PRESS RELEASE

innate pharma

2018 FINANCIAL RESULTS AND BUSINESS UPDATE: LANDMARK DEAL WITH ASTRAZENECA TO SUPPORT TRANSITION INTO A FULLY INTEGRATED ONCOLOGY-FOCUSED BIOTECH, STRONG CLINICAL PROGRESS IN LEAD ASSETS

- ***Cash, cash equivalents and financial assets[*] amounted to €202.7m (million euros) as of December 31, 2018 (€176.6m in 2017)***
  - ***Revenue and other income amounted to €94.0m (€36.2m in 2017)***
  - ***Operating expenses amounted to €87.7m (€76.0m in 2017), in which approximately 79% dedicated to research and development***
- ***Landmark deal with AstraZeneca accelerates Innate Pharma's transition into a fully-integrated oncology-focused biotech and supports the continued development of its novel immuno-oncology discovery platform***
  - ***Acquisition of Lumoxiti is the first step towards building a hemato-oncology franchise, complementing Innate's wholly-owned pipeline candidate IPH4102***
  - ***AstraZeneca obtained full oncology rights to monalizumab and expanded collaboration to gain option to IPH5201 and four preclinical assets***
  - ***Net proceeds totaled $192m[†]***
- ***Significant clinical progress, with encouraging efficacy signals from lead partnered asset, monalizumab, and lead proprietary asset, IPH4102, support further clinical development in a maturing pipeline***
- ***Strengthening of commercial team and expands presence in the US, appointing industry leaders, Jennifer Butler, as EVP, US General Manager and Hélène Arditti, as a Strategic Executive Advisor for commercialization to the Innate Executive Committee***

Marseille, France, March 20, 2019 – 07:00 AM CET

Innate Pharma (the "Company" - Euronext Paris: FR0010331421 – IPH) today reports its consolidated financial results for the year ended December 31, 2018. The consolidated financial statements are attached to this press release.

"2018 was a remarkable year for Innate during which two of our lead programs, monalizumab and IPH4102, demonstrated promising efficacy in their lead indications. In addition to this, the transformational deal signed with AstraZeneca not only validates our novel science and clinical development expertise, but accelerates the transition of Innate Pharma to become a fully-integrated biotech company," **commented Mondher Mahjoubi, Chief Executive Officer of Innate Pharma.** "*The acquisition of FDA-approved Lumoxiti for third line Hairy Cell Leukemia patients complements our proprietary pipeline of promising assets. The planned commercial*

[*] current and non-current

[†] Of which $118m received as of December 31, 2018 and $74m reiceived as of January 31, 2019, subsequent to the AstraZeneca deal signed, net from the payment for the acquisition of Lumoxiti

infrastructure in the US will not only provide Innate with the necessary footprint to support the continued roll-out of this product, but will also be leveraged for potential future products such as IPH4102. We are pleased to welcome Jennifer Butler to our leadership team as the US General Manager who will lead the strategy, operations, and hiring of talent in the US. In 2019, we are committed to executing a smooth commercial transition, expanding our presence in the US and will continue to secure financial resources to invest in our science to discover and develop novel therapeutics for oncology patients."

A conference call will be held today at 2:00pm (CEST)

Management Participants: Mondher Mahjoubi, CEO, Laure-Helene Mercier, CFO, Pierre Dodion, CMO, and Jennifer Butler, US General Manager

Dial in numbers:

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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 for 2018:

The key elements[‡] are as follows:

- Cash, cash equivalents and financial assets amounting to €202.7m (million euros) as of December 31, 2018 (€176.6m as of December 31, 2017), including non-current financial instruments (€35.2m). This follows the receipt in October of €102.9m as a first tranche of the agreement signed with AstraZeneca in October 2018.
    - At the same date, the financial liabilities amounted to €4.5m (€5.9m as of December 31, 2017).
- Revenue and other income amounting to €94,0m (€36.2m in 2017). This figure mainly results from licensing revenue (€79.9m) and from research tax credit (€13.5m).
    - Revenue from collaboration and licensing agreements mainly results from the spreading of the initial payment of $250m received in 2015 by Innate Pharma in the context of the agreement with AstraZeneca for monalizumab signed in April 2015, extended in October 2018 with an additional $100m payment (€61.5m and €24.5m in 2018 and 2017 respectively) but also, €15.6m from the spreading of the initial payment of $50m for the agreement with AstraZeneca on IP5201 signed in October 2018
- Operating expenses amounting to €87.7m (€76.0 m in 2017) of which 79% related to research and development outgoings. The increase in R&D expenses between 2017 and 2018 reflects

[‡] The elements as of December 31, 2018 are compared to December 31, 2017 restated numbers, which are not audited and take into account the impact of IFRS 9 and 15 on 2017 financial statements.

continued investment in the clinical and preclinical development programs, as well as support for the broader organization.

- Net income (loss) from distribution agreements amounting to a loss of €1.1 million, arising from the launch of Lumoxiti in the US.
- A net financial loss amounting to €2.4m.
- As a consequence of the items mentioned previously, the net profit for 2018 amounts to €3.0m, compared with a loss of €41.7m for 2017.

The table below summarizes the IFRS consolidated financial statements for fiscal year 2018, with a comparison to 2017:

In thousands of euros, except for data per share	December 31, 2018	December 31, 2017 restated[§]	*December 31, 2017*
Revenue and other income	**93,952**	**36,221**	***44,033***
Research and development	(69,555)	(58,962)	*(67,000)*
General and administrative	(18,142)	(17,015)	*(17,015)*
Net result from Lumoxiti agreement	(1,109)	-	-
Operating income / (loss)	**5,146**	**(39,756)**	**(39,983)**
Financial income (expense), net	(2,427)	(1,609)	(8,034)
Corporate tax	333	(368)	(368)
Net income (loss)	**3,049**	**(41,733)**	**(48,385)**
Weighted average number of shares outstanding (in thousands)[**]	58,777	*54,352*	*54,352*
Net loss per share	0.05	(0.77)	(0.89)

	December 31, 2018	*December 31, 2017 restated*	*December 31, 2017*
Cash, cash equivalents and financial assets[††]	202,712	176,578	*176,578*
Total assets	451,216	258,121	*255,023*
Shareholders' equity	167,240	99,444	*85,956*
Total financial debt	4,522	5,864	*5,864*

Post Balance Sheet Events

- As of January 31, 2019, cash, cash equivalents and financial assets amounted to €256.6m following the definitive payments from and to AstraZeneca relating to the agreements signed in October 2018, including non-current financial instruments (€35.2m).

[§] The Company has opted for the cumulative effect approach following the first application of IFRS 15. In order to provide the most relevant comparison, it presents in its notes a 2017 restated column including the impact of the first application of IFRS 15. In all comments, the Company refers to the 2017 restated figures.

[**] The increase in the weighted average number of shares mainly results from the issuance of 6,260,500 shares to the benefit of AstraZeneca as part of the deal signed in October 2018.

[††] Current and non-current

Pipeline update

Lumoxiti (CD22-directed cytotoxin):

Lumoxiti is a CD22-directed cytotoxin and a first-in-class medicine approved in the US for adult patients with relapsed or refractory Hairy Cell Leukemia (HCL) who have received at least two prior systemic therapies, including treatment with a purine nucleoside analog. Approximately 1,000 people are diagnosed with HCL in the US each year, a subset of which are eligible for Lumoxiti. Lumoxiti was approved by the US FDA on September 13, 2018.

- Innate has licensed the US and EU commercial rights of AstraZeneca's FDA approved medicine for HCL, Lumoxiti, marking the first step of Innate's strategy to become a fully integrated company.
- Innate and AstraZeneca are having a collaborative and staged transition of operations for the product, with AstraZeneca responsible for all aspects of the commercialization of Lumoxiti in the US up to mid-2020 at the latest, with a potential sooner transition. As of November 2018, AstraZeneca launched the commercialization of Lumoxiti in the US. Innate, with support from AstraZeneca, will continue EU development and commercialization, pending regulatory submission and approval.
- Under the terms of the agreement, AstraZeneca received $50 million upfront for Lumoxiti (paid in January 2019) and is eligible for $25 million for future commercial and regulatory milestones. Innate will reimburse AstraZeneca for costs incurred other than in 2019 where there will be some sharing of costs and will recognize profit (losses).

IPH4102 (anti-KIR3DL2 antibody):

IPH4102 is a first-in-class, humanized cytotoxicity-inducing antibody designed for treatment of T Cell Lymphoma. This group of lymphomas has a poor prognosis with few therapeutic options at advanced stages.

- In January 2019, the FDA granted IPH4102 Fast-Track Designation (FTD) for the treatment of adult patients with relapsed/refractory Sézary Syndrome. IPH4102 was previously granted orphan drug status in the European Union and in the United States for the treatment of CTCL.
- FTD was based on results of the Phase I dose-escalation and expansion study of IPH4102 in advanced CTCL (n=44). As of October 15, 2018, data from the subgroup of 35 SS patients revealed strong clinical activity, demonstrated by an overall response rate (ORR) of 42.9%, median duration of response (DoR) of 13.8 months and median progression-free survival (PFS) of 11.7 months. The ORR appeared to be higher (n=28, 53.6%) in patients with no histologic evidence of large cell transformation (LCT)‡‡. Importantly, clinical activity was associated with a substantial improvement in quality of life as assessed by the SkinDex29 and Pruritus Visual Analog Scale (VAS) scores. IPH4102 displayed a favorable safety profile, consistent with previous observations. Data from the subgroup of Sézary Syndrome patients (n=35) have been the subject of an oral presentation at ASH 2018.

‡‡ LCT is present in approximatively 10% of Sézary syndrome patients (Talpur, CLML 2016) and is associated with poorer prognosis and shorter survival.

- Innate Pharma expects to initiate a global Phase II study ("TELLOMAK") in different subtypes of T-cell lymphomas in the first half of 2019. TELLOMAK is an open-label, multi-cohort Phase II study expanding the evaluation of the efficacy and safety of IPH4102 in larger patient populations expressing KIR3DL2, including PTCL. TELLOMAK is planned to recruit up to 250 patients, with IPH4102 evaluated as a single agent in patients with SS and Mycosis Fungoides (MF - approximately 150 patients) and in combination with standard chemotherapy (gemcitabine and oxaliplatin) in patients with PTCL (approximately 100 patients). In patients with MF and PTCL, the study is designed to evaluate the benefit of IPH4102 according to KIR3DL2 expression.

IPH5401 (anti-C5aR antibody):

IPH5401 is a first-in-class fully human therapeutic antibody that specifically binds and blocks C5a receptors (C5aR) expressed on subsets of myeloid-derived suppressor cells (MDSC) and neutrophils.

- In January 2018, the Company entered into a non-exclusive clinical trial collaboration with AstraZeneca that will accelerate development activities for IPH5401 in combination with PD-1/L1 blockers.
- In September 2018, a Phase I trial evaluating IPH5401 and durvalumab in solid tumors (STELLAR-001[§§]) was initiated and the first patient was enrolled. The multicenter, open label, dose-escalation and dose-expansion study will evaluate the safety, tolerability, and anti-tumor activity of IPH5401 in combination with durvalumab in solid tumors, including non-small-cell lung cancer (NSCLC) with secondary resistance to prior immuno-oncology (IO) treatment and IO-naïve hepatocarcinoma (HCC).

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

Monalizumab is a first-in-class checkpoint inhibitor, targeting the NKG2A inhibitory receptor expressed on tumor infiltrating cytotoxic CD8 T lymphocytes and NK cells. This monoclonal antibody is currently being investigated in an exploratory program of Phase I or I/II clinical trials in various cancer indications.

In October 2018, AstraZeneca exercised its option to obtain full rights to monalizumab in oncology, triggering a $100 million payment in January 2019. As previously announced in the original collaboration agreement from 2015, another $100 million milestone payment is due at the potential start of the first Phase III development.

- **monalizumab and cetuximab:**

  During the year, Innate Pharma presented data from an expansion cohort of an ongoing Phase I/II trial evaluating the safety and efficacy of the combination of monalizumab with cetuximab (anti-EGFR) in patients with recurrent or metastatic squamous cell carcinoma of the head and neck (SCCHN), at the AACR Annual Meeting and updated on the full sample of patients enrolled at the ESMO Congress.

  As of August 31, 2018, a total of 40 patients with R/M SCCHN were evaluable for safety and efficacy. In the study evaluating the combination of monalizumab and

[§§] STELLAR = SelecTivE bLocking of compLement receptor C5AR to boost immune response and improve cancer outcomes

cetuximab the overall response rate was 27.5% (by RECIST) including 1 confirmed complete response (2.5%) and 10 partial responses (25%). Disease control rate at 24 weeks (DCR) was 35%. Median progression-free survival (PFS) and overall survival (OS) reached 5.0 and 10.3 months, respectively. In addition, there were 3 (18%) responders among the 17 patients who had been previously treated with PD-1/L1 antibodies.

In November 2018, Innate Pharma presented exploratory subgroup analyses and preliminary translational data from this Phase II trial at the SITC 2018 Annual Meeting.

Taken together, these data supports the advancement of the clinical program, starting with the enrollment of an additional cohort of patients who received both prior platinum-based chemotherapy and PD-1/L1 inhibitors ("IO-pretreated"). Recruitment in this cohort expansion is ongoing.

- **monalizumab and durvalumab**:

  In June 2018, preliminary clinical data from an expansion cohort of an ongoing Phase I trial evaluating the safety and efficacy of the combination of monalizumab and durvalumab in patients with microsatellite-stable colorectal cancer (MSS-CRC) were presented at the annual meeting of the American Society of Clinical Oncology (ASCO) 2018. The safety profile of the combination was consistent with the monotherapy profiles. Among the 39 patients evaluable for efficacy, the overall response rate (ORR) was 8% with confirmed partial response in 3 patients and stable disease (SD) in 11 patients (28%), including 3 SD patients with tumor reduction who continued therapy for >200 days. The median duration of response was 16.1 weeks at the cut-off date. Data demonstrated a disease control rate (DCR) of 31% at 16 weeks.

  These data have prompted AstraZeneca to further expand the study with additional patient cohorts to explore the novel combination of monalizumab with durvalumab on top of current standard of care therapies in patients with less heavily pretreated disease.

  Translational data from the Phase I study has been presented at the European Society of Medical Oncology (ESMO) Congress in October by AstraZeneca.

IPH5201 (anti-CD39 antibody) and IPH5301 (anti-CD73 antibody):

CD39 and CD73 are membrane-bound extracellular enzymes which play a major role in promoting immunosuppression through the pathway degrading adenosine triphosphate (ATP) into adenosine. The blockade of CD39 and CD73 has the potential to promote anti-tumor immune responses across a wide range of tumors.

- During the first semester, drug candidates for both programs were chosen.
- In April 2018, preclinical data supporting the development of IPH5201 and IPH5301 for cancer immunotherapy, potentially in combination with chemotherapy or immune checkpoint blockade were presented at the AACR Annual Meeting.
- In October 2018, AstraZeneca entered into a development collaboration and option for further co-development and co-commercialization with Innate for IPH5201. AstraZeneca paid Innate $50 million upfront. Innate is eligible to additional option exercise fee,

milestones, and royalties. Innate will have the potential for co-promotion and profit sharing in the EU. Innate expects an IND to be filed in the second half of 2019.

- Innate continues to advance IPH5301 and expects to file an IND in the first half of 2020.

Preclinical pipeline

As part of the agreement signed in October 2018, AstraZeneca has paid Innate $20 million upfront for an exclusive license option on four molecules from Innate's preclinical portfolio. The targets have not been disclosed. These options can be exercised before the molecules reach clinical development, triggering an option exercise fee in addition to milestones and royalties. Innate will have the potential for co-promotion and profit sharing in the EU, dependent on future progress.

In 2018, the Company also continued to advance its pipeline of preclinical candidates and to develop its innovative technologies.

Corporate update:

- In October 2018, the company signed a multi-term agreement with AstraZeneca, building on an existing collaboration, aimed at accelerating each company's oncology portfolio and bringing new medicines to patients more quickly. Under the terms of the agreement, Innate Pharma licensed the US and EU commercial rights to AstraZeneca's recently FDA-approved Lumoxiti for hairy cell leukemia and agreed to a $50 million initial payment. AstraZeneca obtained full rights to the first-in-class humanized anti-NKG2A antibody, monalizumab, in oncology, by exercising the $100 million option included in the initial collaboration announced in 2015. AstraZeneca gained option rights to IPH5201, an antibody targeting CD39 including an initial payment of $50 million, as well as to four, non-disclosed pre-clinical molecules from Innate Pharma's pipeline for a global $20 million initial payment. AstraZeneca also invested in a 9.8% equity stake (6,260,500 shares) in Innate at €10 per share. Further details on the financial terms of the agreements can be found here.
- As at December 31, 2018, the headcount was 195 employees.
- Hélène Arditti has joined as a Strategic Executive Advisor for commercialization to the Innate Executive Committee. Ms. Arditti brings over 20 years of global marketing and franchising expertise with a focus in oncology. Most recently she was the Global Uro-oncology Franchise Senior Vice President and previously the Endocrinology Marketing Director at Ipsen. In both of these positions, Ms. Arditti successfully developed the global launch, life cycle management, and business development strategies for two oncology products, Decapeptyl® and Cabometyx®. Ms. Arditti reports directly into Mondher Mahjoubi, Chief Executive Officer.
- Guillaume Gimonet joined as Senior Director, Launch Excellence for Lumoxiti. He is responsible for leading the launch of Lumoxiti across cross-functional teams to ensure smooth and timely projection execution. He was most recently the Director of Global Program Management and previously the Global Launch Management Director Oncology at Ipsen in which he secured Cabometyx® accelerated launch in Renal Cell Cancer.

- Jérôme Tiollier's resignation as EVP and Chief Development Officer, comes after a 17 years at Innate Pharma in which he was instrumental in the pharmaceutical development and operations of the company.

Post period events:

- In March 2019, Jennifer Butler was appointed as the General Manager of Innate Pharma US Inc. and Executive Vice President, effective March 11, 2019. She brings over more than 20 years of strategic marketing and commercial leadership expertise across several therapeutic areas. Ms Butler will lead Innate Pharma's US corporate activities focusing on establishing the US operations to fully support the commercialization of Lumoxiti®. Additionally, her role will support global commercial and clinical operations of a fully-integrated hemato-oncology franchise.
- In February 2019, Innate Pharma announced that its Supervisory Board has appointed Laure-Hélène Mercier, Chief Financial Officer, as a member of the Executive Board for a period of three years. The Supervisory Board has also renewed the appointments to the Executive Board of Dr. Mondher Mahjoubi, CEO, and Dr. Yannis Morel, EVP Business Development and Portfolio Strategy, for three additional years. As from January 31, 2019, the Executive Board is now composed of three members, appointed for a three-year period.
- Additionally, Odile Belzunce was appointed to the executive committee as SVP Compliance and Portfolio Management in January 2019. Odile Belzunce joined Innate Pharma in February 2005. She was Quality Manager during 10 years before becoming Head of Compliance. During her career at Innate, Odile Belzunce contributed to the structuration of the processes as the Company was growing, developing its portfolio and its activities.

About Innate Pharma:

Innate Pharma S.A. is a fully integrated oncology-focused biotech company dedicated to improving treatment and clinical outcomes for patients through therapeutic antibodies that harness the immune system to fight cancer.

Innate Pharma's commercial-stage product, Lumoxiti, in-licensed from AstraZeneca, was approved by the FDA in September 2018. Lumoxiti is a first-in class specialty oncology product for hairy cell leukemia (HCL). Innate Pharma's broad pipeline of antibodies includes several first-in-class clinical and preclinical candidates in cancers with high unmet medical need.

Innate Pharma has pioneered the discovery and development of checkpoint inhibitors, with a unique expertise and understanding of Natural Killer cell biology. This innovative approach has resulted in major alliances with leaders in the biopharmaceutical industry including Bristol-Myers Squibb, Novo Nordisk A/S, Sanofi, and a landmark and multi-products partnership with AstraZeneca/MedImmune.

Based in Marseille, France, Innate Pharma is listed on Euronext Paris.

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

Information about Innate Pharma shares:

ISIN code	FR0010331421
Ticker code	IPH
LEI	9695002Y8420ZB8HJE29

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 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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APPENDIX

Innate Pharma SA

Consolidated financial statements at December 31, 2018

The following consolidated balance sheet, income statement and statement of cash flows are prepared in accordance with International Financial Reporting Standards.

The audit procedures on the consolidated financial statements have been performed. The auditors' report will be issued after the finalization of the required procedures relating to the filing of the annual report ('Document de Référence'). The consolidated financial statements were approved by the Company's Executive board on March 19, 2019. These statements were reviewed by the Company's Supervisory board on March 19, 2019 and will be submitted for approval to the Shareholders' General Meeting on May 22, 2019.

Innate Pharma's financial annual report, included in the reference document, will be available during the second quarter of 2018.

Statement of financial position
(in thousand euros)

	As of December 31,	
	2018***	2017
Assets		
Cash and cash equivalents	152,314	99,367
Short term investments	15,217	16,743
Current receivables	152,212	21,412
Total current assets	**319,643**	**137,521**
Intangible assets	84,529	46,192
Tangible assets	10,216	10,729
Non-current financial assets	35,181	60,469
Deferred tax asset	1,561	-
Other non-current assets	86	111
Total non-current assets	**131,574**	**117,501**
Total assets	**451,216**	**255,023**
Liabilities		
Trade payables	91,655	24,657
Collaboration liability – current portion	20,987	-
Financial liabilities – current portion	1,347	1,343
Deferred revenue – current portion	82,096	47,909
Total current liabilities	**19,085**	**73,909**
Financial liabilities – non-current portion	3,175	4,521
Collaboration liability – non-current portion	10,669	-
Defined benefit obligations	3,697	2,621
Deferred revenue – non-current portion	68,098	87,005
Provisions	690	1,012
Deferred tax liability	1,561	-
Total non-current liabilities	**87,890**	**95,158**

*** Innate Pharma used the simplified retrospective method following the application of IFRS 15 and the retrospective method following the application of IFRS 9. Reconciliation between the consolidated financial statements is available in Chapter 3, Part 3.3, Note 2. A) 'Basis of Preparation', of the Full-year consolidated financial statements, that will be available in the Reference Document, released in the second quarter of 2019.

	As of December 31,	
	2018***	2017
Share capital	3,197	2,880
Share premium	299,932	234,874
Retained earnings	(137,840)	(103,595)
Net income (loss)	3,049	(48,385)
Other reserves	1,099	180
Total shareholders' equity attributable to equity holders of the Company	**167,240**	**85,956**
Total liabilities and equity	**451,216**	**255,023**

Statement of income (loss)
(in thousand euros)

	Year ended December 31,	
	2018†††	2017
Revenue from collaboration and licensing agreements	79,892	32,631
Government financing for research expenditures	14,060	11,402
Operating revenue	**93,952**	**44,033**
Research and development	(69,555)	(67,000)
General and administrative	(18,142)	(17,015)
Operating expenses	**(87,697)**	**(84,015)**
Net income (loss) from distribution agreements	(1,109)	–
Operating income (loss)	**5,146**	**(39,983)**
Financial income	6,002	2,501
Financial expenses	8,429	(10,535)
Net income (loss) before tax	**2,718**	**(48,016)**
Income tax expense	333	(368)
Net income (loss)	**3,049**	**(48,385)**
Net income (loss) per share attributable to equity holders of the Company:		
Weighted average number of shares (in thousand):	58,777	54,352
(in € per share)		
– Basic gain (loss) per share	0.05	(0.89)
– Diluted gain (loss) per share	0.05	(0.89)

††† Innate Pharma used the simplified retrospective method following the application of IFRS 15 and the retrospective method following the application of IFRS 9. Reconciliation between the consolidated financial statements is available in Chapter 3, Part 3.3, Note 2. A) 'Basis of Preparation', of the Full-year consolidated financial statements, that will be available in the Reference Document, released in the second quarter of 2019.

Statement of cash flows
(in thousand euros)

	Year ended December 31,	
	2018	2017
Net income (loss)	**3,049**	**(48,385)**
Depreciation and amortization	7,401	4,393
Provisions for defined benefit obligations	477	381
Provisions for charges	(322)	877
Share-based compensation expense	2,707	9,829
Change in valuation allowance on financial assets	3,786	(26)
Gains (losses) on financial assets	(1,341)	3,381
Change in valuation allowance on financial instruments	152	(204)
Gains on assets and other financial assets	(1,445)	(1,442)
Interest paid	102	113
Operating cash flow before change in working capital	**14,566**	**(31,080)**
Change in working capital[(1)]	(60,584)	(16,980)
Impact of IFRS 15	13,488	-
Net cash generated from / (used in) operating activities	**(32,531)**	**(48,060)**
Acquisition of property and equipment	(1,041)	(2,968)
Variance on liabilities related to property and equipment	168	4
Acquisition of intangible assets	(556)	(3,062)
Purchase of current financial instruments	-	(2,543)
Purchase of non-current financial instruments	-	(40,729)
Disposal of property and equipment	22	50
Disposal of current financial instruments	2,704	5,646
Disposal of non-current financial instruments	21,513	11,895
Disposal of other non-current assets	25	-
Gains on assets and other financial assets	1,445	1,442
Net cash generated from / (used in) investing activities	**24,279**	**(29,460)**
Proceeds from the exercise / subscription of equity instrument	111	491
Capital increase	62,557	-
Collection of new loans	-	1,739
Repayment of financial liabilities	(1,343)	(1,202)
Interest paid	(102)	(113)
Net cash generated from / (used in) financing activities	**61,222**	**915**
Effect of the exchange rate changes	(26)	66
Net increase / (decrease) in cash and cash equivalents	**52,920**	**(76,539)**
Cash and cash equivalents at the beginning of the year	99,367	175,906
Cash and cash equivalents at the end of the year	**152,314**	**99,367**

Management discussion on annual results for 2018:

Note on change of accounting standards during the period

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

- IFRS 15 supersedes IAS 18 "Revenue", changes the accounting treatment of the revenue relating to the licensing and collaboration agreement signed with AstraZeneca in 2015. Under IFRS 15, the portion of the co-funding of R&D works performed by AstraZeneca is no longer recognized in R&D expenses but deducted from the recognition of the payment received by Innate Pharma at signing. This portion of co-funding is now recognized as a liability and no longer as a deferred revenue in the balance sheet.
- The Company has opted for the cumulative effect approach. In order to provide the most relevant comparison, it presents a 2017 restated column including the impact of the first application of IFRS 15. In all comments, the Company refers to the 2017 restated figures.
- Regarding financial instruments, IFRS 9 requires for non-derivative financial assets a change of name of the sub-categories of financial assets without, however, modifying the valuation principles of these assets, which remain either at fair value or amortized cost. The valuation models used by Innate Pharma remain unchanged.

Revenue and other income

Revenue and other income results from collaboration and licensing agreements and government financing for research expenditures. The Company's revenue and other income were €36.2 million and €94.0 million for the fiscal years ended December 31, 2017 and 2018 from the following sources:

Year ended December 31 (in thousand euros)	2018	2017 restated	2017
Revenue from collaboration and licensing agreements	79,892	24,819	32,631
Government financing for research expenditures	14,060	11,402	11,402
Revenue and other income	**93,952**	**36,221**	**44,033**

Revenue from collaboration and licensing agreements

Revenue from collaboration and licensing agreements amounted to €79.9 and €24.8 million for the fiscal years ended December 31, 2018 and 2017, respectively. These revenues mainly result from the agreements signed with AstraZeneca in April 2015 and October 2018.

IPH2201 (monalizumab)

The amounts recognized for the fiscal year 2018 and 2017 are €61.5 million and €24.5 million respectively. The percentage of completion has been determined on the basis of the costs recognized during the period compared to the total expected costs. As at December 31, 2018, the amount not yet recognized in revenue is €150.2 million (€82.1 million as "Deferred revenue – Current portion" and €68.1 million as "Deferred revenue – Non-current portion").

IPH5201 (anti-CD39)

The amount recognized for the fiscal year 2018 is €15.6 million. In addition to the recognition of the upfront payment, the Company invoiced back R&D costs to AstraZeneca. The percentage of completion has been determined on the basis of the costs recognized during the period compared to the total expected costs. As at December 31, 2018, the amount not yet recognized in revenue amounts to €27.9 million, classified as "Deferred revenue – Current portion".

IPH5401 (anti-C5aR)

On January 30, 2018, Innate Phama announced that it had entered into a clinical trial collaboration with AstraZeneca. The Phase I/II study (STELLAR-001) will evaluate the safety and efficacy of durvalumab, an anti-PD-L1 immune checkpoint inhibitor, in combination with IPH5401, as a treatment for patients with selected solid tumors. Innate will sponsor the study with costs equally shared by both parties.

Government funding for research expenditures

The table below details the government financing for research expenditure for the fiscal years ended December 31, 2017 and 2018:

Year ended December 31 (in thousand euros)	2018	2017
Research tax credit	13,527	11,041
French and foreign public grants	533	361
Government financing for research expenditures	**14,060**	**11,402**

The calculation of the research tax credit is based on 30% of the amount of eligible expenses for the fiscal year.

The table below shows the amount of R&D expenses (net of grants) eligible for the fiscal years ended December 31, 2017 and 2018:

Year ended December 31 (in thousand euros)	2018	2017
R&D expenses eligible for the research tax credit	45,395	37,075
Grants received, net	(386)	(334)
Net expenses eligible for the research tax credit	**45,009**	**36,741**

Net expenses eligible for the research tax credit increased by 23% compared to the fiscal year 2017. For the fiscal year 2018, the rise in eligible expenses mainly results from the increase in staff costs and amortization expense relating to the anti-NKG2A intangible asset. The inclusion of this amortization expense for the calculation of the research tax credit results from the decision of the Administrative appeal court of Bordeaux to include this type of expenses (judgement date March 16, 2016 and confirmed by the State Council in December 2017).

The research tax credit is generally reimbursed by the French government four years after the fiscal year for which it is determined. However, since 2011, companies that meet the definition of small and medium sized enterprises ("SMEs") according to the European Union criteria are eligible for early reimbursement of their research tax credit receivable. The status of SME is lost when the criteria for eligibility are exceeded during two consecutive years. The Company meets these criteria and is able to benefit of this status and related advantages and in

particular the early tax credit reimbursement. According to Management forecasts, the status may be lost at the end of the fiscal year 2019.

During the fiscal years 2017 and 2018, the income resulting from grants relates to an European grant in the context of the FP-7 Program and a grant under the FEDER Program. These grants directly impact our income statement, as opposed to repayable loans which are recorded as debt and thus only impact our balance sheet.

Operating expenses by business function

The table below gives a breakdown of net operating expenses by business function for the fiscal years ended December 31, 2017 and 2018:

Year ended December 31 (in thousand euros)	2018	2017 restated	2017
Research and development expenses	(69,555)	(58,962)	(67,000)
General and administrative expenses	(18,142)	(17,015)	(17,015)
Net operating expenses	**(87,697)**	**(75,977)**	**(84,015)**

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.

R&D expenses amounted to €59.0 million and €69.6 million for the fiscal years ended December 31, 2017 and 2018, respectively, representing 79% of net operating expenses. The increase in R&D expenses between 2017 and 2018 mainly results from an increase in subcontracting costs relating to the progress of the preclinical and clinical programs and staff growth.

General and administrative expenses include expenses for employees not directly working on R&D, as well as the expenses necessary for the management of the business and its development. General and administrative expenses were €17.0 and €18.1 million for the fiscal years ended December 31, 2017 and 2018, respectively, representing 21% of the net operating expenses. This increase mainly results from the fees incurred by the Company relating to the advisory services in the context of the agreements signed with AstraZeneca in October 2018.

Operating expenses by nature

The table below gives a breakdown of net operating expenses by nature of expenses for the fiscal years ended December 31, 2017 and 2018:

Year ended December 31 (in thousand euros)	2018	2017 restated	2017
Other purchases and external expenses	(51,766)	(39,571)	(47,609)
Employee benefit other than share-based compensation	(19,121)	(15,163)	(15,163)
Share-based compensation	(2,707)	(9,985)	(9,985)
Depreciation and amortization	(7,402)	(4,396)	(4,396)
Cost of supplies and consumable materials	(3,820)	(4,287)	(4,287)
Intellectual property expenses	(1,380)	(1,499)	(1,499)
Other income and (expenses), net	(1,502)	(1,076)	(1,076)
Net operating expenses	**(87,697)**	**(75,977)**	**(84,015)**

Other purchases and external expenses

Other purchases and external expenses amounted to €47.6 million and €51.7 million during the fiscal years ended December 31, 2017 and 2018, respectively, broken down as follows:

Year ended December 31 (in thousand euros)	2018	2017 restated	2017
Sub-contracting	(42,327)	(29,958)	(37,996)
Non-scientific consultancy	(5,260)	(4,357)	(4,357)
Leases, maintenance and utility	(1,968)	(1,781)	(1,781)
Travel and conference costs	(992)	(1,294)	(1,294)
Scientific consultancy and services	(349)	(845)	(845)
Marketing, communication and public relations	(518)	(649)	(649)
Attendance fees	(212)	(205)	(205)
Others	(140)	(313)	(482)
Other purchases and external expenses	**(51,978)**	**(39,571)**	**(47,609)**

Sub-contracting expenses involve discovery research costs (financing of research conducted externally, particularly academic research, manufacturing process development, etc.), preclinical development (pilot manufacturing, tolerance and pharmacology studies, etc.) and clinical costs (clinical trial management, etc.) outsourced to third parties. The increase in these costs mainly results from the growth and progress of the portfolio of preclinical and clinical programs.

Non-scientific consultancy expenses are mostly fees paid to audit firms, to our certified public accountant for his assistance in accounting, tax and employee matters, to our lawyers, to business strategy or development consultants and recruitment fees. The increase in these expenses between 2017 and 2018 mainly results from the advisory fees incurred in the context of the agreements signed with AstraZeneca in October 2018.

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

Travel and conference costs mainly include expenses for employees travelling and attending conferences, particularly scientific, medical, business development and financial conferences.

Scientific consultancy and services consist of costs related to external consultants assisting in the research and development of our products. It also covers fees paid to members of our Scientific Advisory Board.

Employee benefits other than share-based compensation

Employee benefit expenses other than share-based compensation came to €15.2 million and €19.1 million for the fiscal years ended December 31, 2017 and 2018, respectively. This rise mainly results from the impact of the recruitments of new employees in both 2017 and 2018.

This includes salaries and social benefit costs. On average, Innate Pharma had 171 and 193 employees during the fiscal year ended December 31, 2017 and 2018, respectively.

The proportion of total staff, excluding Executive committee members, allocated to R&D operations was 80% and 79% for the fiscal years ended December 31, 2017 and 2018 respectively.

The average amount of staff costs per employee was €88 and €99 thousand for fiscal years ended December 31, 2017 and 2018 respectively. This rise results from general and individual pay rises, a higher percentage of achievement of the corporate objectives used in the computation of the collective bonus compared to 2017 and the payment of an exceptional bonus in relation to the agreement signed with AstraZeneca in 2018.

Share-based compensation

Share-based compensation amounted to €10.0 million and €2.7 million euros for the fiscal years ended December 31, 2017 and 2018, respectively.

In accordance with IFRS 2, these costs correspond to the fair value of the equity instruments allocated to directors and employees.

The cost recognized in 2017 results from the issuance in 2016 an exceptional number of free shares and free preferred shares including a condition requiring presence in the context of the evolution of the management team, and from warrants issued in 2017.

Depreciation and amortization

Depreciation and amortization amounted €4.4 million and €7.4 million for the fiscal years ended December 31, 2017 and 2018, respectively. This variance mainly results from the amortization of the monalizumab intangible asset due to a price complement to be paid to Novo Nordisk A/S following the agreement signed with AstraZeneca. The amortization expense relating to this asset amounts to €3.0 million and €4.8 million for fiscal years 2017 and 2018, respectively. The amortization of the Lumoxiti and anti-CD39 assets amounts to €0.5 million and €0.3 million, respectively (none in for 2017).

Cost of supplies and consumable materials

The cost of supplies and consumable materials amounted to €4.3 million and €3.8 million for the fiscal years ended December 31, 2017 and 2018, respectively. This change mainly results from the purchase in 2017 of some drug in relation to the performance of clinical trials.

Intellectual property expenses

Intellectual property expenses amounted to €1.5 million and €1.4 million for the fiscal years ended December 31, 2017 and 2018, respectively.

These expenses include the cost of filing and protecting patents (including patents that were acquired from third parties and where the agreements specified that Innate Pharma is responsible for the relevant costs) as well as the costs for obtaining an option or license for intellectual property. In accordance with IAS 38, considering the degree of maturity of the Company and the uncertainty that exists as to the outcome of its research and development projects, intellectual property expenses are recorded in expenses.

Other income and expenses, net

This item represented a net expense that amounted to €0.5 million and €1.5 million for the fiscal years ended December 31, 2017 and 2018, respectively.

Net income (loss) from distribution agreements

When product sales are performed by a partner in the context of collaboration or transition agreements, the Company must determine if the partner acts as an agent or a principal. The Company concluded that AstraZeneca acts as a principal in the context of the production and commercialization of Lumoxiti. Consequently, the global inflows and outflows received from or paid to AstraZeneca are presented on a single line in the statement of income of Innate Pharma (this amount does not include the research and development costs which are recognized as R&D operating expenses).

The commercialization of Lumoxiti began on October 29, 2018 in the US. In the context of this launch, net result from distribution agreements in 2018 amounts to a loss of €1.1 million.

Net financial income

The net financial result amounted respectively to a €1.6 million and a €2.4 million loss for the fiscal year ended December 31, 2017 restated and 2018, respectively.

The Company's cash investment policy favors the minimum risk and, whenever possible, seeks guaranteed minimum performance on capital. Therefore it is preferentially directed to instruments with an absence of risk on principal and, wherever possible, guaranteed minimum performance. For the instruments of which the valuation can be impacted by some events, the Company ensured that no such event occurred as of the closing date of the consolidated financial statements.

The balance of cash, cash equivalents and short term investments was €116.1 million and €167.5 million for the fiscal years ended December 31, 2017 and 2018, respectively. In addition, the Company held €60.5 million and €35.2 million of non-current financial assets as at December 31, 2017 and 2018, respectively. This increase in its cash position results from the proceeds of the agreements signed in October 2018 with AstraZeneca.

Income tax expense

For the first time, the taxable income of the Company was positive for the year ended December 31, 2016. The tax payable in respect of this exercise amounted to €301 thousand. According to the nature of its revenues, the Company concluded that it was subject to the law of capital gains income from intellectual property and therefore benefits from the reduced 15%

tax rate. During the fiscal year 2017, the Company finally concluded that, this law shall not apply and recorded an additional tax expense amounting to €368 thousand which refers the difference between the standard tax rate of 33% and the 15% tax rate.

Following the application of IFRS 15, the Company recognized deferred tax asset and liability for an amount of €1.6 million as of December 31, 2018.

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

In accordance with IFRS, the research tax credit is classified as an 'Other revenue' and not in the line 'Income tax expense'.

Net income / (loss) per share

The net result per authorized and issued share came to a €0.89 loss per share and a €0.05 gain per share for the fiscal years ended December 31, 2017 and 2018, respectively.

Balance sheet items

Cash, cash equivalents and financial instruments (current and non-current) amounted to €202.7 million as of December 31, 2018, including non-current financial instruments (€35.2 million), compared with €176.6 million as of December 31, 2017. Net cash at the same date amounted to €166.2 million (€114.8 million as of December 31, 2017). Net cash is defined as the cash, cash equivalent and current financial assets minus the current financial liabilities. Cash and cash equivalents do not include the 2018 research tax credit which should be collected during the third quarter of 2019 (€13.5 million) neither some receivables from AstraZeneca resulting from the agreements signed in October 2018 (see below).

Since its incorporation in 1999, the Company has been primarily financed by its "out-licensing" activity (mainly resulting from the agreements signed with Novo Nordisk A/S, Bristol-Myers Squibb and AstraZeneca) and issuing new securities. The Company has also generated cash flow from repayable financing and grants received from BPI France (ex Oséo). As of December 31, 2018, the remaining amount relating to these advances amounted to €0.8 million, of which €0.3 million classified as "Current financial liabilities" and €0.5 million as "Non-current financial liabilities".

The other key balance sheet items as of December 31, 2018 are as follows:

- Deferred revenue for €150.2 million (of which €68.1 million classified as non current) and collaboration liabilities for €31.7 million (of which €10.7 million classified as non current) relating to the remaining of the initial payment from AstraZeneca not yet recognized as turnover or paid in the context of the co-financing of the monalizumab program with AstraZeneca;
- Intangible assets for a net book value of €84.5 million, mainly corresponding to the rights and licences relating to the acquisition of the anti-NKG2A, anti-CD39, anti-C5aR and Lumoxiti programs;
- Receivables for €108.0 million and liabilities for €44.0 million from / towards AstraZeneca relating to the agreements signed in October 2018 (these receivables and liabilities have been collected and paid in January 2019);

- A €13.0 million liability towards Novo Nordisk A/S, eligible to an additional consideration relating to monalizumab following the exercise of the option by AstraZeneca (this liability has been paid in February 2019);
- Receivables from the French government in relation to research tax credit for the year 2018 (€13.5 million);
- Shareholders' equity of €167.2 million including the net profit for the period (€3.0 million).

Cash-flow items

Net cash flows generated over the fiscal year 2018 amounted to €52.9 million, to be compared to a net cash flows used for the fiscal year 2016 amounting to €76.5 million.

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

- Net cash used in operating activities of €32.5 million,
    - mainly resulting from research and development activities and personnel expenses (€72.8 million);
    - partly offset by the collection of a part of the proceeds related to the agreements signed with in AstraZeneca on October 23, 2018 (€40.3 million);
- Net cash from investing activities for an amount of €24.3 million, mainly resulting from the disposal of financial instruments in the context of the cash management policy;
- Net cash from financing activities for an amount of €61.2 million, mainly resulting from the acquisition by AstraZeneca of 9.8% equity stake in the Company (€62.6 million).

Risk factors

Risk factors affecting the Company are presented in Paragraph 1.9 of the latest "Document de Référence" submitted to the French stock-market regulator, the "Autorité des Marchés Financiers" on April 28, 2018.

Annual financial report for 2018 and "Reference Document"

The Company intends to file its 2018 annual financial report as well as its "Reference Document" for the year so that these documents are made public during the second quarter of 2019.

Accounting treatment of the AstraZeneca deal

Monalizumab exercise of the option

The Company entered into a global co-development and commercialization agreement with AstraZeneca for monalizumab in April 2015. The Company received an initial non-refundable payment amounting to $250 million on June 30, 2015 and $100 million on January 28, 2019 as the result of the exercise of the option.

Impact on statement of income: The recognition of the these amounts as revenue in the statement of income is based on the percentage of completion of the works Innate Pharma is engaged to perform in the context of the agreement. These items have no cash impact. From October 2018, amounts are recognized on a basis of $350 million (reduced by the payments the Company intend to make to AstraZeneca in the context of the co-financing of the development works) vs $250 million before.

Impact on statement of financial position: The amount which is not recognized yet as revenue is deferred in the statement of financial position and recognized as collaboration liabilities for the amounts the Company is committed to invest in the development.

IPH5201 option agreement

The Company has received a non-refundable payment of $50 million (of which $26 million have been received in October 2018 and $24 million in January 2019).

Impact on statement of income: This amount is recognized in the statement of income based on the percentage of completion of the costs Innate Pharma is engaged to expense in the context of the collaboration.

Impact on statement of financial position: The amount which is not recognized yet as revenue is deferred in the statement of financial position.

Pre-clinical molecules agreement

The initial non-refundable payment of $20 million is recognized as deferred revenue in the statement of financial position. It has been received in October 2018.

Impact on statement of income: Each $5 million portion corresponding to each the four molecules will be recognized in the statement of income when AstraZeneca communicates to the Company its decision to exercise or not exercise each of the option.

Impact on statement of financial position: This amount of $20 million is not recognized yet as revenue and is deferred in the statement of financial position.

Lumoxiti license agreement

The Company has acquired, from AstraZeneca, the US and EU rights to commercialize Lumoxiti for a $50 million payment.

Impact on statement of income: The agreement includes a transition period during which AstraZeneca is responsible for all aspects of the commercialization of Lumoxiti in the US up to mid-2020 at the latest. Innate Pharma will reimburse AstraZeneca for costs incurred other than in 2019 where there will be some sharing of costs. Innate Pharma will recognize the net result from the sales and expenses of Lumoxiti, which is presented on a single line item in the statement of income. R&D costs are recognized as operating expenses in the R&D line.

Impact on statement of financial position: Following the licensing agreement signed with AstraZeneca for the purchase of the rights of Lumoxiti, the Company recognized an intangible

asset amounting to €30.5 million. This amount corresponds to the $50 million initial payment (€43.5 million) paid to AstraZeneca in January 2019, reduced by $15.0 million (€13 million), which corresponds to the maximum amount to be financed by AZ for commercial and R&D costs for the fiscal year 2019 (cost sharing mechanism). According to this agreement, AstraZeneca will invoice Innate Pharma development, production and commercialization costs incurred during the transition phase. This amount is amortized from November 1, 2018 to July 27, 2031 (end of the protection period of the composition of matter patents, not including any potential patent extension nor other patents).

Equity investment from AstraZeneca

The payment of €62.6 million has been received in October 2018. This is subsequent to the acquisition, by AstraZeneca, of a 9.8% equity position in Innate through the issuance of 6,260,500 new shares to AstraZeneca at €10/share.

Impact on statement of financial position: The payment of €62.6m has been accounted in Cash and cash equivalents.