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CONSOLIDATED FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS AS AT DECEMBER 31, 2013

Balance Sheet
(in thousands of euros)

		At December 31,	
	Note	**2013**	**2012**
Assets			
Current Assets			
Cash and cash equivalents	5	38,360	30,584
Current financial instruments	5	2,989	2,032
Current receivables	6	8,002	8,381
Total current assets		**49,350**	**40,997**
Non-current assets			
Intangible and tangible assets	7	6,258	6,824
Associates and joint ventures	8	272	475
Other non current assets		2	-
Total non-current assets		**6,532**	**7,299**
Total assets		**55,882**	**48,295**
Liabilities			
Current liabilities			
Trade payables	9	8,665	14,186
Financial liabilities	10	613	1,178
Provisions	11	-	-
Total current liabilities		**9,278**	**15,364**
Non-current liabilities			
Financial liabilities	10	4,206	3,327
Defined benefit obligations	12	789	643
Other non current liabilities	13	1,324	5,597
Total non-current liabilities		**6,319**	**9,567**
Shareholders' equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	4, 14	2,287	1,897
Share premium		128,000	108,552
Retained earnings		(87,072)	(83,870)
Net income (loss)		(2,892)	(3,199)
Other reserves		(38)	(17)
Total capital and reserves attributable to equity holders of the Company		**40,286**	**23,364**
Total liabilities and equity		**55,882**	**48,295**

Income Statement
(in thousands of euros)

	Note	Year ended December 31, 2013	2012
Revenue from collaboration and licensing agreements	15	12,469	10,377
Government financing for research expenditures	16	4,182	3,905
Revenue and other income		**16,652**	**14,282**
Cost of supplies and consumable materials	18	(1,453)	(1,279)
Intellectual property expenses	17	(309)	(275)
Other purchases and external expenses	18	(9,219)	(8,640)
Employee benefits other than share-based compensation	19	(6,946)	(6,385)
Share-based compensation	20	(325)	-
Depreciation and amortization		(880)	(839)
Other expenses	21	(312)	(249)
Net operating expenses		**(19,444)**	**(17,668)**
Operating income (loss)		**(2,793)**	**(3,386)**
Financial income	22	533	890
Financial expenses	22	(387)	(334)
Net gain on dilution	8	179	-
Share of profit (loss) of associates and joint ventures	8	(424)	(371)
Net income (loss) before tax		**(2,892)**	**(3,199)**
Income tax expense	23	-	-
Net income (loss)		**(2,892)**	**(3,199)**
Net income (loss) per share attributable to equity holders of the Company:			
Weighted average number of shares (in thousands):		38,703	37,802
(in € per share)			
- basic	27	(0.07)	(0.08)
- diluted	27	(0.07)	(0.08)

Statement of comprehensive income
(in thousands of euros)

		Year ended December 31,	
In thousands of euros	**Note**	**2013**	**2012**
Net loss for the period:		**(2,892)**	**(3,199)**
Elements which will be recycled in the income statement:			
Currency translation gain / (loss)		23	12
Elements which won't be recycled in the income statement:			
Actuarial gains and (losses)	2, 12	(44)	(190)
Other comprehensive income:		**(21)**	**(178)**
Comprehensive income:		**(2,913)**	**(3,377)**

Statement of cash flows
(in thousands of euros)

	Notes	Year ended December 31, 2013	2012
Net income (loss)		**(2,892)**	**(3,199)**
Depreciation and amortization	**7**	880	839
Provisions for charges and defined benefit obligations	11,12	102	72
Share-based compensation	20	325	-
Share of profit (loss) of associates and joint ventures	8	424	371
Net gain dilution	8	(179)	-
Debt write-off	8	79	-
(Gains) / losses on disposal of fixed assets		3	3
Gains on assets and other financial assets	22	(438)	(727)
Net paid interests		144	168
Operating cash flow before changing in working capital		**(1,552)**	**(2,473)**
Current receivables and prepayments	6	379	(2,012)
Deferred revenue	9, 13	(4,273)	(7,516)
Trade payables	9	(5,521)	969
Net cash generated from / (used in) operating activities		**(10,967)**	**(10,475)**
Acquisition of property and equipment	7	(433)	(1,225)
Disposals of non-current assets		116	-
Purchase of current financial instruments	5	(2,996)	(2,032)
Disposal of current financial instruments	5	2,038	-
Variance of the intercompany account with the associate	8	(120)	(154)
Gains on assets and other financial assets	22	438	727
Net cash generated from / (used in) investing activities		**(958)**	**(2,684)**
Proceeds from the exercice / subscription of equity instrument	14	423	-
Capital increase	14	18 394	-
Increase in financial liabilities	10	1,500	-
Repayment of financial liabilities	10	(1,186)	(2,264)
Net paid interests		(144)	(168)
Transactions on treasury shares		151	116
Net cash generated from / (used in) financing activities		**19,677**	**(2,316)**
Effect of the exchange rate changes		23	12
Net increase / (decrease) in cash and cash equivalents		**7,776**	**(16,022)**
Cash and cash equivalents at the beginning of the year	5	**30,584**	**46,606**
Cash and cash equivalents at the end of the year	5	**38,360**	**30,584**

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

	Note	Number of shares (in thousands)	Share capital	Share premium	Retained earnings	Net loss	Other comprehensive income	Total attributable to equity holders of the Company
Balance as at December 31, 2011		**37,687**	**1,884**	**108,449**	**(76,889)**	**(6,980)**	**161**	**26,625**
Net loss 2012		-	-	-	-	(3,199)	-	(3,199)
Actuarial gains and (losses) on defined benefit obligations	12	-	-	-	-	-	(190)	(190)
Foreign exchange variation		-	-	-	-	-	12	12
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(3,199)**	**(178)**	**(3,377)**
Net loss appropriation 2011		-	-	-	6,980	6,980	-	-
Definitive grant of own shares		249	12	(12)	-	-	-	-
Liquidity contract		-	-	116	-	-	-	116
Total contributions by and distributions to owners of the company, recognised directly in equity		**249**	**12**	**103**	**(6,980)**	**6,980**	**-**	**116**
Balance as at December 31, 2012		**37,936**	**1,897**	**108,552**	**(83,870)**	**(3,199)**	**(17)**	**23,364**
Net loss 2013		-	-	-	-	(2,892)	-	(2,892)
Actuarial gains and (losses) on defined benefit obligations	12	-	-	-	-	-	(44)	(44)
Foreign exchange variation		-	-	-	-	-	23	23
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(2,892)**	**(21)**	**(2,913)**
Net loss appropriation 2012		-	-	-	(3,199)	3,199	-	-
Directoire 24th May 2013 – Exercice BSA 2007	14	200	10	394	-	-	-	404
Directoire 27th May 2013 – Subscription BSAAR 2012	14	-	-	16	-	-	-	16
Directoire 17th July 2013 – Subscription BSA 2013	14	-	-	2	-	-	-	2
Directoire 18th September 2013 – Subscription BSA 2013-1	14	-	-	1	-	-	-	1
Directoire 20th November 2013 - Capital increase 2013	14	7,600	380	18,554	-	-	-	18,934
Share based payment	20	-	-	325	-	-	-	325
Liquidity contract		-	-	151	-	-	-	151
Others		-	-	5	(3)	-	-	2
Total contributions by and distributions to owners of the company, recognised directly in equity		**7,800**	**390**	**19,448**	**(3,202)**	**3,199**	**-**	**19,835**
Balance as at December 31, 2013		**45,736**	**2,287**	**128,000**	**(87,072)**	**(2,892)**	**(38)**	**40,286**

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1) The Company

Innate Pharma (the "Company") is a French Société Anonyme incorporated and domiciled in Marseilles, France. The Company, founded in 1999, is listed on the NYSE-Euronext stock exchange in Paris, France, since 2006.

Innate Pharma is a biopharmaceutical firm specialized in immunology, developing first-in-class drug candidates. The Company develops monoclonal antibodies targeting regulation pathways of innate immunity cell activation. This therapeutic approache could have an application in several therapeutic areas such as cancer and inflammatorys diseases.

Innate Pharma's pipeline comprises two clinical-stage drug-candidates. The most advanced is currently in Phase II clinical trial in cancer, and licenced to Bristol-Myers Squibb. The Company has other proprietary programs currently in preclinical development. The most advanced could enter clinics in 2015.

The Company's strategy is to develop its drug-candidates for cancer on its own or through partnerships, and through partnerships only for the other therapeutic areas.

In the long run, the Company intends to become a commercial company, selling its product directly or through commercial partners.

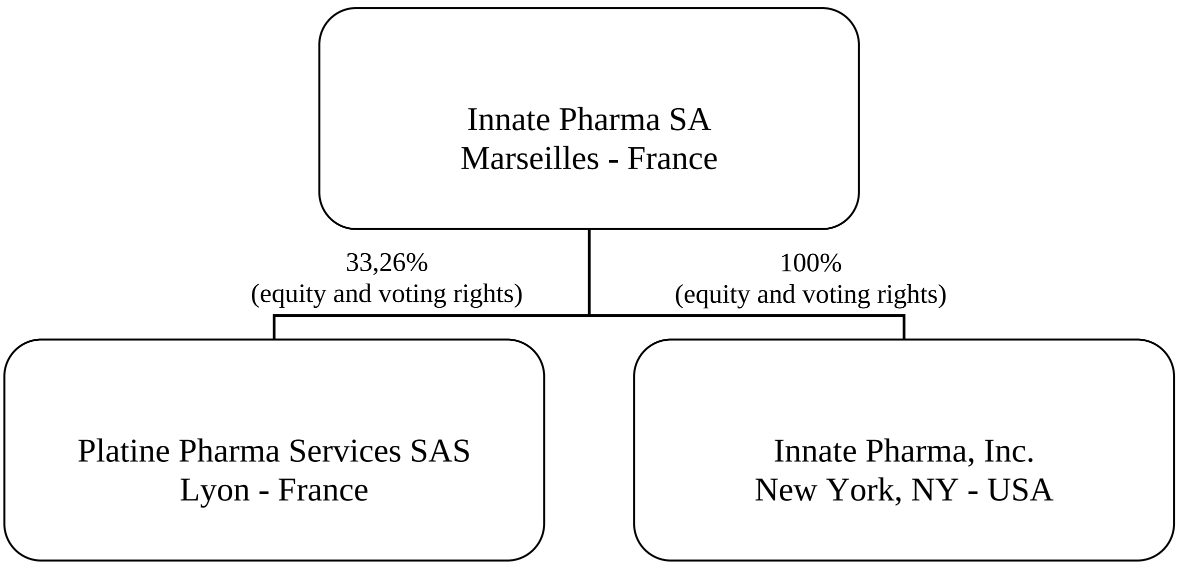
The Company is and should continue, in the near to mid-term, to be financed through partnership agreements for the the development and the commercialization of its drug-candidates and through the issuance of new equity instruments.

The Company's activity is not subject to seasonal fluctuations.

As at December 31, 2013, the Company had:

- 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 in managing the business development activities in the United Sates.
- A 33,26% stake in Platine Pharma Services SAS, which is co-owned with Transgene SA and Indicia Biotechnology SA. This company was initially a 100% subsidiary of Innate Pharma SA. Following the acquisition of an equity interest in Platine Pharma Services SAS Transgene during the fiscal year 2011, the percentage of ownership changed from 100% to 50%, then from 50% to 49.62%.
- In 2013, following the acquisition of an equity interest in Platine Pharma Services AS by Indicia Biotechnoly SA,, the percentage of ownership of Innate Pharma SA changed from 49.62% to 33.26%.

The organization chart of the Company and its subsidiaries and holdings as at December 31, 2013 is as follows:



The Executive Board approved these consolidated financial statements on February 10, 2014. They will be submitted for approval at the General Meeting of shareholder scheduled on March 27, 2014.

2) Accounting policies

a) Basis of preparation

The annual consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as at December 31, 2013. The IFRS standards as adopted by the European Union could be found on the internet website of the European Commission (http://ec.europa.eu/internal_market/accounting/ias_fr.htm#adopted-commission).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of marketable securities available for sale.

The preparation of financial statements in concordance with IFRS requires the Company to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates are used for, but not limited to, the accounting of operational revenue, share-based compensation, provisions for risks as well as evaluation of current financial instruments. Actual results could differ from these estimates.

Conversion of foreign subsidiaries' accounts:

The US subsidiary's accounts are converted based on the historical foreign exchange method. This conversion is as follows:

- Monetary items are converted based on the foreign exchange rate at accounting closing date ; and

- Revenue and expenses are converted based on an average exchange rate for the accounting period. The Company has used an annual average, which represents an acceptable estimation of the exchange applicable for each transaction when it takes place. Foreign exchange gains and losses resulting from this conversion are accounted in other comprehensive income as foreign exchange variations.

b) Accounting methods

The Company adopted the following new standards and interpretations at January 1, 2013. None of these amendments and interpretations has had an impact on the financial statements of the Company at December 31, 2013.

- Amendment to IAS 1, Presentation of items of Other Comprehensive Income, mandatory for annual periods beginning on or after July 1, 2012;
- IFRS 13, Fair value measurement;
- Amendment to IFRS 1, First-time adoption of International Financial Reporting Standards regarding severe hyperinflation and removal of fixed dates for the first-time adopters, mandatory for annual periods beginning on or after January 1, 2013;
- Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards regarding Governement loans
- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine;
- Amendment to IFRS 7, Offsetting financial assets and financial liabilities;
- Amendment to IAS 12 Recovery of underlying assets; and
- Amendment to IAS 19, Employee benefits.

The following new standards, amendments to existing standards and interpretations have been published but are not applicable in 2013, and have not been early adopted by the Company:

- IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and IFRS 12 Disclosure of interests in other entities, mandatory for annual periods beginning on or after January 1, 2014;
- Amendment to IAS 27, Separate financial statements, mandatory for annual periods beginning on or after January 1, 2014;
- Amendment to IAS 28, Investments in associates and joint ventures, mandatory for annual periods beginning on or after January 1, 2014;
- Amendment to IAS 32, Recovery of underlying assets, mandatory for annual periods beginning on or after January 1, 2014;
- IFRS 9, Financial instruments (no mandatory date yet) mandatory for annual periods beginning on or after January 1, 2015.

c) Mandatory change in accounting method

None for 2013.

d) Property and equipment

Property and equipment are carried at acquisition cost. Major renewals and improvements are capitalized while repairs and maintenance are expensed as incurred.

Depreciation is computed over the estimated useful lives of assets using the straight-line depreciation method. Leasehold improvements are depreciated over the life of the improvement or the remaining lease term, whichever is shorter.

The headquarters of the Company was split into 8 components (foundations, structure…) which are depreciated over different lenghts according to the anticipated useful life of these elements.

Depreciation periods are as follows:

Buildings	20 years
Installations and improvements on buildings	5 to 40 years
Technical installations and equipment	8 years
Equipment and office furniture	5 years
Computers and IT equipment	3 years

The depreciation period of the technical installations and equipment was increased from 5 years to 8 years during the fiscal year 2012, which is more consistent with the useful life of this kind of assets.

e) Intangible assets

An intangible asset is recognized when and only when:

- it is probable that the future economic benefits that are attributable to the asset will flow to the Company; and
- the cost of the asset can be measured reliably.

The management of the Company uses judgment to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset based on the evidence available at the time of the initial recognition.

Taking into account the uncertainty in successfully completing the research in progress as well as the uncertainty on the future availability of technical, financial and human resources necessary to complete the development phases of its drug candidates, R&D expenses of the Company do not comply with IAS 38.57 criterias and are therefore recognized as expenses on the period they are engaged.

f) Trade receivables

Trade receivables are initially recognized for their fair value. A provision for imperment may be booked according to the risk of non receoverabilty.

g) Cash and cash equivalents

Cash equivalents are short term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise the cash that is held at the bank and the petty cash as well as marketable securities and the short fixed-term deposits for which the recommended maturity is less than three months and the interest rate risk is very limited.

For the purpose of establishing the statement of cash flows, cash and cash equivalents include cash in hand, sight deposits and short fixed-term deposits with banks and short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings under financial debts.

h) Current financial instruments

The Company classifies investments as current financial instruments into one of the following categories: “held for trading” investments, “held to maturity” investments and “securities available for sale”.

Securities that the Company purchases with the main goal of generating a profit from short-term fluctuations in price are classified as cash and cash equivalents and are treated as “held for trading” investments. During this period, the Company has not purchased any securities of this type.

Fixed-maturity investments that management intends and is able to hold to maturity are treated as “held to maturity” investments. During this period, the Company has not purchased any securities of this type.

“Securities available for sale” are those that are not held to maturity or held for trading. Investments with unfixed maturities or original maturities of more than three months, which could easily be sold in order to fulfill cash requirements or in response to changes in interest rates, are classified as "available-for-sale financial assets". The Company’s current financial instruments comprise shares of mutual funds. The performance objective of these investments is to over-perform the EONIA index rate (rate of remuneration for interbank deposits in the Euro zone). Shares in mutual funds are considered as “securities available-for-sale”. These securities are valued at fair value, and changes in fair value are accounted for in the shareholders equity.

For those securities listed on active trading markets, the fair value is determined using quoted bid prices. Gains and losses on securities available for sale are recognized directly in equity as other comprehensive income, until the securities are sold, collected, or otherwise disposed of, or until they are determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in net income for the period. The Company analyses the potential losses in value in order to determine whether these losses are significant or durable.

Held to maturity investments are valued at the amortized cost using the effective interest rate method.

Management determines the appropriate classification for the relevant investments at purchase date and reviews this classification on a regular basis in accordance with the strict conditions in IAS 39.

i) Income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Main temporary differences are generally associated with the depreciation of property and equipment, provisions for pension benefits and tax losses carried forward. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Due to the Company’s present stage of development, which does not allow it to establish reliable estimations concerning future income, the Company has not accounted for net deferred tax assets.

j) Research tax credit

Research tax credit is provided by the French government to give incentives to companies to perform technical and scientific research. Companies that can justify that these expenses meet the required criteria (research expenses generated in France, or since January 1, 2005, in the European Union, or in another State having signed the agreement on the European Economic Area and a tax agreement with France containing an administrative assistance clause) receive such grants in the form of a tax credit that can be used for the payment of taxes due for the period in which the expense was incurred and for the next three years. As the Company does not pay tax, it only records the benefit of these grants as other income when all qualifying research has been performed.

The Company has benefited from a research tax credit since its first fiscal year. As at December 31, 2013 and in accordance with the French revised finance law for 2011 allowing for the immediate refund of the research tax credit, research tax credit receivable for 2013 was presented in current receivables by the Company.

From 2011, only companies that meet the definition of small and medium sized enterprises according to European Union criteria are eligible for early reimbursement of their research tax credit receivable. Management ensured that the Company is a SME according to European Union criteria and can therefore benefit from this early reimbursement.

k) Other types of government assistance

The Company benefits from several government grants, in the form of either outright grants or conditional grants. Further details relating to these grants are provided in Note 16.

Government grants are recognized when there is a reasonable assurance that:

- the Company will comply with the conditions attached to the grants; and that
- the grants will be received.

A non-repayable loan from the government is treated as a government grant when there is a reasonable assurance that the Company will meet the terms for non-repayment of the loan. When there is no such assurance, the loan is recorded as a liability under borrowings.

A government grant that becomes receivable as compensation for expenses or losses already incurred, or for the purpose of providing immediate financial support to the Company with no future related costs, is recognized as income of the period in which it becomes receivable.

Government grants to subsidize capital expenditures are presented in the balance sheet as deferred income and are recognized as income on a straight line basis over the useful life of those assets that have been financed through the grants.

l) Employee benefits other than share-based compensation

Company employees are entitled to pension benefits required by French law:

- pension benefit, paid by the Company upon retirement (“Defined Benefit Plan”); and
- ension payments from social security bodies, financed by contributions from businesses and employees (“Defined Contribution Plan”).

In addition, the Company has implemented an additional, non-mandatory, pension plan ("Article 83"), initially to the benefit offor executives only. This plan was extended to the non-exeucutive employees from January 1, 2014. This other Defined Contribution Plan is financed through a contribution that corresponds to 2.0% of the annual employee’s wage, with the Company paying 1.2% and the employee paying 0.8%.For the Defined Benefit Plan, the costs of the obligations are estimated using the “projected unit credit” method. According toUnder this method, the retirement cost is accounted for in the income statement, using an approach that divides the cost equally over the length of time that the employee has worked for the Company in compliance with the advice given by a qualified actuary during the annual review of the valuation of this plan. Such pension benefits were valued using the actual present value of estimated future payments, adopting the rate of interest of long-term bonds in the private sector ("Euro zone AA rated corporate bonds + 10 years"). Actuarial differences are recognized in the period in which they occur in the income statement. The Company’s commitments under Defined Benefit Plans are not covered by any appropriate assets.Payments made by the Company for Defined Contribution Plans are accounted for as expenses in the income statement in the period in which they were incurred.

m) Leases

Leases of property and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance-leases. Property and equipment acquired under finance-leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is divided between principal repayment and interest expense so as to achieve a constant rate on the outstanding amount due. The corresponding rental obligations, net of interest expenses, are included in borrowings. The interest expense is charged to the income statement over the lease period. Property and equipment acquired under finance-leases are depreciated over the useful life of the asset.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating-leases. Payments made under operating-leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

n) Trade payables

Trade payables are classified as current liabilities. They are initially recognized for their fair value. According to the delay between the recognition and the payment, the value of these liabilities is generally equal to the nominal value.

o) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

p) Revenue recognition

To date, the Company's revenue results primarily from payments generated by development and license agreements signed with pharmaceutical companies (Note 15). These contracts generally provide for components such as upfront payments, milestone payments upon reaching certain predetermined development objectives, or technology access fee, research and development funding, as well as payment of royalties on future sales of products.

Technology access fees are recognized as income when the Company has no remaining obligations to perform after signing the contract and when the amounts received cannot be reimbursed and do not carry any commitments to future development. In all other cases, these are initially deferred under deferred income and recognized in the income statement over the period of the Company's continuing involvement under the research agreement, the estimate of which is revised periodically. Milestone payments are recognized in revenue after final acceptance of the completion of the relevant development objectives by the other contracting party. Research and development funding is initially deferred under deferred income and recognized in the income statement over the period of the Company's continuing involvement under the research agreement, the estimate of which is revised periodically.

The Company records a provision for impairment in cases where the recoverability of the invoiced amounts appears to be uncertain.

q) Share-based compensation

The Company has issued various share-based compensation instruments since its inception. Under IFRS 2, the impact of share-based compensation granted to employees and other individuals in remuneration of services has been recognized on the income statement since 2004.For share-based compensation granted to employees, the Company uses the Black-Scholes option pricing model to determine the fair value of the stock-options. For other individuals providing similar services, as the Company cannot estimate reliably the fair value of the goods or services received, it measures the value of share-based compensation and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted also using the Black-Scholes option pricing model. The fair value of free shares is determined using the value of the share at the time of their distribution.

In calculating the fair value of share-based compensation, the Company also considers the vesting period mechanism and, the staff turnover weighted average probability. as well as the probability of a future listing on a public stock-market at the time of issuance of the said options, as described in Note 20. The fair value of the share-based compensation is recognized as expense over the period in which the rights are acquired. Other assumptions used are also detailed in Note 20.

r) Other comprehensive income

Items of income and expenses for the period that are recognized directly in equity are presented under "other comprehensive income". For the periods under review, this line item notably includes the potential gains and losses on available-for-sale securities until the date of their disposal, foreign exchange variations and the changes of actuarial assumptions relating to the defined benefit obligaions.

s) Segment information

The Company considers that it operates within a single aggregated segment: research and development of pharmaceutical products with the goal ofa view to their future marketing. All research and development activities of the Company are located in France. Key decision makers (the executive committee of the Company) monitor the Company's performance based on the cash consumption of its activities.

t) Capital

Common shares are classified in shareholders' equity. Costs associated with the issuance of new shares are directly accounted for in shareholders' equity in diminution ofless gross proceeds of capital increases.

The Company's own shares bought in the context of a brokering/liquidity contract come in diminution of the are presented as a reduction in shareholders' equity up until their cancellation, their reissuance or their disposal.

u) Critical accounting estimates and assumptions

The Company subcontracts an major part of its research and development activities to external partners. This expense is recorded based on the completion stage of each project. The degree of completion is determined based on information provided by the external partners, and then corroborated via internal analyses. The determination of this degree of completion is dependent on estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the current context. These estimates and judgments are mainly as follows:

Accounting for collaboration and licensing agreements

When the Company is committed to perform research and development after the signing of an agreement, revenue is deferred on the basis of the estimated duration of its involvement. The determination of this duration depends on estimates. The durations are regularly updated to take into account the progress of developments and the remaining services to be rendered.

Valuation of stock-options, warrants and free shares

The fair valuation of stock-options and free shares granted to employees or to service providers is carried out on the basis of actuarial models. These models require the Company to consider certain assumptions in the calculation, including the anticipated volatility of the share price and the rate of staff turnover.

Valuation of provision for risks

In the course of its business, the Company could be exposed to certain risks, notably in relation to contractual arrangements. Management of the Company estimates the probability and the expected amount of a cash outflow associated with risks, together with the other information to be provided on possible liabilities.

Fair value of financial assets

Estimation of fair value of current financial instruments at closing balance sheet date relies on market data provided by banks.

v) Consolidation using the equity method

Following the disposal operation of a 50% stake in of its subsidiary Innate Pharma Services, which has been jointly controlled since this date, the Company applies the consolidationhas consolidated this entity using the equity method. According toUnder this method, the participationinvestment of the Company is booked at cost, adjusted by the cumulative impact of the post operation variances and reduced by the amount of the dividends distributed. The net book value of Platine Pharma Services is presented in the balance sheet under the line "Associates and joint-ventures". When the fair-valuerecoverable amount of the participationsinvestments accounted for according tousing the equity method (estimated using a discounted cash-flows method) is lower than their net book value of these participations, an impairment loss is recorded depreciation is booked.The share of the Company in the profits or losses of Platine Pharma Services is presented below the "Operational result".

In 2012, following a capital increase of Platine Pharma Services SAS, the percentage of ownership changed from 50% to 49,62%. Consequently, a gain on dilution was recognized (4 thousand euros).

In 2013, following the acquisition of an equity interest in entry of Platine Pharma Services SAS by Indicia Biotechnology SA in the capital of Platine Pharma Services SAS, the percentage of ownership of Innate Pharma SA changed from 49.62% to 33.26%. Consequently, a gain on dilution was recognized (179 thousands of euros).

3) Management of financial risks and fair value

Financial risks

The Company's investment strategy for its cash consists in taking no risk on the capital and to try to over-perform certain benchmark monetary rates such as the EONIA rate (rate of remuneration for interbank deposits in the Euro zone).

The Company’s main financial instruments include financial assets, cash and marketable securities. The objective in the management of these instruments, set by the Executive Board and validated by the Audit Committee and the Supervisory Board, is to ensure the financing of the Company’s operations. The Company’s policy is therefore not to invest in speculative financial instruments. The Company does not make direct use of derivative financial instruments.

The main risks to which the Company is exposed include foreign exchange risk, liquidity risk, interest and credit risks.

Foreign exchange risks: the Company has little exposure to foreign exchange risks with regards to the conversion of the US dollar into euros. Over the last financial years, revenue have been paid in euros and most of expenses have been invoiced in euros. This situation could however change if the Company expands its business in the United States, the world’s largest anti-cancer therapy market. In addition, if the Company succeeds in marketing products in the United States, part of its revenue will be in U.S. dollars. The Company has not entered into any hedging arrangements to protect its business against exchange rate fluctuations.

Liquidity risk: historically, the Company has financed its growth by ways ofthrough share capital increases (see Note 14). The Company has arranged a lease-financing for its new headquarters and main laboratories in Marseilles. To date, the Company is not exposed to cash flow risks resulting from the implementation of early bank loan reimbursementsrepayments. In terms of investing its cash flow, the Company can benefit from certain guarantees in capital and performance. These guarantees are generally associated with liquidity constraints that require the Company to remain invested up to a certain term in order to benefit from the latter.

Interest rate: the Company’s exposure to interest rate variations mainly relates to two items in the balance sheet: cash and cash equivalents and current financial instruments. These are the Company’s main tangible assets to date. As further detailed in Note 5, these assets include money market mutual funds, i.e. marketable securities that are similar to variable rate instruments. Interest rate variations have a direct impact on the Company’s cash flow and current financial instruments and, therefore, on its interest revenue. The Company's cash management strategy favors risk-free capital investments.

The following table shows the sensitivity of the Company's financial assets to a variation of 50 base points in the interest rate during the fiscal years endeding December 31, 2012 and 2013 (in millions of euros):

	At December 31,	
	2013	**2012**
Average balance of cash, cash equivalents and current financial instruments	**36.7**	**39.6**
Interest income with 50 base points	0.2	0.2
Interest expense with 50 base points	(0.2)	(0.2)

Credit risk: based on the experience of the Company, the payment of certain public research financing is subject to a credit risk. The credit risk related to the cash and cash equivalents and to current financial instruments is not significant with regards togiven the credit rating of the financial institutions with which the Company works with.

Fair value

The fair value of financial instruments traded in active trading markets such as securities available for sale, is based on the listed market prices at the balance sheet date. The listed price used for financial assets held by the Company is the current bid price at valuation date.

The nominal value, minus less provisions for depreciation impairment, of receivables and short-term debt is assumed to be close to the fair value of these items.

4) Placement of new shares

In November 2013 the Group carried out a private placement subscribed entirely by US-based specialist investors (please see Note 14 for more details).

5) Cash, cash equivalents and current financial instruments

Cash and cash equivalents

At December 31, 2013, cash and cash equivalents are composed of current accounts and fixed term accounts.

	At December 31,	
	2013	**2012**
Current accounts	25,293	8,463
Fixed term accounts	13,067	22,121
Cash and cash equivalents	**38,360**	**30,584**

Fixed terms accounts owned by the Company respect the criteria to be classified as cash equivalents: the cash under these supportsheld in such accounts is indeed available on a day to day basis, the capital is free of risk and easily convertible into a well -known amounts of cash.

Current financial instruments

During the year tThe Company subscribed somefor shares inof a “fonds commun de placement”. Valuation of these shares at December 31, 2013 amounts to 2,989 thousand s of euros (2,032 thousand s of euros at December 31, 2012). Amounts invested on this support These invested amounts are available on a day to day basis and easily convertible in a wellto -known amounts of cash. However, the capital is not free of risk.

6) Current receivables

Current receivables are analyzed as follows (in thousand euros):

	At December 31,	
	2013	**2012**
Research Tax Credit	4,167	3,771
Trade account receivables	1,993	2,632
Prepaid expenses	761	1,083
VAT refund	491	512
Brokering/liquidity contract – cash	302	151
Prepayments made to suppliers	179	68
Other receivables	77	35
Grants	32	128
Current receivables and prepayments	**8,002**	**8,381**

The net book value of the current receivables is considered to be a reasonable approximation of their estimated fair value. 'Trade account receivables' relate to Bristol-Myers Squibb and mainly correspond to external costs incurred for the completion of ongoing trials, for which the Company is responsible.

7) Intangibles and tangibles assets

The Company's assets can be broken down as follows (in thousand euros):

	Buildings (1)	Laboratory equipment and other tangible assets	Property, plant and equipment and other tangible assets in progress	Total property and equipment
Year ended December 31, 2012				
Net opening balance	**5,541**	**898**	**3**	**6,442**
Reclassification	-	3	(3)	-
Acquisitions	13	982	230	1,225
Disposals	-	(3)	-	(3)
Depreciation	(380)	(459)	-	(839)
Net closing balance	**5,174**	**1,421**	**230**	**6,824**
Year ended December 31, 2013				
Net opening balance	**5,174**	**1,421**	**230**	**6,824**
Reclassification	-	229	(229)	-
Acquisitions	-	404	29	433
Disposals	-	(120)	-	(120)
Depreciation	(380)	(500)	-	(880)
Net closing balance	**4,794**	**1,434**	**30**	**6,258**

(1) Gross value of the land is 772 thousand euros. It is not depreciated.

The table above includes assets acquired through finance-leases. The table below summarizes the impact of these assets on property and equipment except for the assets acquired in the context of the acquisition of the Company's new headquarters and main laboratories in 2008 (in thousand euros):

	At December 31,	
	2013	**2012**
Cost of land and building	6,633	6,633
Cumulated depreciation	(1,889)	(1,516)
Net book value of land and building	**4,744**	**5,117**
Cost of the equipment	1,417	1,417
Cumulated depreciation	(1,394)	(1,263)
Net book value of the equipment	**23**	**154**

8) Associates and joint ventures

The Company has a joint control with Transgene SA over Platine Pharma Services. The Group recognizes its participation into the company Platine Pharma Services SAS using the equity method.

	Shares	Current account	Total
At December 31, 2010	**-**	**-**	**-**
Fair value of the shares at March 30, 2011	654	-	654
Cash advances	-	262	262
Share of loss for the fiscal year 2011	(225)	-	(225)
At December 31, 2011	**429**	**262**	**692**
Cash advances	-	156	156
Share of loss for the fiscal year 2012	(371)	-	(371)
At December 31, 2012	**58**	**418**	**475**
Capital increase by debt offset	339	(339)	-
Cash advances	-	120	120
Net gain on dilution	179	-	179
Debt write-off	**-**	(79)	(79)
Share of loss for the fiscal year 2013	(424)	-	(424)
At December 31, 2013	**152**	**120**	**272**

In 2013, following the acquisition of an equity interest in entry of Platine Pharma Services SAS by Indicia Biotechnology SA, the percentage of ownership of Innate Pharma SA changed from 49.62% to 33.26%. Consequently, a gain on dilution was recognized (179 thousand euros);

	As at December 31,	
	2013	**2012**
Total assets	1,909	1 357
Total liabilities	(1,851)	(1,621)
Share of net assets	**19**	**(131)**
Operational revenue	1,588	1,700
Net results	(926)	(747)
Share of net results	**(424)**	**(371)**

An impairment test has been performed in January 2014 to compare the net book value of the shares and the current account of Platine Pharma Services to their recoverabley value. The recoverabley value has been determined on the basis of a letter of intent addressed to the present shareholders of Platine Pharma Services by an entity which aims at entering into the capital of to acquire an equity interest in the company.

9) Trade payables

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

	At December 31,	
	2013	2012
Suppliers	5,141	4,670
Tax and social liabilities	2,092	1,711
Other payables (grants)	173	142
Prepaid income	1,259	7,663
Trade payables	**8,665**	**14,186**

The book value of trade payables is considered to be a reasonable approximation of their fair value.

Prepaid income at December 31, 2013 represents the part of the up-front payment received from Bristol-Myers Squibb which will be recognized in 2014.

10) Financial liabilities

This line item was broken down per maturity and is analyzed as follows (in thousands of euros):

	At December 31,	
Total - Current financial liabilities	**2013**	**2012**
Oséo ADI — 02/15/2002 (Grant 1)	119	426
Oséo ADI — 02/15/2002 (“Conseil Général”) (Grant 2)	12	37
Oséo EUREKA — 12/03/2003 (Grant 3)	-	126
Lease finance obligations – Real estate transaction	434	416
Lease finance obligations – Other	48	144
Others (Eurotransbio, Vivabio)	-	30
Total - Current financial liabilities	**613**	**1,178**

	At December 31,	
Total – Non current financial liabilities	**2013**	**2012**
Oséo ADI — 02/15/2002 (Grant 1)	-	119
Oséo ADI — 02/15/2002 (“Conseil Général”) (Grant 2)	-	12
BPI PTZI IPH41	1,500	-
Lease finance obligations – Real estate transaction	2,706	3,148
Lease finance obligations – Other	-	48
Total – Non current financial liabilities	**4,206**	**3,327**
Total financial liabilities	**4,819**	**4,505**

Financings from Oséo accounted recorded as financial liabilities are grants that are reimbursable repayable in the event of the success of the project in question. They do not bear any interest. Since the technical success of programs pertaining to these financings was acknowledged by Oséo, the Company must reimburse them and, as such, they are accounted for as borrowings.

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 euros.Lease-finance obligations relate primarily to (i) the real estate transaction in relation to the acquisition by the Company of its new headquarters and main laboratories, as well as (ii) laboratory equipment, office furniture and computer equipment.

In the above table, financial liabilities relating to the lease-financing for the real estate transaction in relation to the acquisition by the Company of its new headquarters and main laboratories are net of the cash collateral paid to Sogebail.

Repayment schedule

The table below shows the schedule for repayment of financial liabilities (principal only):

Repayment schedule	**2014**	**2015**	**2016**	**2017**	**2018 and following**	**Total**
Oséo ADI - 02/15/2002 (Grant 1)	119	-	-	-	-	**119**
Oséo ADI - 02/15/2002 (Conseil Général)	12	-	-	-	-	**12**
BPI PTZI IPH41	-	-	300	300	900	**1,500**
Lease finance obligations – Real estate	557	582	609	636	1,676	**4,060**
Lease finance obligations – Other	48	-	-	-	-	**48**
Down-payment	(123)	(130)	(137)	(144)	(386)	**(920)**
Total	**613**	**452**	**772**	**792**	**2,190**	**4,819**

The table below shows the schedule for the contractual flow (being principal and interest payments):

Repayment schedule	**2014**	**2015**	**2016**	**2017**	**2018 and following**	**Total**
Oséo ADI - 02/15/2002 (Grant 1)	119	-	-	-	-	**119**
Oséo ADI - 02/15/2002 (Conseil Général)	12	-	-	-	-	**12**
BPI PTZI IPH41	-	-	300	300	900	**1,500**
Lease finance obligations – Real estate	721	721	721	721	1,759	**4,644**
Lease finance obligations – Other	48	-	-	-	-	**48**
Down-payment	(167)	(167)	(167)	(167)	(492)	**(1,161)**
Total	**733**	**554**	**854**	**854**	**2,167**	**5,162**

Detail of Oséo borrowings

In thousands of euros	**Oséo ADI(Grant 1)**	**Oséo ADI(Grant 2)**	**Oséo EUREKA (Grant 3)**	**Total**
Total amount:	2,223	198	745	6,066
Received amount:	2,223	198	671	4,292
Reimbursed amount:	2,104	186	671	3,572
Net book value at December 31, 2012	**119**	**12**	**-**	**131**

Oséo ADI – 02/15/2002 (Grant 1): The financing of an innovation scheme entitled: “Development of anti-tumoral treatments and cellular therapy methods using the non conventional lymphoid immunity".

Oséo ADI – 02/15/2002 (Grant 2): Complementary grant by Oséo on funds made available to the agency by the Bouches-du-Rhône Department, for the financing of an innovation scheme entitled: “Development of anti-tumoral treatments and cellular therapy methods using the non conventional lymphoid immunity".

Lease-finance obligations

The present value of obligations relating to finance-lease agreements (minimum lease payments) is as shown in the table below (in thousands of euros):

	At December 31,	
	2013	**2012**
Maturity of up to 1 year	605	676
Maturity of between 2 and 5 years	2,493	2,433
Maturity greater than 5 years	1,011	1,676
Nominal value of lease finance obligations	**4,109**	**4,791**
Future interest expenses on lease finance obligations	(920)	(1,038)
Present value of lease finance obligations	**3,188**	**3,747**

The present value of lease finance obligations can be further analyzed as follows:

	At December 31,	
	2013	**2012**
Maturity of up to 1 year	482	559
Maturity of between 1 and 5 years	1,929	1,898
Maturity greater than 5 years	777	1,290
Present value of lease finance obligations	**3,188**	**3,747**

Fair value of financial liabilities

The fair value of financial liabilities, calculated on the basis of discounted future cash flow at Euribor 3-month plus a bank margin ("spread") of 200 base points, was 4,400 thousand euros and 4,697 thousand euros at December 31, 2012 and 2013, respectively.

11) Provisions

No provision is booked in the consolidated balance sheet as at December 31, 2012 and 2013.

12) Defined benefit obligations

Defined benefit obligations are related to retirement costs.

The main actuarial assumptions used to evaluate retirement benefits are the following:

	At December 31,	
	2013	**2012**
Economic assumptions		
Discount rate (iBoxx Corporate AA)	3.20%	3.00%
Annual rate of increase in wages	3.00%	3.00%
Demographical assumptions		
Type of retirement	at the initiative of the employee	at the initiative of the employee
Rate of tax and social charges	45%	45%
Age at retirement		
- Executives	64 years	64 years
- Non-executives	62 years	62 years
Mortality table	INSEE TD/TV 2009-2011	INSEE TD/TV 2008-2010
Annual mobility	All personnel	All personnel
16-24 years	15%	15%
25-29 years	12%	12%
30-34 years	9%	9%
34-39 years	6%	6%
40-44 years	3%	3%
45-49 years	1%	1%
+50 years	0%	0%

Amounts recognized in the balance sheet are determined as follows (in thousands of euros):

	At December 31,	
	2013	**2012**
Discounted value of the funded obligations	-	-
Fair value of assets in the plan	-	-
Discounted value of the unfunded obligations	789	643
Unrecognized actuarial losses	-	-
Cost of unrecognized past services	-	-
Provision recognized in the balance sheet	**789**	**643**

The table below shows the amounts recognized in the income statement (in thousands of euros):

	At December 31,	
	2013	**2012**
Cost of services rendered	83	54
Net actuarial loss recognized during the period	19	18
Financial cost	-	-
Total	**102**	**72**

In accordance with IAS19 revised, the impact of the change in the actuarial assumptions was booked for the fiscal year 20132 in the other comprehensive income for an amount of 190 44 thousand of euros (190 thousand euros in 2012).

The total amount expensed for contributions under Defined Contribution Plans amounted to 453 thousand euros in the year 2013 (compared to 416 thousand euros for the year 2012).

13) Other non current liabilities

The other non current liabilities are composed of the part of the up front payment received from Bristol-Myers Squibb which will be recognized as revenue in the year 2015 and onwards (see Notes 9 and 15).

14) Share capital

As at December 31, 2012 and 2013 the breakdown of share capital can be analyzed as follows (number of shares with a par value of 0.05 euro; in thousands of shares):

	At December 31,	
	2013	**2012**
Common shares, opening	37,936	36,687
Issuance of new shares following the exercise of stock-options, warrants or acquisition of free shares	200	249
Issuance of new shares following a capital increase on capital markets	7,600	-
Common shares, closing	**45,736**	**37,936**

Details of changes in share capital over the periods presented are further analyzed below:

On March 12th, 2007, subsequent to the exercise of various company founders warrants in January and February 2007, the Executive Board recognized a capital increase of 6,425 euros (128,500 new shares), bringing the share capital to 1,255,564.20 euros.

On June 1st, 2007, subsequent to the exercise of various company founders warrants in April and May 2007, the Executive Board recognized a capital increase of 2,710 euros (54,200 new shares), bringing the share capital to 1,258,274.20 euros.

On January 22, 2008, subsequent to the exercise of options in July and December 2007, the Executive Board recognized a capital increase of 238.75 euros (4,775 new shares), bringing the share capital to 1,258,512.95 euros on December 31, 2007.

On April 30, 2008, subsequent to the acquisition of free shares distributed in 2006, the Executive Board minuted a capital increase of 37,100 euros (742,000 new shares), bringing the share capital to 1,295,612.95 euros on December 31, 2008.

On December 23, 2009, following a capital increase authorized by resolutions 18 and 19 voted in the General Meeting of shareholders dated June 23, 2009, the Executive Board minuted a capital increase of 536,226.75 euros (10,724,535 new shares), increasing the share capital to 1,831,839.70 euros. The gross proceeds of the capital increase were 24.3 million euros. The net proceeds were 23.1 million euros.

On March 26, 2010, following the definitive acquisition of free shares distributed in 2008, the Executive Board minuted a capital increase of 52,157 euros (1,043,140 new shares), increasing the share capital to 1,883,996.70 euros.

On May 5, 2010, following the definitive acquisition of free shares distributed in 2008, the Executive Board minuted a capital increase of 343 euros (6,860 new shares), increasing the share capital to 1,884,339.70 euros.

On July 3rd, 2012, subsequent to the acquisition of free shares distributed in 2008, the Executive Board minuted a capital increase of 12,455 euros (249,100 new shares), bringing the share capital to 1,896,794.70 euros at July 1st, 2012.

On May 24, 2013, subsequent to the exercise of the overall BSA 2007,the Executive Board minuted a capital increase of 9,999.9 euros (199,998 new shares), bringing the share capital to 1,906,794.6 euros at May 17th, 2013. The exercise price received by the Company was recorded as share capital for 10 thousand euros and issue premium for 394 thousand euros.

On November 25th, 2013, subsequent to a "private placement" operation as described in Article L. 411-2 II of the French Monetary and Financial Code, in accordance with the use of delegations granted by the 20th Resolution as voted by the shareholders on June 28, 2013, the Executive Board minuted a capital increase of 380,000 euros(7,600,000.00 new shares), bringing the share capital to 2,286,794.6 euros. The gross proceeds of the capital increase were 20.3 million euros and the net proceeds were 18.9 million euros. This led to an increase in the issue premium of 18,554 thousand euros

Operations on warrants ("BSA"), company founders' warrants ("BSPCE") and stock-options during the periods presented were as follows:

	BSPCE	BSA	Stock-options	BSAAR
Opening balance – September 23, 1999	**—**	**—**	**—**	**—**
Issued warrants and options – April 28, 2000	18,750	—	—	—
Balance as at December 31, 2000	**18,750**	**—**	**—**	**—**
Issued warrants and options – December 22, 2001	—	15,500	—	—
Balance as at December 31, 2001	**18,750**	**15,500**	**—**	**—**
Issued warrants and options – May 15, 2002	12,750	—	—	—
Balance as at December 31, 2002	**31,500**	**15,500**	**—**	**—**
Issued warrants and options – July 3, 2003	—	3,000	28,500	—
Cancelled warrants and options - 2003	(1,500)	—	—	—
Balance as at December 31, 2003	**30,000**	**18,500**	**28,500**	—
Cancelled warrants and options - 2004	(250)	—	(5,250)	—
Exercised warrants and options - 2004	(18,750)	—	—	—
Balance as at December 31, 2004	**11,000**	**18,500**	**23,250**	**—**
Issued options – June 13, 2005	—	—	25,000	—
Balance as at December 31, 2005	**11,000**	**18,500**	**48,250**	**—**
Cancelled warrants and options - 2006	—	—	(4,050)	—
Exercised warrants and options - 2006	(1,865)	(15,500)	(150)	—
Balance as at December 31, 2006	**9,135**	**3,000**	**44,050**	—
Cancelled warrants and options - 2007	—	—	(121.25)	—
Exercised warrants and options - 2007	(9,135)	—	(238.75)	—
Balance as at December 31, 2007	—	**3,000**	**43,690**	**—**
Cancelled warrants and options - 2008	—	(3,000)	(400)	—
Issued warrants and options – March 28, 2008	—	199,998	—	—
Balance as at December 31, 2008	—	**199,998**	**43,290**	—
Cancelled warrants and options - 2009	—	—	(2,300)	—
Issued warrants and options – January 19, 2009	—	35,000	—	—
Balance as at December 31, 2009	—	**234,998**	**40,990**	**—**
Cancelled warrants and options - 2010	—	—	(14,200)	—
Issued warrants and options – June 18, 2010	—	—	—	100,000
Balance as at December 31, 2010	—	**234,998**	**26,790**	**100,000**
Cancelled warrants and options - 2011	—	—	(1,100)	—
Issued warrants– July 29, 2011	—	325,000	—	—
Issued warrants– Sept. 9, 2011	—	—	—	650,000
Balance as at December 31, 2011	—	**559,998**	**25,690**	**750,000**
Cancelled warrants and options - 2012				
Exercised warrants and options - 2012				
Balance as at December 31, 2012	—	**559,998**	**25,690**	**750,000**
Cancelled warrants and options - 2013	—		(12,690)[1]	
Exercised warrants and options - 2013	—	199,998	(500)[2]	(17,250)[2]
BSAAR attributed on May 27, 2013	—			146,050
BSA attributed on July 17, 2013	—	237,500		
BSA attributed on September 18, 2013	—	500		
Balance as at December 31, 2013	—	**647,500**	**12,500**	**878,800**

1 Stock-options 2003 expired on June 30, 2013
2 Stock-options and BSAAR exercised in December 2013 will be minuted by the Executive Board on February 10, 2014

Each stock-option issued gives the right to subscribe to twenty new common shares, taking into account the twenty for one share split on March 29, 2006. As at December 31, 2013, the 12,500 stock-options outstanding gave rights to subscribe to 250,000 new common shares with a nominal value of 0.05 euros per share.

The circulating BSA as at December 31, 2013, gave right to subscribe to 647,500 new common share with a nominal value of 0.05 euros per share.

As at December 31, 2013, the circulating BSAAR gave right to subscribe to 878,800 new common shares with a nominal value of 0.05 euros per share.

As at December 31, 2013, the circulating BSA, BSAAR and stock-options gave right to subscribe to 1,776,300 new common shares with a nominal value of 0.05 euros per share representing 3.88% of the capital.

As of July 1, 2003, the General Meeting of shareholders authorized the issuance of 3,000 BSA_{2003} and 28,500 $Stock\text{-}Options_{2003}$. The BSA_{2003} were allocated to a current member of the Company's Supervisory Board and the $Stock\text{-}Options_{2003}$ were allocated to employees by the “Comité de Direction” on July 1, 2003. Following the expiration of the exercise period of the BSA_{2003} on July 1, 2008, the latter were cancelled. Following the expiry of the exercise period of the Stock-options 2003, on June 30^{th}, 2013,12,690 $Stock\text{-}Options_{2003}$ representing 253,800 common shares were cancelled.

On July 22, 2004, the General Meeting of shareholders authorized the issuance of 25,000 $Stock\text{-}Options_{2004}$. The $Stock\text{-}Options_{2004}$ were allocated to employees by the “Comité de Direction” on June 30, 2005. Following the exercise of 500 $Stock\text{-}Options_{2004}$, 12,500 $Stock\text{-}Options_{2004}$ remained as at December 31, 2013, which can be exercised and represent 250,000 common shares.

On June 26, 2007, the General Meeting of shareholders authorized the issuance of 200,000 new warrants giving right to subscribe to 200,000 new common shares (“BSA_{2007}”). 199,998 of these BSA_{2007} were allocated to independent members of the Supervisory Board and to members of the Scientific Advisory Board by the Executive Board on March 25, 2008. All these warrants were exercised by their beneficiaries and this was minuted by the Executive Board of May 24, 2013.

On June 27, 2008, the General Meeting of shareholders authorized the issuance of 240,000 new warrants giving right to subscribe to 240,000 new common shares (“BSA_{2008}”). 35,000 of these BSA_{2008} were allocated to an independent member of the Supervisory Board by the Executive Board on January 19, 2009.

On June 23, 2009, the General Meeting of shareholders authorized the issuance of 100,000 redeemable share subscription and/or acquisition warrants giving right to subscribe to 100,000 new common shares (“BSAARs”). All of these BSAARs were allocated by the Executive Board on June 18, 2010. The BSAARs give right to the subscription of 100,000 common shares at the price of 2.34 euros per share. Following the exercise of certain BSAARs, 85,000 BSAARs remained as at December 31, 2013 which can be exercised and represent 85,000 common shares.

On June 29, 2011, the General Meeting of shareholders authorized the issuance of 350,000 new subscription warrants giving right to subscribe to 350,000 new common shares. 325,000 warrants including 100,000 BSA 2011-1 and 225,000 BSA 2011-2 were allocated to independent members of the Supervisory Board, to members of the Scientific Advisory Board and to consultants, by the Executive Board on July 29, 2011.

On June 29, 2011, the General Meeting of shareholders authorized the issuance of 1,000,000 redeemable share subscription and/or acquisition warrants giving right to subscribe to 1,000,000 new common shares (“BSAARs”). On January 11, 2012 the Executive Board minuted the subscription of 650,000 redeemeable warrants, which may give rise to the issue of 650,000 new shares.

On June 28, 2012, the General Meeting of shareholders authorized the issuance of 200,000 redeemable share subscription and/or acquisition warrants (“BSAAR 2012”) giving right to subscribe to 200,000 new common shares. On July 3rd, 2013, the Executive Board minuted the subscription of 146,050 BSAAR 2012, which may give rise to the issue of 146,050 new common shares. The subscription price received by the Company was recorded as an issue premium for 16 thousand euros.

On December 31, 2013 following the exercise of certain BSAARs 2012, there remained 143,800 exercisable BSAAR 2012 representing a total of 143,800 common shares.

On June 28, 2013, the General Meeting of shareholders authorized the issuance of 300,000 warrants (BSA) giving right to subscribe to 300,000 new shares.

The Executive board of July 17, 2013, after authorization by the Supervisory board, allocated 237,500 BSA (“BSA 2013”) to a new independent Supervisory board member, to consultants and to member of the Scientific advisory board.

62,500 BSA remained not allocated out of the 300,000 warrants authorized by the General Meeting of shareholders.

The Executive Board of September 18, 2013 upon the authorization of the Supervisory board, allocated 50,000 BSA (“BSA 2013-1”) to a consultant of the Company. The subscription price received by the Company was recorded as an issue premium respectively for 2 thousand and 1 thousand euros.

Free shares

On March 29, 2006, the General Meeting of shareholders authorized the issuance of 800,000 free shares (the "Free Shares_{2006}"). 751,000 of these Free Shares_{2006} were granted to employees by the Executive Board on April 24, 2006. The Free Shares_{2006} were fully vested on April 24, 2008. Following the resignation of some employees during the vesting period, and in accordance with the free share plan, some of the Free Shares_{2006} were cancelled and 742,000 new common shares were issued at the end of the vesting period. A corresponding capital increase was minuted by the Executive Board on April 30, 2008.

On June 27, 2007, the General Meeting of shareholders authorized the issuance of 1,300,000 free shares (the "Free Shares_{2007}"). 1,050,690 of these Free Shares_{2007} were granted to employees by the Executive Board on March 25, 2008. Following the resignation of some employees, 6,800 Free Shares_{2007} were reverted back into the plan in April. 6,860 Free Shares_{2007} were granted to employees by the Executive Board on April 30, 2008. Following the resignation of an employee, 750 Free Shares_{2007} expired. On March 26, 2010, the Executive Board minuted the acquisition of 1,043,140 Free Shares_{2007} out of the 1,050,690 of these Free $\text{Shares}_{2007.}$ A corresponding capital increase was minuted by the Executive Board the same day. On May 5, 2010, the Executive Board minuted the definitive acquisition of 6,680 Free Shares on the 1,300,000 authorized Free Shares. A corresponding capital increase was minuted by the Executive Board on May 5, 2010.

On June 26, 2008, 249,250 Free Shares_{2007} not yet allocated were cancelled by the General Meeting of shareholders, which in turn decide to authorize the issuance of 250,000 Free $\text{Shares}_{2008.}$ 249,100 of these Free Shares_{2008} were allocated to employees by the Executive Board on July 1, 2008. On July 3^{rd}, 2012 the Executive Board minuted the acquisition of 249,100 Free Shares_{2008} and the corresponding capital increase. From December 31, 2013, there are no more Free Shares to be distributed or to be definitively acquired.

Movements on free shares can be further analyzed as follows:

Number of shares	**Free shares 2006**	**Free shares 2007**	**Free shares 2008**	**Total**
Authorization of issuing free shares	800,000	1,300,000	250,000	
Free shares distributed	751,000	-	-	751,000
Free shares expired	-	-	-	-
Free shares definitely acquired	-	-	-	-
Balance as at December 31, 2007	**751,000**	**-**	**-**	**751,000**
Free shares distributed	-	1,050,690	249,100	1,299,790
Free shares reverted to the plan following the departure of employees	-	(6,800)	-	(6,800)
Free shares reallocated	-	6,860	-	6,860
Free shares expired	(9,000)	(750)	-	(9,750)
Free shares definitely acquired	(742,000)	-	-	(742,000)
Balance as at December 31, 2008	**-**	**1,050,000**	**249,100**	**1,299,100**
Free shares expired	-	-	-	-
Free shares definitely acquired	-	-	-	-
Balance as at December 31, 2009	**-**	**1,050,000**	**249,100**	**1,299,100**
Free shares expired	-	-	-	-
Free shares definitely acquired	-	(1,050,000)	-	(1,050,000)
Balance as at December 31, 2010	**-**	**-**	**249,100**	**249,100**
Free shares expired	-	-	-	-
Free shares definitely acquired	-	-	-	-
Balance as at December 31, 2011	**-**	**-**	**249,100**	**249,100**
Free shares expired	-	-	-	-
Free shares definitely acquired	-	-	(249 100)	(249 100)
Balance as at December 31, 2012	**-**	**-**	**-**	**-**

Holding by the Company of its own shares

From September 21, 2009 and for tacitly renewable twelve-month duration, the Company has mandated Natixis Securities to manage this brokering/liquidity contract. The Company has invested 300 thousand euros in the contract. As at August 31, 2012, the Company terminated the contract with Natixis and entered into a liquidity contract with Gilbert Dupond. The shares and the cash were transferred from the previous to the new contract (51,099 shares and 219,813.87 euros). As at December 31, 2013, the Company held 31,724 of its own shares (86,829 as at December 31, 2012) for a total amount of 157 thousand euros (188 thousand euros as at December 31, 2012). The balance of the liquidity contract at the same date was 302 thousands of euros (151 thousands of euros as at December 31, 2012).

15) Revenue from collaboration and licensing agreements

Turnover of the Company for the yearThe Company's turnover in 2013 is mainly composed of revenue from collaboration and licensing agreements signed with Bristol-Myers Squibb and is composed of the following elements:

- An upfront payment received in July 2011 following the agreement for an amount of 24.9 million of euros (35.3 million of dollars). The non-refundable and non-creditable amount of the upfrontthis payment was recognized in turnover during the expected period of duration of the clinical program in courseprogress at the date of the contract. Following the reduction of this period, the recognition schedule of the upfront payment has beenwas revised during the last quarter of 2013. Consequently, an amount of 3.4 millions of euros, whose recognition was scheduled forinitially scheduled to be recognized in 2014, has been recognized was finally recognized in 2013;

- Pass-through costs invoiced to Bristolm-Myers Squibb relating to the costs needed for the achievementcompletion of theongoing trials in coursefor which the Company is responsible for achievement.

Turnover of the Company for the year 2012 is composed of revenue from collaboration and licensing agreements signed with Bristol-Myers Squibb and is composed of the following elements:

- An upfront payment received in July 2011 following the agreement for an amount of 24.9 million of euros (35.3 million of dollars). The non-refundable and non-creditable amount of the upfront was recognized in turnover during the expected period of duration of the clinical program in course at the date of the contract. At December 31, 2012, the whole amount is non-refundable and non-creditable.

- Pass-through costs invoiced to Bristom-Myers Squibb relating to the costs needed for the achievement of the trials in course the Company is responsible for achievement.

16) Government grants

The Company receives grants from the European Commission and French government and state organizations in several different forms:

- conditional grants;
- investment and operating grants; and
- research tax credits.

The total amount for government financing for research expenditures recorded as other income in the income statement can be analyzed as follows (in thousands of euros):

	Year ended December 31,	
	2013	**2012**
Research tax credit	4,182	3,522
Platine grant (FUI / Lyon Biopôle)	-	380
Others	-	3
Government financing for research expenditures	**4,182**	**3,905**

The following table shows the impact of the research tax credit on the Income Statement of the Company over the last three fiscal years (in thousands of euros):

	Year ended December 31,	
	2013	**2012**
Research Tax Credit 2011	-	24
Research Tax Credit 2012	75	3,772
Research Tax Credit 2013	4,107	-
Adjustment following tax audit	-	(274)
Research tax credit	**4,182**	**3,522**

17) Intellectual property expenses

Intellectual property expenses respectively amounts to 309 and 275 thousant euros for the fiscal years ended December 31, 2013 and 2012.

For the acquisition of intellectual property rights from third parties, excluding the acquisitions of patents by way of assignation, the Company has three different types of agreements:

- exclusive option agreements, which correspond to an exclusive period during which the Company evaluates the opportunity to acquire the licensing rights of the intellectual property subject to the option agreement. The Company generally pays an option fee and bears the past and/or present intellectual property expenses related to the invention subject to the option agreement.
- exclusive licensing agreements of which the duration varies depending on contractual conditions but which is generally the same as the life of the underlying intellectual property. The Company pays the past and/ or present expenses related to the intellectual property and also costs related to access to technology, milestone payments when they are achieved and in the case of marketing of the products/technologies covered by the intellectual property, royalties on sales.
- exclusive collaboration and licensing agreements including some exclusive collaboration on a specific work program or for a specific area of which the duration is limited in time, and an exclusive license of a varying duration depending on contractual conditions but which generally coincides with the life of the underlying intellectual property. The Company agrees to bear research and development expenses for the exclusive collaboration part, and, for the exclusive license part, pays fees to access technology, intellectual property expenses, milestone payments when they are achieved and in the case of marketing of the products/technologies covered by the intellectual property, royalties on sales.

18) Purchases and external expenses

Cost of supplies and consumable materials consist mainly of thein cost of procurement of the Company’s drug substance and/or drug product that is manufactured by third-parties.Other purchases and external expenses are analyzed as follows (in thousands of euros):

	Year ended December 31,	
	2013	**2012**
Subcontracting (1)	(5,817)	(5,309)
Leasing and maintenance	(854)	(703)
Travel expenses and congress attendance	(794)	(731)
Non-scientific advisory and consulting (2)	(694)	(815)
Scientific advisory and consulting (3)	(454)	(383)
Marketing, communication and public relations	(283)	(406)
Attendance fees	(150)	(129)
Insurance	(91)	(107)
Telecommunications and postal services	(76)	(74)
Bank charges	(17)	(14)
Others, net	11	30
Other purchases and external expenses	**(9,219)**	**(8,640)**

(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 cCosts associated are recorded in subcontracting.

(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 are in relationrelate to consulting services performed by third parties to support the research and development activities of the Company.

19) Employee benefits other than share-based compensation

The item line amounted to 6,946 and 6,385 thousand of euros for the years ended December 31, 2013 and 2012 respectively. The Company had 84 employees as at December 31, 2013, to be compared withcompared to 82 as at December 31, 2012.

The Company benefited from the "competitiveness and employment tax credit" (CICE) for an amount of 60 thousand euros. This tax credit will be mainly used to reinforce the research teams.

20) Share-based compensation

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

	Year ended December 31,	
	2013	**2012**
BSA 2013	207	-
BSA 2013-1	118	-
Share-based compensation	**325**	**-**

For calculation of the share-based compensation expenses, the main assumptions used in the Black-Scholes option pricing model were as follows:

	BSA 2013	**BSA 2013-1**
Beneficiaries	Consultants, Supervisory Board and Scienific Board members	Executive Board member
Subscription date	October 2013	December 2013
Authorized number	237,500	50,000
Subscribed number	237,500	50,000
Subscription price	0.01	0.01
Expiration date	July 2023	September 2023
Acquisition period	None	None
Underlying asset market price	2.45	4.19
Exercice price	2.36	2.36
Return on dividend	None	None
Volatility	31.83%	35.03%
Free risk interest	2.42%	2.33%
Expected maturity	5.5 years	5.5 years
Estimated fair value	0.87	2.36

21) Other income and expenses

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

	Year ended December 31,	
	2013	**2012**
Taxes	(207)	(173)
Assets disposed of	(3)	(3)
Others	(102)	(73)
Other income and expenses, net	**(312)**	**(248)**

22) Financial income / (expense)

Financial income and (expense) can be analyzed as follows (in thousand euros) :

	Year ended December 31,	
	2013	**2012**
Gains on financial instruments	438	727
Foreign exchange gains	44	103
Other financial income	51	60
Produits financiers	**533**	**890**
Interest on borrowing and finance-leases	(194)	(225)
Foreign exchange losses	(90)	(96)
Other financial expenses	(103)	(12)
Charges financières	**(387)**	**(334)**
Résultat financier, net	**145**	**556**

The foreign exchange (loss) / gain represents the exchange difference on the US dollar bank account. The Company uses this bank account to pay its US dollar denominated invoices. The recorded gains and losses are unrealized differences.

23) Income Tax

Taking into account its stage of development, which prevents management from estimatingmaking sufficiently reliable financial forecast, the Group does not recognize deferred tax assets. Temporary differences mainly results from finance leases, provision for defined benefit obligation and carry over fiscal lossestax loss carryforwards. At December 31, 2013, the net amount of deferred tax liability excluding carry over fiscal lossestax loss carryforwards was 24 thousand euros (149 thousands euros of deferred tax asset as at December 31, 2012).

Taking into account the tax regulations, the Company has tax losses available tofor carry forward with no time limit in thefor a total amount of 127 million euros as at December 31, 2013 (118 million euros as at December 31, 2012).

24) Commitments

<u>Commitments related to the scope of the Group</u>

None.

<u>Commitments related to the financing of the Company</u>

- Obligations related to certain financial assets

The Company is engaged in various financial assets to manage its cash balance. These financial assets have different maturities, the longest one currently being 6 months at the date of signature.

Commitments related to the operational activities of the Company

- Obligations under the terms of in-licensing agreements

The in-licensing agreements signed by the Company (i) usually require the Company to bear all expenses relating to any acquirement, examination and extension procedures of patents, as well as to uphold and defend the patents and (ii) will require, according to certain milestones, the payment of lump sums and royalties on sales to the licensor. Obligations with figures pertaining to this are kept confidential for commercial reasons.

- Obligations under the terms of option agreements

Option agreements signed by the Company (i) usually require the Company to bear all expenses relating to any acquirement, examination and extension procedures of patents, as well as to uphold and defend the patents, (ii) require the Company to pay a lump sum of money as option payment and (iii) will require, if the Company decides to later opt-in, the payment to the licensor of lump sums (milestone payments) and royalties on sales.

- Obligations under the terms of joint-ownership of intellectual property rights

The Company signed certain agreements with different partners, which defined the rules of joint-ownership and the granting of rights regarding certain aspects of intellectual property. Under these contracts, the Company usually bears all expenses relating to any acquirement, examination and extension procedures of the patents and to any procedure required to uphold and defend the patents. These agreements also usually require, in exchange of a license over the share of rights owned by the co-owner, and according to certain milestones, the payment of lump sums and royalties on sales to the co-owner.

- Obligations under operating-lease agreement

The Company entered into a contract for leasing copier machines. The amounts are immaterial.

- Obligations under other agreements

As several significant functions are outsourced, the Compay may in the ordinary course of business sign short or mid-term sub-contracting or outsourcing agreements with various third parties, in France and abroad. Under these agreements, the Company faces various obligations linked to the ordinary course of its business.

25) Litigation and contingencies

On April 4th, 2012, the company Platine Pharma Services SAS (see Note 8) received notification of a proposed adjustment following a tax audit. The adjustment amounts to 91 thousand euros. The management of Platine Pharma Services is contesting this adjustment. The period subject to the tax audit was prior to the acquisition of an equity interest in Platine Pharma Services by Transgene. Therefore, in accordance with the liabilities guarantee clause, the contingent liability resulting from this adjustment would only concern Inante Pharma SA.

On June 27, 2013, the Company received a summons to appear before the conciliation board of the labor relations tribunal of Marseille (bureau de conciliation du Conseil de Prud'hommmes de Marseille). The hearing took place on October 3, 2013 and no agreement was reached. The case has been referred to the judgment board of the labor relations tribunal (bureau de jugement) and a hearing has been scheduled for May 6, 2014. The claim amounts to 91 thousand euros. Based on currently available information, the Company considers the risk as uncertain as at the end of December 2013. As a consequence, no provision was booked in the December 31, 2013 balance sheet;

26) Related party transactions

Members of the Executive Board and Executive Committee

During the period under review, tThe following compensations were expensed to the benefit ofgranted to the six members of the executive committee of the Company and were expensed during the period under review (in thousands of euros):

	Year ended December 31,	
	2013	**2012**
Salaries and other short-term employee benefits	856	760
Extra pension benefits	7	6
Advisory fees	500	401
Share-based compensation	249	-
Executive Committee members compensation	**1,612**	**1,167**

Ou of the six members of the Executive Committee, three of them are also members of the Executive Board.

Salaries and other short-term employee benefits correspond to amounts effectively paid during the calendar year to which they relate.

Calculation of the share-based compensation is detailed in Note 20.

Members of the Supervisory Board

The Company booked a provision of 150 thousand euros for attendance fees relating to the fiscal year ended December 31, 2013 which should be paid in 2014.

On October 6, 2008, the Company and Novo Nordisk A/S executed a new agreement under which the Company acquired Novo Nordisk A/S' rights to IPH2101, a drug candidate developed in the context of the collaboration between the parties, while Novo Nordisk A/S acquired the Company's rights to IPH2301, another collaborative drug candidate. Under the terms of the new agreement, Novo Nordisk A/S is eligible to milestone payments as well as royalties on future sales on IPH2101.

Subsidiaries

The business relationships between the Company and its subsidiary are governed by intra-group agreements, concluded at standard conditionson an arm's length basis.

Joint ventures

The Company entered into sub-contracting services towardswith Platine Pharma Services. The amount invoiced to Innate Pharma by Platine Pharma Services for the year 2013 is 760 thousand euros excluding VAT (1 020 thousand euros excluding VAT for the year 2012). According to the percentage of completion of the works, the amount recognized as expense in 2013 amounted to 771 thousand euros (951 thousand euros in 2012).

Miscellaneous

At December 31, 2013, the Company did not evidence any management and/or equity link between the major suppliers used in 2013 and the members of its Supervisory Board, its Executive Board or its Executive Committee.

27) 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 common shares in issue during the period.

	Year ended December 31,	
	2013	**2012**
Net income (loss)	(2,892)	(3,199)
Weighted average number of common shares in circulation (in	38,703	37,802
Basic earnings per share (€ per share)	**(0.07)**	**(0.08)**

Diluted

Diluted earnings per share are calculated by adjusting the weighted number of common shares outstanding to assume conversion of all dilutive potential common shares. Because of the losses generated by the Company, at December 31, 2010 and 2011, warrants, stock-options and free shares allocated but not yet acquired do not have any dilutive impact.

	Year ended December 31,	
	2013	**2012**
Net income (loss)	(2,892)	(3,199)
Weighted average number of common shares in circulation (in	38,703	37,802
Adjustments for warrant and share options	-	-
Diluted earnings per share (€ per share)	**(0.07)**	**(0.08)**

28) Post balance sheet events

On February 5th, 2014, Innate Pharma SA has acquired full development and commercialization rights to the anti-NKG2A antibody, a first-in-class immune checkpoint ready for Phase II development in oncology from Novo Nordisk A/S. Novo Nordisk A/S will receive 2 million euros and 600,000 shares for licencing NKG2A to Innate Pharma and be eligible to a total of 20 million euros in potential registration milestones and single-digit tiered royalties on future sales. The acquisition of the Innate shares is subject to approval by Innate’s shareholders’ at an extraordinary general meeting on 27 March 2014.

29) Income statement by function

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

	Year ended December 31,	
	2013	**2012**
Revenue from collaboration and licensing agreements	12,469	10,377
Government financing for research expenditures	4,182	3,905
Revenue and other income	**16,652**	**14,282**
Research and development expenses	(15,131)	(13,417)
General and administrative expenses	(4,313)	(4,251)
Net operating expenses	**(19,444)**	**(17,668)**
Operating income (loss)	**(2,792)**	**(3,386)**
Financial income / (expense), net	146	556
Profit of dilution	179	-
Share of profit (loss) of associates and joint ventures	(424)	(371)
Net income (loss)	**(2,892)**	**(3,199)**

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

30) Fees paid to the legal auditors

The expense booked in 2013 regarding statutory auditor fees is 134 thousand euros.