuarial gains and losses	-	-	-	-	(243)	(243)
Foreign exchange gain / (loss)	-	-	(3)	-	11	8
Total comprehensive income for the period	-	-	(3)	**(3,171)**	**156**	**(3,018)**
Net loss appropriation for 2015	-	-	(6,706)	6,706	-	-
Exercise and subscription of equity instruments	3	138	-	-	-	141
Liquidity contract – Treasury shares	-	14	-	-	-	14
Total contributions by and contributions to owners of the Company, recognized directly in equity	**3**	**152**	**(6,706)**	**6,706**	**-**	**155**
Balance as of June 30, 2016	**2,695**	**186,489**	**(116,234)**	**(3,171)**	**(574)**	**69,204**

(1) See Note 21 Restatement of the comparative financial statements

Notes to the Financial Statements

1) The Company

Innate Pharma S.A. is a clinical-stage biotechnology company with a focus on discovering and developing first-in-class therapeutic antibodies that harness the innate immune system to improve cancer treatment and clinical outcomes for patients. Incorporated in 1999 and listed on Euronext in Paris in 2006, Innate Pharma is based in Marseilles, France, and had 127 employees at June 30, 2016.

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

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

The most advanced drug-candidates of the Company are lirilumab, licensed to the US biopharmaceutical group Bristol-Myers Squibb, and monalizumab, under a global co-development and commercialization agreement with AstraZeneca. These two candidates are currently tested in the context of Phase II clinical trials. The third most advanced drug-candidate of the Company is IPH4102, developed in-house and conducted in a Phase I trial for cutaneous T cell lymphomas (CTCL).

Innate Pharma's key expertise is in innate immunity and antibody technology. The Company has established a large panel of molecular and cellular assays and in vivo models for assessing the dynamics, the toxicology and the efficacy of product candidates targeted at the innate immune system. In addition, Innate Pharma has access to a large set of research tools in cellular immunology through its worldwide network of scientific collaborations.

As of June 30, 2016, the Company owned a fully owned subsidiary, called Innate Pharma, Inc., created in 2009 and registered in the Delaware, United States. The corporate purpose of this company consists of managing the business development activities in the United Sates. This company is dormant since January 1, 2011.

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

The Executive Board approved these interim consolidated financial statements presented under IFRS on September 6, 2016. They were also examined by the Supervisory Board on September 7, 2016 and were subject to a limited review by the statutory auditors of the Company. They are not subject to approval by the General Meeting of shareholders.

Key events since January 1, 2016

- On January 10, 2016, Innate Pharma and OREGA Biotech announced that they have entered into an exclusive licensing agreement by which OREGA Biotech grants Innate Pharma full worldwide rights to its program of first-in-class anti-CD39 checkpoint inhibitors. This license agreement arose from a fruitful research collaboration between the two companies initiated in 2014. An intangible asset was recognized in the balance sheet for the amount of the initial payment. The accounting treatment of this operation is explained in Note 6.

- On January 11, 2016, Sanofi and Innate Pharma announced that they have entered into a research collaboration and licensing agreement to apply Innate Pharma's new proprietary technology to the development of innovative bispecific antibody formats engaging natural killer (NK) cells to kill tumor cells through the activating receptor NKp46. Innate Pharma will be eligible to up to €400 million in development and commercial milestone payments as well as royalties on net sales. This agreement has no impact on the interim consolidated financial statements as of June 30, 2016.

2) Accounting policies

a) Basis of preparation

The interim consolidated financial statements for the six-month period ended June 30, 2016 have been prepared in accordance with IAS 34, 'Interim Financial Reporting' from the International Financial Reporting Standards (IFRS) as adopted by the European Union. They should be read in conjunction with the annual consolidated financial statements as of December 31, 2015 prepared in accordance with IFRS as adopted by the European Union and presented in paragraph 3.3.1 of the registration document submitted to the French stock-market regulator, the "Autorités des Marchés Financiers", on April 25, 2016.

b) Accounting policies

The accounting policies applied are the same as those adopted in the preparation of the annual financial statements as of December 31, 2015 in accordance with IFRS as adopted by the European Union.

Application of the following new and amended standards is mandatory for the first time for the financial period beginning on January 1, 2016 and, as such, they have been adopted by the Company:

- Annual improvements (2012-2014 cycle), mandatory for annual periods beginning on or after January 1, 2016;
- Amendments to IAS 1"Disclosure initiative";
- Amendments to IAS 16 and IAS 38 "Clarification of acceptable methods of depreciation and amortization";
- Amendments to IAS 16 and 41"Agriculture: Bearer Plants";
- Amendments to IAS 27 "Equity Method in Separate Financial Statements";
- Amendments to IFRS 10 and IAS 28 "Sales or contributions of assets between an investor and its associate/joint venture";
- Amendments to IFRS 11 "Acquisition of an interest in a joint operation".

None of these amendments and interpretations has a significant impact on the financial statements of the Company for the six-month period ended June 30, 2016.

The following new standards, amendments to existing standards and interpretations have been published but are not applicable in 2016, and have not been early adopted by the Company:

- IFRS 9 "Financial instruments", mandatory for annual periods beginning on or after January 1, 2018. IFRS 9 supersedes IAS 39 "Financial instruments: recognition and measurement". The Company is in the process of evaluation the impact of this standard;
- IFRS 14 "Regulatory deferral accounts". The European Union did not launch the homologation process of this standard;
- IFRS 15 "Revenue from contracts with customers", mandatory for annual periods beginning on or after January 1, 2018. IFRS 15 supersedes IAS 11 "Construction contracts", IAS 18 "Revenue" and the corresponding interpretations (IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31). The Company is in the process of evaluation the impact of this standard;
- IFRS 16 "Leases", mandatory for annual periods beginning on or after January 1, 2019. This standard supersedes IAS 17 and the corresponding interpretations (IFRIC 4, SIC 15 and SIC 27). The Company is in the process of evaluation the impact of this standard;
- Amendments to IFRS 2 "Clarifications of classification and measurement of share based payment transactions", mandatory for annual periods beginning on or after January 1, 2018;
- Amendments to IAS 7 under its disclosure initiative mandatory for annual periods beginning on or after January 1, 2017;
- Amendments to IAS 12 "Income taxes" to clarify the recognition of deferred tax assets for unrealized losses", mandatory for annual periods beginning on or after January 1, 2017.

3) Management of financial risks

Interim consolidated financial statements do not include all the information relating to financial risks described in the annual consolidated financial statements. The Company did not identify other risks than the ones presented in the 2015 registration document.

4) Cash, cash equivalents and financial assets

(in thousand euros)	June 30, 2016	December 31, 2015
Cash and cash equivalents	159,852	152,870
Short-term investments	44,075	83,040
Cash, cash equivalents and short-term investments	*203,927*	*235,910*
Non-current financial assets	39,670	37,794
Cash, cash equivalents and financial assets	**243,597**	**273,704**

Cash and cash equivalents

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

(in thousand euros)	June 30, 2016	December 31, 2015
Current accounts	3,385	11,887
Interest-bearing accounts	83,464	62,981
Fixed-term accounts	68,087	74,976
Others	4,916	3,026
Cash and cash equivalents	**159,852**	**152,870**

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

Assets classified as "Others" also meet these criteria.

Short-term investments

(in thousand euros)	June 30, 2016	December 31, 2015
Commercial papers	18,201	23,459
Negotiable medium-term notes	-	32,515
Mutual funds ("OPCVM")	23,611	23,892
Bond portfolio	-	882
Others	2,263	2,292
Short-term investments	**44,075**	**83,040**

Maturity of the commercial papers is comprised between January and July 2016. These instruments are defined by the Company as financial assets at fair value through profit or loss.

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

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

Non-current financial assets

(in thousand euros)	June 30, 2016	December 31, 2015
Mutual funds ("OPCVM")	17,935	17,884
Other non-current financial instruments	15,722	15,359
Negotiable medium-term notes	4,480	4,541
Capitalization contract for defined benefit obligations	1,500	-
Other non-current assets	33	10
Non-current financial assets	**39,670**	**37,794**

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

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

Negotiable medium-term notes classified as non-current financial assets are available before their maturity date, but with a risk on the capital invested. Capital is guaranteed and easily convertible in a well-known amount of cash at the maturity date. These instruments are defined by the Company as financial assets at fair value through profit or loss.

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

Cash, cash equivalents and financial assets per currency

(in thousand euros)	June 30, 2016			December 31, 2015		
	€	$	Total	€	$	Total
Cash and cash equivalents	140,294	19,558	**159,852**	130,657	22,213	**152,870**
Current and non-current financial assets	27,230	56,515	**83,745**	65,572	55,262	**120,834**
Total	**167,524**	**76,073**	**243,597**	**196,229**	**77,475**	**273,704**

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

Financial instruments per valuation method

(in thousand euros)	June 30, 2016	December 31, 2015
Variance of fair value through profit or loss(1)	598	(1,276)
Variance of fair value through other comprehensive income(2)	388	(165)

(1) For the fiscal year 2015, this amount is composed of unrealized gains for €46 thousand and unrealized losses for €1,322 thousand, recognized in financial result. For the first half of 2016, this amount is composed of unrealized gains for €658 thousand and unrealized losses of €60 thousand.

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

5) Current receivables

(in thousand euros)	June 30, 2016	December 31, 2015
Research tax credit and other tax credits (CICE*)	11,049	7,151
Prepaid expenses	6,537	5,990
VAT refund	1,768	1,604
Prepayments made to suppliers	1,285	278
Trade account receivables	3	505
Brokering/liquidity agreement – cash	-	358
Others	302	330
Current receivables and prepayments	**20,944**	**16,216**

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

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

The debt relating to the research tax credit for the fiscal year 2015 amounts to €7.0m and was received in August 2016.

As of June 30, 2016, other current assets include a VAT credit for an amount of €324 thousand relating to the fourth quarter of 2013. This request for refund has been claimed to the tax authority and is subject to an ongoing legal proceeding with the Tribunal Administratif. The Company is confident in its ability to recover this receivable and has concluded that it should not be impaired as of June 30, 2016.

With the exception of this VAT credit, all receivables and other current assets have payment terms of less than one year. No valuation allowance was recognized on accounts receivable as there is no past due receivable.

6) Intangible assets

(in thousand euros)	Purchased licenses	Other intangible assets	Total intangible assets
Year ended December 31, 2015			
Net opening balance	**5,362**	**-**	**5,362**
Acquisitions(1)	6,325	-	6,325
Depreciation	(1,955)	-	(1,955)
Net closing balance	**9,732**	**-**	**9,732**
6-month period ended June 30, 2016			
Net opening balance	**9,732**	**-**	**9,732**
Acquisitions(1) (2)	1,415	-	1,415
Depreciation	(1,188)	-	(1,188)
Reclassification	-	36	36
Net closing balance	**9,959**	**36**	**9,995**

(1) Per the terms of the agreement signed with AstraZeneca in April 2015, Novo Nordisk A/S is entitled to an additional consideration to be determined between the parties after the issuance of the 2015 financial statements. As of December 31, 2015, the best estimate of this additional consideration was recognized as an intangible asset in the amount of €6.3m. An additional amount of €0.2m was recognized in 2016 to reflect the final estimate agreed upon by the parties of €6.5m.

(2) As a result of the licencing agreement signed with Orega Biotech for the acquisition of anti-CD39 (see paragraph " Key events since January 1, 2016"), the Company recognized an intangible asset for the cost of the purchased licence amounting to €1.3m.

7) Tangible assets

(in thousand euros)	Lands and buildings(1)	Laboratory equipment and other tangible assets	Tangible assets in progress(2)	Total
Year ended December 31, 2015				
Net opening balance	**4,496**	**1,437**	**-**	**5,933**
Acquisitions	-	906	166	1,072
Disposals	-	(2)	-	(2)
Depreciation	(298)	(402)	-	(700)
Reclassification	-	-	-	-
Net closing balance	**4,197**	**1,940**	**166**	**6,304**
6-month period ended June 30, 2016				
Net opening balance	**4,197**	**1,940**	**166**	**6,304**
Acquisitions	-	803	1,124	1,927
Disposals	-	-	-	-
Depreciation	(148)	(227)	-	(375)
Reclassification	-	114	(150)	(36)
Net closing balance	**4,049**	**2,631**	**1,140**	**7,820**

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

(2) The increase of tangible assets in progress mainly results from the refurbishment works carried out in the headquarters of the Company. These works were not activated as of June 30, 2016.

8) Trade payables

(in thousand euros)	June 30, 2016	December 31, 2015
Suppliers (excluding capex)	10,777	8,618
Tax and social liabilities	2,370	3,434
Other payables	135	254
Operational liabilities	*13,282*	*12,306*
Capex suppliers	340	6,325
Trade payables	**13,622**	**18,631**

9) Financial liabilities

(in thousand euros)	June 30, 2016	December 31, 2015
BPI PTZI IPH41	300	150
Finance leases – Real estate transaction	482	472
Finance leases – Laboratory equipment	70	-
Total – Current financial liabilities	**852**	**622**
BPI France	1,200	1,350
Finance leases – Real estate transaction	1,538	1,782
Finance leases – Laboratory equipment	494	-
Total – Non-current financial liabilities	**3,232**	**3,132**
Total financial liabilities	**4,084**	**3,754**

In 2013, the Company was granted an interest-free loan for innovation (PTZI) relating to the program IPH41 for an amount of €1,500 thousand. The reimbursement of this loan will occur between September 2016 and June 2021.

Lease-finance obligations relate primarily to the real estate transaction in relation the acquisition by the Company of its new headquarters and main laboratories. In the context of this operation, the Company paid a guarantee in the form of a down-payment. This down-payment amounts to €599 thousand as of June 30, 2016 (€667 thousand as of December 31, 2015). In the schedule above, financial liabilities relating to this real-estate transaction do not include this down-payment.

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

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

(in thousand euros)	Within 1 year	From 2nd to 5th year included	Over 5 years	Total
BPI France (ex Oséo)	300	1,200	-	**1,500**
Finance leases – Real estate transaction	482	1,538	-	**2,020**
Finance leases – Laboratory equipment	70	284	210	**564**
Total	**852**	**3,022**	**210**	**4,084**

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

(in thousand euros)	Within 1 year	From 2nd to 5th year included	Over 5 years	Total
BPI France (ex Oséo)	300	1,200	-	**1,500**
Finance leases – Real estate transaction	554	1,629	-	**2,183**
Finance leases – Laboratory equipment	72	290	211	**573**
Total	**926**	**3,119**	**211**	**4,256**

10) Defined benefit obligations

(in thousand euros)	June 30, 2016	December 31, 2015
Provision for retirement benefits	2,107	1,740
Provision for seniority awards	323	-
Defined benefit obligations	**2,430**	**1,740**

The Company's pension benefits mainly correspond to indemnities due to employees who leave the Company in the context of their retirement. The Company uses an external actuary firm so as to evaluate this provision corresponding to the fair value of the obligations not covered by plan assets. Regarding the actuarial assumptions, the main change compared to December 2015 is the actualization rate (1.25% compared to 2.0% as of December 31, 2015). The impact of this change amounts to €263 thousand, recorded in the other comprehensive income.

Following an agreement with the employee representatives dated March 24, 2016, the Company is committed to pay seniority awards for the employees reaching a seniority of 15 and 20 years in the Company. Such an agreement existed for the employees reaching a seniority of 10 years. No provision was recognized since the amount was not material. Following this new agreement, the Company recognized for the first time as of June 30, 2016 a provision relating to the seniority awards (10, 15 and 20 years). The counterpart was recognized in the statement of income under the line item "Employee benefits other than share-based compensation" (see Note 14). These awards enter indeed in the scope of IAS 19. This provision, which is also calculated by an external actuary firm, amounts to €323 thousand as of June 30, 2016. The actuarial assumptions used for the calculation are the following:

- Discount rate: 0.90%
- Annual rate of increase in wages: 3%
- Tax rate for employer: 49%
- Tax rate for employees: 23.41%
- Age at retirement: 64 year-old for executives, 62 year-old for non-executive
- Mortality table: INSEE TD/TV 2011-2013
- Annual mobility: 1.64% in average

11) Capital

Share Capital

As of December 31st, 2015, the share capital was composed of 53, 834, 014 common shares with a 0.05 euro par value, or a share capital amounting to 2,691, 700.70 euros.

On January 6, 2016, the Executive Board minuted the exercise of 2, 700 BSAAR 2012 bringing the share capital to 2,691,835.70 euros (53,836,714 shares). The exercise price received by the Company was recorded as share capital to one hundred and thirty-five euros and an issue premium for 5 thousand euros.

On May 30, 2016, the Executive Board minuted the exercise of 30,000 BSAAR 2011, 2,000 BSAAR 2012, 1,940 BSAAR 2015 and 25,000 BSA 2013, bringing the share capital to 2,694,782.70 euros (53,895,654 shares). The exercise price received by the Company was recorded as share capital to 2 thousands euros and an issue premium for 135 thousands euros.

Potential capital

As of June 30, 2016, the number of shares that could be issued from outstanding warrants (435,700) and outstanding repayable warrants (1,391,822) totaled 1,827,522, representing approximately 3.3% of the Company's share capital based on the existing number of shares on a fully diluted basis (i.e. 55,723,176).

Treasury shares

On May 13, 2016, the Company terminated the liquidity contract for which Gilbert Dupond was mandated in August 2012. As of June 30, 2016, the Company held 18,575 treasury shares (22,128 as of December 31, 2015) for a total amount of €194 thousand (€292 thousand as of December 31, 2015). The balance of the liquidity contract amounted to €358 thousand as of December 31, 2015). These own shares are deducted from the equity in the consolidated financial statements.

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

As of June 30, 2016	Book value on the statement of financial position	Fair value through profit and loss (1)	Fair value through comprehensive income (2)	Debt at amortized costs (3)	Fair value
Financial assets					
Non current financial assets	39,670	20,202	17,935	1,533	39,670
Current receivables	20,944	-	-	20,944	20,944
Short term investments	44,075	20,464	23,611	-	44,075
Cash and cash equivalents	159,852	154,936	4,916	-	159,852
Total financial assets	**264,541**	**195,602**	**46,462**	**22,477**	**264,541**
Financial liabilities					
Other non current liabilities	13	-	-	13	13
Non current financial liabilities	3,232	-	-	3,232	3,232
Current financial liabilities	852	-	-	852	852
Trade payables	13,622	-	-	13,622	13,622
Total financial liabilities	**17,719**	**-**	**-**	**17,719**	**17,719**

As of December 31, 2015	Book value on the statement of financial position	Fair value through profit and loss (1)	Fair value through comprehensive income (2)	Debt at amortized costs (3)	Fair value
Financial assets					
Other non current assets	37,794	19,900	17,884	10	37,794
Current receivables	16,216	-	-	16,216	16,216
Short term investments	83,040	59,148	23,892	-	83,040
Cash and cash equivalents	152,870	152,870	-	-	152,870
Total financial assets	**289,920**	**231,918**	**41,776**	**16,226**	**289,920**
Financial liabilities					
Non current financial liabilities	3,132	-	-	3,132	3,132
Current financial liabilities	622	-	-	622	622
Trade payables	18,631	-	-	18,631	18,631
Total financial liabilities	**22,385**	**-**	**-**	**22,385**	**22,385**

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

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

13) Revenue and other income

Revenue from collaboration and licensing agreements

Revenue from collaboration and licensing agreements results from the agreements signed with Bristol-Myers Squibb ("BMS") in 2011 and AstraZeneca ("AZ") in 2015.

(in thousand euros)	June 30, 2016	June 30, 2015(1)
AZ: recognition of the initial payment collected in 2011(2)	16,117	737
BMS: recognition of the initial payment collected in 2015(2)	441	441
BMS: other elements	101	118
Revenue from collaboration and licensing agreements	**16,659**	**1,296**

(1) See Note 21 Restatement of the comparative financial statements

(2) Variance of deferred revenue

(in thousand euros)	Initial payment AZ	Initial payment BMS	Personnel BMS	Other	Total
As of December 31, 2104	**-**	**1,324**	**-**	**2**	**1,326**
BMS - Invoicing personnel costs	-	-	969	-	969
AZ – Invoicing of the initial payment	220,907	-	-	-	220,907
Recognition in the statement of income	(737)	(441)	(242)	(2)	(1,422)
As of June 30, 2015	**220,169**	**883**	**727**	**-**	**221,779**

(in thousand euros)	Initial payment AZ	Initial payment BMS	Personnel BMS	Other	Total
As of December 31, 2105	**208,838**	**441**	**485**	**-**	**209,764(2)**
Recognition in the statement of income	(16,117)	(441)	(242)	-	(16,800)
Others	-	-	-	40	40
As of June 30, 2016	**192,721**	**-**	**243**	**40**	**193,003(3)**

(1) Including €40 910 thousand of current and €168,854 thousand of non-current deferred revenue.

(2) Including €64,765 thousand of current and €128,238 thousand of non-current deferred revenue.

Government financing for research expenditures

As of June 30, 2016, estimate of the amount of research tax credit for the first half period is calculated on the basis of eligible expenses in the period. However, since the fiscal year 2015, the Company reached the limitation relating to the eligible subcontracting costs. As of June 30, 2016, a limitation representing 50% of the annual limitation was applied.

14) Operating expenses

(In thousand euros)	June 30, 2016			June 30, 2015		
	G&A	R&D	Total	G&A	R&D	Total
Other purchases and external expenses	(1,583)	(12,302)	**(13,885)**	(965)	(6,237)	**(7,202)**
Employee benefits other than share-based compensation	(1,453)	(3,910)	**(5,363)**	(1,580)	(3,567)	**(5,147)**
Share-based compensation	-	-	**-**	(63)	(209)	**(272)**
Depreciation and amortization	(90)	(1,473)	**(1,563)**	(65)	(912)	**(977)**
Cost of supplies and consumable materials	-	(1,568)	**(1,568)**	-	(1,179)	**(1,179)**
Intellectual property expenses	-	(654)	**(654)**	-	(566)	**(566)**
Other income and (expenses), net	(213)	(367)	**(580)**	(38)	(101)	**(139)**
Total operating expenses	**(3,339)**	**(20,273)**	**(23,612)**	**(2,709)**	**(12,773)**	**(15,482)**

Other purchases and external expenses

(In thousand euros)	June 30, 2016			June 30, 2015		
	G&A	R&D	Total	G&A	R&D	Total
Subcontracting(1)	-	(10,854)	**(10,854)**	-	(4,689)	**(4,689)**
Travel expenses and congress attendance	(205)	(426)	**(631)**	(95)	(443)	**(538)**
Non-scientific advisory and consulting(2)	(754)	(112)	**(866)**	(432)	(260)	**(692)**
Leasing and maintenance	(211)	(430)	**(641)**	(90)	(373)	**(463)**
Scientific advisory and consulting(3)	-	(396)	**(396)**	-	(396)	**(396)**
Marketing, communication and public relations	(215)	(27)	**(242)**	(140)	(45)	**(185)**
Attendance fees	(100)	-	**(100)**	(100)	-	**(100)**
Others	(98)	(57)	**(155)**	(108)	(31)	**(139)**
Other purchases and external expenses	**(1,583)**	**(12,302)**	**(13,885)**	**(965)**	**(6,237)**	**(7,202)**

(1) The Company subcontracts a significant part of its pre-clinical (pharmaceutical development, tolerance studies and other model experiments, etc.) and clinical operations (coordination of trials, hospital costs, etc.) to third parties. Associated costs are recorded in subcontracting on the basis of the level of completion of the clinical trials.

(2) Non-scientific advisory and consulting are services performed to support the selling, general and administration activities of the Company, such as legal, accounting and audit fees as well as business development support.

(3) Scientific advisory and consulting expenses relate to consulting services performed by third parties to support the research and development activities of the Company.

Employee benefits other than share-based compensation

The line item amounted to €5,363 thousand and €5,147 thousand for the six-month periods ended June 30, 2016 and June 30, 2015 respectively. The Company had 127 employees as of June 30, 2016, compared to 110 as of June 30, 2015.

Depreciation and amortization

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

Cost of suppliers and consumable materials

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

15) Financial income and expenses, net

(in thousand euros)	June 30, 2016	June 30, 2015(1)
Gains on financial assets	821	331
Variance of fair value of financial assets	582	-
Foreign exchange gains	416	2,764
Other financial income	16	19
Financial income	**1,835**	**3,114**
Foreign exchange losses	(1,877)	(103)
Variance of fair value of financial assets	(77)	-
Interests on borrowings and finance-leases	(65)	(72)
Other financial expenses	(61)	(123)
Financial expenses	**(2,080)**	**(298)**
Financial income and expenses, net	**(244)**	**2,816**

(1) See Note 21 Restatement of the comparative financial statements

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

16) Income tax

Taking into account its stage of development which prevents management from making sufficiently reliable financial forecasts, the Group does not recognize deferred tax assets. Temporary differences mainly result from finance leases, provision for defined benefit obligation and tax loss carry forward. As of June 30, 2016, the net amount of deferred tax liabilities excluding tax loss carry forward was €280 thousand (€185 thousand as of December 31, 2015).

Taking into account the tax regulations, the Company had tax losses to be carried forward with no time limit for a total amount of €166 million as of December 31, 2015.

Tax proof

(in thousand euros)	June 30, 2016	June 30, 2015(1)
Income before taxes	**(3,171)**	**(8,026)**
Statutory tax rate	34,43%	34,43%
Theoretical tax benefit	1,092	2,763
Increase/decrease in tax expense arising from:		
Research tax credit	1,382	1,122
Provision for defined benefit obligations	(238)	(37)
Non recognition of deferred tax assets related to tax losses and temporary differences	(2,305)	(3,910)
Other differences	69	62
Effective tax expense	-	-
Effective tax rate	0%	0%

(1) See Note 21 Restatement of the comparative financial statements

17) Commitments, contingencies and litigation

Real property lease

In the wake of the increase of the staff, the Company contracted on February 1, 2016 a lease agreement relating to additional premises. The Company is committed for two years with an option for a third year. As of June 30, 2016, the commitment relating to this agreement for the 3 year period amounts to €262 thousand.

Purchasing of consumables

Following the free supply of a laboratory equipment, the Company is committed towards one of its suppliers to a minimum level of purchases of consumables for the period June 2016 to June 2020. The global commitment amounts to €740 thousand.

Renting of copiers and company cars

The Company subscribed to renting contracts for its copiers and company cars. As of June 30, 2016, the global amount of these commitments is €124 thousand.

Litigations

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

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

18) Related party transactions

Members of the Executive Board and Executive Committee

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

(in thousand euros)	June 30, 2016	June 30, 2015[1]
Salaries and short-term employee benefits	555	711
Extra pension benefits	8	6
Consultancy fees	286	311
Key management compensation	**849**	**1,028**

(1) See Note 21 Restatement of the comparative financial statements

There were seven members of the executive committee as of June 30, 2016 and 2015.

19) 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.

(in thousand euros)	June 30, 2016	June 30, 2015[1]
Net loss for the period	(3,171)	(8,026)
Weighted average number of ordinary shares issued (in thousands)	58,853	53,160
Basic loss per share (€ per share)	(0.06)	(0.15)

(1) See Note 21 Restatement of the comparative information

Diluted

Diluted loss per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As of June 30, 2016 and 2015, warrants, stock options and free shares allocated but not yet acquired did not have a dilutive effect. Indeed, they incur an increase of the earning per share. Therefore, the diluted earning per share is equal to the earning per share.

	June 30, 2016	June 30, 2015[1]
Net loss for the period	(3,171)	(8,026)
Weighted average number of ordinary shares issued (in thousands)	58,853	53,160
Adjustment for warrants, stock options and free shares (in thousands)	-	-
Basic loss per share (€ per share)	(0.06)	(0.15)

(1) See Note 21 Restatement of the comparative financial statements

20) Post balance sheet events

None

21) Restatement of the comparative financial statements

The Company entered into a co-development and commercialization agreement with AstraZeneca/MedImmune for monalizumab in April 2015. An initial payment amounting to $250m was collected on June 30, 2015. This amount is recognized in revenue on the basis of actual expenses incurred during the period over the term of the on-going clinical trials specified in the agreement.

The Company initially retained the signature date of the agreement (April 24, 2015) as the effective date for revenue recognition purposes and calculated the amount to be recognized in the first half of 2015 on this basis. The Company later revised its position and retained the date of June 4, 2015 when the agreement was approved by the Federal Trade Commission as the effective date. The resulting impacts on the statement of financial position and the statement of income as of and for the six-month period ended June 30, 2015 are accounted for according to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors and are presented below (in thousand euros):

Statement of income	June 30, 2015 published	IAS 8 - Restatement	June 30, 2015 restated
Revenue from collaboration and licensing	3,092	(1,796)	1,296
Government financing for research expenditures	3,344	-	3,344
Revenue and other income	**6,436**	**(1,796)**	**(4,640)**
Operating expenses	(15,482)	-	(15,482)
Operating income/(loss)	**(9,046)**	**(1,796)**	**(10,842)**
Financial income	2,370	744	3,114
Financial expenses	(298)	-	(298)
Net loss	**(6,974)**	**(1,052)**	**(8,026)**
Net loss per share	(0.13)	(0.02)	(0.15)

Statement of financial position	June 30, 2015 published	IAS 8 - Restatement	June 30, 2015 restated
Deferred revenue – Current portion	47,381	394	47,775
Total current liabilities	**57,834**	**394**	**58,228**
Deferred revenue – Non current portion	173,347	657	174,004
Total non-current liabilities	**178,071**	**657**	**178,728**
Net income/(loss)	(6,974)	(1,052)	(8,026)
Total shareholders' equity attributable to equity holders of the Company	**69,178**	**(1,052)**	**68,126**
Total liabilities and equity	**305,083**	**-**	**305,083**

3. Statutory auditors' review report on interim consolidated financial statements

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

To the Shareholders,

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

• the review of the accompanying condensed half-yearly consolidated financial statements of Innate Pharma for the period from January 1 to June 30, 2016;

• the verification of the information presented in the half-yearly management report.

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

1. Conclusion on the financial statements

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

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

Without qualifying our above conclusion, we draw your attention to note 21, Restatement of comparative information, to the condensed half-yearly consolidated financial statements, setting out the restatements to the Statement of income for the half-year ended June 30, 2015, compared with the previous version of the condensed half-yearly consolidated financial statements published in the prior year.

2. Specific verification

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

Marseille, September 7, 2016

The Statutory Auditors

French original signed by

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

4. Declaration by the person responsible for this Half-year Financial Report

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

Chairman of the Executive Board

Monsieur Hervé Brailly

INVESTOR RELATIONS

Laure-Hélène Mercier
Director, Investor Relations
117, Avenue de Luminy - BP 30191
13 009 Marseille FRANCE
Tel:+33 (0)4 30 30 30 87
Fax:+33 (0)4 30 30 30 00

investors@innate-pharma.com

innate pharma