INNATE PHARMA

Société Anonyme

117, avenue de Luminy
BP 30191
13276 Marseilles Cedex 9

Statutory Auditors' report on the consolidated financial statements

Year ended December 31, 2017

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Statutory Auditors' report
on the consolidated financial statements

Year ended December 31, 2017

This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Innate Pharma Annual General Meeting,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meetings we have audited the accompanying consolidated financial statements of Innate Pharma for the year ended December 31, 2017.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as of December 31, 2017 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *"Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements"* section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 or in the French Code of ethics (*code de déontologie*) for statutory auditors.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring your attention to the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period, as well as our responses to those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on specific items of the consolidated financial statements.

Key audit matter	Our response
Recognition of clinical subcontracting costs *(See Notes 2t and 14 to the consolidated financial statements for the year ended December 31, 2017)*	
Research and development expenses, which represent a critical component of the consolidated financial statements given the Group's activity, account for 80% of the operating expenses. These expenses include clinical study costs (coordination of trials, hospital costs, etc.), of which a significant part is subcontracted to hospital and clinical research centers. Due to the sometimes significant delays between the completion of services and their invoicing by subcontractors, the expenses recorded in the accounts based on invoices received must be adjusted. This adjustment is automatically calculated and carried out, based on management estimates of the percentage of completion of ongoing trials entered in the information system. This completion is measured via Management's analysis of the following components: - the total forecast costs to be incurred for each study (budgets), - The expected duration of the studies or the number of patient visits or the number of patients, based on the criterion deemed most appropriate to assess the completion. Management is required to make material judgments since the estimate of the amount of services already rendered must be recorded at the closing date. Consequently, we considered the recognition of clinical subcontracting costs to be a key audit matter.	We examined the appropriateness of the control procedures implemented by the Company for the clinical subcontracting costs. This work was completed by substantive tests which consisted in assessing, based on sampling and by exercising our professional judgment: - the appropriateness of the completion criterion adopted with respect to the type of services provided; - the consistency of the components adopted in the calculation of expenses on completion (budgets, estimated durations of studies, number of patients, number of patient visits) in relation to contracts concluded with service providers, subject to our understanding of the change in the studies and the actual data available (recruitment of patients, number of patient visits, reports communicated on scientific results, etc.). - the correct allocation of the expenses invoiced by the service providers to the study concerned. Aided by our information system specialists, we also verified, by sampling, the automatic calculation of adjustment entries used to record clinical subcontracting costs on completion and their upload into the accounting system.

Agreement with AstraZeneca
(See Notes 2b, 2o, 2t and 13 to the consolidated financial statements for the year ended December 31, 2017)

In April 2015, Innate Pharma signed a co-development and commercialization agreement with AstraZeneca for the product monalizumab, under which the Company will completed several phase II studies and assumed the costs.

It received an initial payment of US$ 250 million on June 30, 2015. The purposes of this initial payment is to remunerate the services rendered by the Company over the duration of the studies. It was recorded in revenue on a percentage of completion basis, based on the costs recorded in the income statement in relation to the total costs to be incurred for the studies concerned.

Revenue from cooperation and licensing agreements (€32.6 million) for 2017 comprises a portion of this initial payment for €32.3 million.

As of January 1, 2018, the Company will apply IFRS 15 - *Revenue from Contracts with Customers*, which supersedes IAS 18 – *Revenue* applicable until this date.

In this context, we considered the recognition of revenue relating to the agreement with AstraZeneca and the presentation of the estimated impacts of the entry into force of IFRS 15 to be a key audit matter, for the following reasons:

- the correct recording of revenue is based on an appropriate measurement of the completion of studies, which implies material management judgments on the forecast total budget of these studies and the appropriate consideration of the expenses already incurred for these studies;
- revenue represents a sensitive indicator for both the presentation of the consolidated financial statements and the Company's financial reporting.

We familiarized ourselves with the agreements concluded between Innate Pharma and AstraZeneca, in order to assess IAS 18 – *Revenue* compliance regarding the method used to record the initial payment on completion in revenue based on expenses incurred.

We also assessed the appropriateness of:

- the control procedures implemented by the Company for the recognition of the AstraZeneca agreement,
- the incurred expenses (including their allocation to the proper study) and forecast expenses taken into account to measure the percentage of completion of the studies,

by considering the work covering the clinical subcontracting costs described above.

Lastly, we verified that the Notes to the consolidated financial statements provided a satisfactory disclosure regarding the impacts of the entry into force of IFRS 15 as of January 1, 2018.

Verification of the Information Pertaining to the Group Presented in the Management Report

As required by law, we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the Executive Board's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

Audit Conseil Expertise SAS, member of PKF International, were appointed as statutory auditors of Innate Pharma by the Annual General Meeting held on June 29, 2000 while Deloitte & Associés were appointed on March 27, 2014.

As of December 31, 2017, Audit Conseil Expertise SAS, member of PKF International, and Deloitte & Associés were in the 18th and 4th year of total uninterrupted engagement, which are the 12th year and 4th year since the Company was admitted to trading on a regulated market, respectively.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and, where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Executive Board.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified by Article L.823-10-1 of the French Commercial Code, the scope of our statutory audit does not include assurance on the future viability of the Company or the quality with which Company's management has conducted or will conduct the affairs of your Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;

- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters. We describe these matters in this report.

We also provide the Audit Committee with the declaration referred to in Article 6 of Regulation (EU) No. 537/2014, confirming our independence in the sense of the rules applicable in France as defined in particular by Articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of ethics for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Marseille, April 23, 2018

The Statutory Auditors

Audit Conseil Expertise SAS *Member of PKF International*	Deloitte & Associés
Nicolas LEHNERTZ	Hugues DESGRANGES