PRESS RELEASE

innate pharma

First half of 2016: building momentum through clinical development and new partnerships

- ***Cash, cash equivalents and financial assets[*] for the Company amounted to €243.6m (million euros) as of June 30, 2016***
- ***Company is building foundations to become a commercial stage biopharmaceutical company, with retained co-development and commercialization rights to monalizumab and full rights to IPH4102***
- ***Continues to invest in proprietary clinical and preclinical pipeline to position Innate Pharma for a more mature phase***
- ***Continued progress with key clinical trials:***
  - ***First data for all three clinical programs expected before the end of 2016, including for lirilumab***
  - ***Fifth clinical trial of monalizumab program initiated; conducted by AstraZeneca, this trial is testing monalizumab in combination with durvalumab in solid tumors***
- ***Research collaboration and licensing agreement with Sanofi on bispecific antibodies and exclusive licensing agreement with OREGA Biotech strengthen a key line-up of partnerships***

Marseille, France, September 8, 2016

Innate Pharma SA (the "Company" - Euronext Paris: FR0010331421 – IPH) today reports its consolidated financial results for the first half of 2016. The summary of the condensed half-year consolidated financial statements are attached to this press release.

During the period, Innate Pharma has made progress across its portfolio of innovative immunotherapies designed to harness the innate immune system, both in the three first-in-class antibodies in clinical trials and in preclinical programs.

The clinical program of lirilumab, Innate Pharma's most advanced candidate, continued to progress well, with key data expected later in 2016.

The fifth clinical trial in the initial development program with monalizumab was initiated by the Company's partner AstraZeneca, testing monalizumab in combination with durvalumab (anti-PD-L1) in solid tumors.

At the American Association of Cancer Research (AACR) Annual Meeting in New Orleans, USA, the Company's scientists presented data supporting the rationale of four of Innate's clinical and preclinical programs, including the rationale for combination treatment with monalizumab and an anti-PD-1/PD-L1, and for IPH4301, its first-in-class anti-MICA/B humanized antibody. Two new programs targeting the tumor microenvironment were also presented.

Earlier in 2016, the Company signed a research collaboration and licensing agreement with Sanofi 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. Innate Pharma

[*] Including current and non-current financial assets

and OREGA Biotech announced that they entered into an exclusive licensing agreement granting Innate Pharma full worldwide rights to OREGA Biotech's first-in-class anti-CD39 checkpoint inhibitors.

Hervé Brailly, Chief Executive Officer of Innate Pharma, commented: *"Innate Pharma has made great progress in clinical development and research across the portfolio in the first half of the year. We have a solid cash position and look forward to the several near-to-medium term value inflection points".* **He added:** *"With retained co-development and commercialization rights to monalizumab as part of the landmark agreement with AstraZeneca, full rights to IPH4102 and continued investment in the proprietary pipeline, Innate is building the foundations to become a commercial stage biopharmaceutical company."*

A conference call will be held today at 2:30pm (CEST)

Dial in numbers: +33 (0)1 70 77 09 35

The slideshow of the presentation will be made available on the Company's website 30 minutes before the conference begins.

A replay will be available on Innate Pharma's website after the conference call.

Financial highlights of the first half of 2016:

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).

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

The results of the period ended June 30, 2015 presented below have been restated to reflect the recognition from June 4, 2015 (instead of April 24, 2015) of the initial payment relative to the agreement with AstraZeneca/MedImmune for monalizumab concluded in April 2015. The impacts of this restatement are described in the Note "Comparability of the interim consolidated financial statements" attached in Appendix.

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†	243,597	273,704
Total assets	282,356	305,956
Shareholders' equity	69,204	72,067
Total financial debt	4,084	3,754

(1) The results of the period ended June 30, 2015 have been restated as explained in the Note "Comparability of the interim consolidated financial statements" attached in Appendix

Pipeline update:

Lirilumab (anti-KIR antibody), partnered with Bristol-Myers Squibb:

Lirilumab is a fully human monoclonal antibody that is designed to act as a checkpoint inhibitor by blocking the interaction between KIR2DL-1,-2,-3 inhibitory receptors and their ligands. Blocking these receptors facilitates activation of NK cells and, potentially some subsets of T cells, ultimately leading to destruction of tumor cells. Lirilumab has been or is currently being tested in several indications and combination settings.

- EffiKIR (double-blind placebo-controlled randomized Phase II trial of lirilumab as a maintenance treatment in elderly patients with acute myeloid leukemia in first complete remission - study IPH2102-201):

† Current and non-current

- In March 2016, the DSMB completed its sixth assessment of the EffiKIR study and recommended continuation of the trial without modification. As a reminder, since March 2015, the trial continues with one active arm and the placebo arm.
- The Company expects that analysis on the primary efficacy endpoint, leukemia-free survival, should occur in the second half of 2016. Per protocol, this analysis is event driven.

- Six Phase I and II trials testing lirilumab in combination in solid tumors and hematological malignancies are ongoing.
  - Safety data for the combination of lirilumab with nivolumab or with ipilimumab in two Phase I studies in advanced refractory solid tumors will be presented in a poster during the ESMO 2016 congress in Copenhagen, Denmark on October 9, 13:00 - 14:00.
  - Preliminary efficacy disclosures for lirilumab in some of these settings, including the combination with nivolumab in solid tumors, are expected in late 2016.

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

Monalizumab is a checkpoint inhibitor targeting NKG2A, an inhibitory receptor expressed on tumor infiltrating cytotoxic CD8 T lymphocytes and NK cells. This monoclonal antibody is currently in Phase II development in various cancer indications and combinations.

- In February 2016, the fifth trial of the initial development plan of monalizumab started. It tests monalizumab in combination with durvalumab in solid tumors and is performed by AstraZeneca/MedImmune. This trial is a multicenter, open-label, dose-escalation and cohort-expansion study to evaluate the safety, tolerability and antitumor activity of the combination in patients with selected advanced solid tumors. It will include up to 208 patients and will be performed in the United States, in Canada and in Europe.
  - In April 2016, at the American Association for Cancer Research (AACR) 2016 Annual Meeting in New Orleans, USA, Innate Pharma presented preclinical data demonstrating enhanced anti-tumor efficacy and survival in a mouse tumor model by combining anti-NKG2A with PD-1/PD-L1 pathway inhibitors. The data provides *in vivo* preclinical validation of the rationale for the clinical trial testing of monalizumab in combination with durvalumab. The poster is available on Innate Pharma's website at the following link: Poster #2342.
- During the first half of 2016, the Phase I/II trial testing monalizumab as a single agent in platinum-resistant or -sensitive patients with high-grade ovarian cancer has been extended to two additional cohorts of patients with epithelial endometrial cancer and squamous cell carcinoma of the cervix (up to 98 patients for all cohorts). The trial is sponsored by the Canadian Cancer Trials Group (formerly National Cancer Institute of Canada) and conducted in Canada.
  - Safety and first activity data for the dose-ranging part of this trial will be presented in a poster during the EORTC-NCI-AACR Molecular Targets and Cancer Therapeutics in Munich, Germany (November 29 - December 2, 2016).

Three additional trials are expected to open within the next few months:

- A Phase I trial testing monalizumab as a single agent in a post-transplantation setting in hematological malignancies;

- A Phase I/II trial testing monalizumab in combination with radiotherapy and chemotherapy in locally advanced oesophageal cancer;
- A Phase II trial testing monalizumab as a single-agent in recurrent/metastatic head and neck cancer.

IPH4102 (anti-KIR3DL2 antibody):

IPH4102 is a first-in-class cytotoxicity-inducing antibody currently being tested in a Phase I clinical trial for the treatment of KIR3DL2-expressing cutaneous T-cell lymphomas ("CTCL"), in particular their aggressive forms, Sezary syndrome and transformed mycosis fungoides.

- In June, Professor Martine Bagot, Head of the Dermatology Department at the Saint-Louis Hospital in Paris, discussed the protocol of the ongoing first-in-human study of IPH4102 in patients with relapsed/refractory cutaneous T-cell lymphomas (CTCL) in a "Trial in progress" poster at the 2016 ASCO annual meeting in Chicago, USA. The poster is available on Innate Pharma's website at the following link: Poster TPS2591.

The Company expects preliminary clinical data for the Phase I trial to be presented at a scientific meeting by the end of the year.

IPH4301 (anti-MICA/B antibody):

IPH4301 is a first-in-class anti-MICA/B therapeutic antibody blocking the interaction between NKG2D receptors on NK cells and $CD8^+$ T cells and their ligands MICA/B.

In April 2016, Innate Pharma presented a new set of preclinical data further validating the potential of its first-in-class anti-MICA/B antibody IPH4301 at the AACR 2016 Annual Meeting in New Orleans, USA.

The data demonstrate dual mechanism of action of IPH4301, including tumor antigen targeting and immunomodulation. The poster is available on Innate Pharma's website at the following link: Poster #1491.

The program has started IND-enabling studies.

IPH52 (anti-CD39 antibody):

This program, currently in preclinical development, aims at developing an anti-CD39 monoclonal antibody. By targeting the adenosine immunosuppressive pathway, it has potential to promote anti-tumor immune responses across a wide range of tumors.

- On January 10, 2016, Innate Pharma and OREGA Biotech announced that they entered into an exclusive licensing agreement by which OREGA Biotech granted Innate Pharma full worldwide rights to their first-in-class anti-CD39 checkpoint inhibitors.
- In April 2016, Innate Pharma and OREGA Biotech presented preclinical data on IPH52, at the AACR 2016 Annual Meeting in New Orleans, USA. The posters are available on Innate Pharma's website at the following links: Poster #3222 (Innate Pharma) and Poster #3218 (OREGA Biotech).

Anti-CD73 antibody‡:

In April 2016, Innate Pharma presented data on a research program to develop a CD73 checkpoint inhibitor in oncology at the AACR 2016 Annual Meeting in New Orleans, USA. The anti-CD73 program complements Innate's first-in-class anti-CD39 program and strengthens the Company's positioning in targeting the tumor microenvironment. The poster is available on Innate Pharma's website at the following link: Poster #2344.

Research collaboration and licensing agreement with Sanofi on new bispecific NK cell engagers in Immuno-Oncology:

On January 11, 2016, Innate Pharma and Sanofi 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.

Under the terms of the license agreement, Sanofi will be responsible for the development, manufacturing and commercialization of products resulting from the research collaboration. Innate Pharma will be eligible for up to €400m in development and commercial milestone payments as well as royalties on net sales.

Outlook:

Innate Pharma made significant progress during the first half of the year, advancing key clinical programs and preclinical assets whilst maintaining a solid cash position. Looking ahead towards the second half of 2016, the Company expects to report clinical data for the most advanced programs including lirilumab, monalizumab and IPH4102. For monalizumab, the Company expects to initiate three additional trials within the next few months.

With retained co-development and commercialization rights to monalizumab as part of the landmark agreement with AstraZeneca, full rights to IPH4102 and continued investment in the proprietary pipeline, the Company is building foundations to become a commercial stage biopharmaceutical company.

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

EUROPEAN COMMISSION

About Innate Pharma:

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

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

The Company's aim is to become a 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.

Based in Marseille, France, Innate Pharma has more than 130 employees and is listed on Euronext Paris.

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

Practical Information about Innate Pharma shares:

ISIN code	FR0010331421
Ticker code	IPH

Disclaimer:

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

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

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Interim Consolidated Financial Statements and Notes

Statement of financial position
(in thousand euros)

	June 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	159,852	152,870
Short-term investments	44,075	83,040
Current receivables	20,944	16,216
Total current assets	**224,871**	**252,126**
Intangible assets	9,995	9,732
Tangible assets	7,820	6,304
Non-current financial assets	39,670	37,794
Total non-current assets	**57,485**	**53,830**
Total assets	**282,356**	**305,956**
Liabilities		
Trade payables	13,622	18,631
Deferred revenue – Current portion	64,765	40,910
Financial liabilities – Current portion	852	622
Total current liabilities	**79,239**	**60,163**
Deferred revenue – Non-current portion	128,238	168,854
Financial liabilities – Non-current portion	3,232	3,132
Defined benefit obligations	2,430	1,740
Provisions	13	-
Total non-current liabilities	**133,913**	**173,726**
Share capital	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)

	June 30, 2016	June 30, 2015[1]
Revenue from collaboration and licensing agreements	16,659	1,296
Government financing for research expenditures	4,025	3,344
Revenue and other income	**20,685**	**4,640**
Research and development	(20,273)	(12,754)
General and administrative	(3,339)	(2,728)
Net 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 income (loss) before tax	**(3,171)**	**(8,026)**
Income tax expense	-	-
Net income (loss)	**(3,171)**	**(8,026)**
Net income (loss) per share attributable to the equity holders of the Company:		
(in € per share)		
- basic	(0.06)	(0.15)
- diluted	(0.06)	(0.15)

(1) The results of the period ended June 30, 2015 have been restated as explained in the Note "Comparability of the interim consolidated financial statements" attached in Appendix

Statement of cash flows
(in thousand euros)

	June 30, 2016	June 30, 2015[1]
Net income (loss)	**(3,171)**	**(8,026)**
Depreciation and amortization	1,563	977
Provisions for charges and defined benefit obligations	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	(748)	(351)
Net interests paid	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	(234)	(233)
Acquisition of intangible assets	(7,740)	-
Acquisition of current financial assets	(9,469)	-
Variance of assets in progress	(784)	-
Disposal of current financial assets	48,198	800
Acquisition of non-current financial assets	(1,527)	-
Gains on other financial assets	748	351
Net cash generated from / (used in) investing activities:	**29,193**	**918**
Transactions on treasury shares	14	101
Issue of own shares	141	1,213
Repayment of financial liabilities	(240)	(223)
Net interests paid	(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) The results of the period ended June 30, 2015 have been restated as explained in the Note "Comparability of the interim consolidated financial statements" attached in Appendix

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. 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.

Comparability of the interim consolidated 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**

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) The results of the period ended June 30, 2015 have been restated as explained in the Note "Comparability of the interim consolidated financial statements" above

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 " based on the turnover of the fiscal year 2015 (€0.3m).

Financial results

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.

Balance sheet items

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[§] 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.

[§] Net cash is equal to cash, cash equivalents and current financial assets less 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).

Precisions

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.

Risk factors

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.