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REPORT BY THE CHAIRMAN OF THE SUPERVISORY BOARD ON THE COMPOSITION OF THE SUPERVISORY BOARD AND ON COMPLIANCE WITH THE PRINCIPLE OF BALANCED REPRESENTATION OF MEN AND WOMEN, PREPARATION AND ORGANIZATION OF THE SUPERVISORY BOARD AS WELL AS ON INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES ESTABLISHED BY THE COMPANY FOR FISCAL YEAR 2016

FEBRUARY 2, 2017

Introduction

Pursuant to the provisions of Article L. 225-68 of the Code of Commerce, the chairman of the Supervisory board hereby reports to you on the composition of the Supervisory board and the application of the principle of balanced representation of women and men on the Supervisory board, on the conditions for preparation and organization of the work of the Supervisory board as well as on internal control and risk management procedures established by Innate Pharma (“Innate Pharma” or the “Company”) and its subsidiaries (together “the Group”) for the financial year ended on December 31, 2016.

This present report was written in accordance with the guidelines for implementing risk management and internal control mechanisms for small and mid-cap companies, published by the French Authority of Financial Markets (“AMF”) on July 22nd, 2010. These guidelines are a revised and updated edition of the 2007 reference framework for small and mid-cap companies published by the AMF in 2008.

This report takes into account the AMF's recommendation n°2012-02 (DOC-2012-02) on “corporate governance and executive compensation referring to the AFEP/MEDEF Code”, published on February 9th, 2012 in the format of a consolidated presentation of all the recommendations contained in its annual reports and updated in particular on December 4th, 2013, December 11th, 2014 and on December 22nd, 2015. The application guide for the AFEP/MEDEF corporate governance code of listed companies of December 2016 also served as a guide for drafting this report.

This report takes into account the AMF's recommendation n°2016-05 (DOC-2016-05) and notably its Title 7 on “Chairman's reports on internal control and risk management procedures”, published on October 26th, 2016, cancelling and reiterating the recommendation n°2013-17 published on November 4th, 2013 and amended on January, 13th 2015.

This report was prepared on the basis of the summary of the Company's operations in 2016. The draft report was submitted for discussion to the Executive Board. A final draft was presented and discussed during the Audit committee meeting on February 2nd, 2017.

In accordance with Article L. 225-68 of the Code of Commerce, this report was approved by the Supervisory board during its meeting on February 2nd, 2017.

The Statutory Auditors will issue a report, appended to their report on the annual accounts, which contains their observations on this report with respect to internal control procedures and risk management relating to the presentation of accounting and financial information.

CHAPTER 1 CORPORATE GOVERNANCE: COMPOSITION, APPLICATION OF THE PRINCIPLE OF A BALANCED REPRESENTATION OF WOMEN AND MEN, PREPARATION AND ORGANIZATION OF THE WORK OF THE SUPERVISORY BOARD DURING THE 2016 FISCAL YEAR

Innate Pharma is a French *Société Anonyme* organized with an Executive Board and a Supervisory board. As such, it is subject to the terms of Articles L. 225-57 to L. 225-93 of the Code of Commerce and related regulatory provisions.

1.1 STATEMENT REGARDING CORPORATE GOVERNANCE

At the date of this report, the Company has three Supervisory board committees: the Audit committee, the Compensation and nomination committee, and the Transaction committee. It does exist also a Scientific advisory board which is not composed with members of the Supervisory board.

The operating rules of these committees are governed by the Charter of the Supervisory board, as amended on June 28, 2012 and as published on the Company's web site.

The Company complies with the AFEP/MEDEF corporate governance recommendations for publicly listed companies updated on November 24th, 2016 (“AFEP/MEDEF recommendations”) which can be consulted on the site www.medef.com, and applies the principles set out therein, except as set out in paragraph 5 of this report. In accordance with the recommendations included in this code, the reasons for not applying certain principles are explained in this report.

1.2 ORGANIZATION AND OPERATION OF THE SUPERVISORY BOARD

The Company originally incorporated in SAS, was transformed in 2005 into a « *Société Anonyme* » with a Supervisory board and Executive Board . This organization helps to distinguish the functions of leadership and management , performed by the Executive Board, and functions of controls devolved to the Supervisory board . This separation allows to balance the powers between the executive functions and control functions that inspire the principles of corporate governance.

1.2.1 COMPOSITION OF THE SUPERVISORY BOARD

Members of the Supervisory board

The Company's Supervisory board is composed of a minimum of three members and a maximum of eighteen members. The members of the Supervisory board are appointed for a renewable term of two years at the General Meeting of shareholders, which may revoke their mandates at any time. The appointees are selected from among the shareholders and may be individuals or companies. Each member must own at least one of the Company's shares for the entire term of the mandate. The age limit for being a member of the Supervisory board and the limitations on holding such a mandate concurrently with a mandate in another company are subject to the applicable legal and regulatory provisions. The Supervisory board appoints a Chairman and a Vice-Chairman from its members who are individuals.

Since the General Meeting of shareholders of April 27th, 2015 the Supervisory board of Innate Pharma comprises seven members. At the date of this report, five of these members are independent within the meaning of the rules set out in the AFEP/MEDEF recommendations. All the members of the Supervisory board have been nominated in accordance with Articles L. 225-69 *et seq.* of the Code of Commerce.

In accordance with the AFEP/MEDEF recommendations, Article 2.2 of the Charter of the Supervisory board, as modified on June 28th, 2012, states that a member of the Supervisory board is an independent member when:

- "He or she is not involved in any relationship with the Company, its group or its management, which could compromise his or her judgment"¹, and
- He or she does not represent a shareholder who holds more than 10% of the voting rights of the Company².

Therefore, an independent member must not:

- be a current employee or corporate officer of the Company or, if applicable, of one of its subsidiaries; a current employee or director of a corporation or other entity, which, pursuant to Article L. 233-3 of the Code of Commerce, controls the Company individually or in concert with other persons, or a current employee or director of an entity consolidated by the Company, or have held any of these positions within the past five years;
- be a corporate officer of a company in which the Company is, either directly or indirectly, a director, or in which an employee or a corporate officer of the Company either currently or within the past five years is a director;
- be a customer, supplier, investment banker or commercial banker:
 - o that is significant to the Company or, if applicable, to one of its subsidiaries; or
 - o for which the Company or one of its subsidiaries represent a significant part of its business;
- have any close family relationship to a corporate officer of the Company or, if applicable, of a subsidiary;

¹ AFEP/MEDEF recommendation, Article 8.2

² AFEP/MEDEF recommendation, Article 8.7

- have been an auditor of the Company or, if applicable, of one of its subsidiaries, or within the past five years;
- be a corporate officer of the Company for more than twelve years;
- receive or have received a significant remuneration from the Company or from one of its subsidiaries, except for directors' fees, including participation in stock options plan or to any form of performance-limited remuneration scheme.

The Board may consider that a member of the Supervisory board, even though he or she may meet the criteria above, does not qualify as independent based on his or her and the Company's particular situation in view of its shareholdings or of any other reason.

At the date of this report, two members of the Supervisory board are considered as non-independent members:

- Novo Nordisk A/S, represented by Mr. Karsten Munk Knudsen, which holds 10.3% of the shares and voting rights of the Company at the date of this report; and
- Mr. Hervé Brailly, who was Chairman of the Executive Board from 2005 to 2016.

In 2017, the Supervisory board will discuss the relations between independent members of the Supervisory board and the Company, according to the above-mentioned criteria, being noted that Mr. Philippe Pouletty, member of the Supervisory board for more than twelve years, was considered by the Supervisory board as independent because of the lack of any financial or other links with the Company and his reputation as well his role in the biotechnology field in France. Mr. Pouletty resigned from his mandate as member of the Supervisory board on December 30st, 2016 and is therefore no longer member of the Supervisory board.

The other following members of the Supervisory board are regarded as independent since they meet the above-mentioned criteria: Mr. Gilles Brisson, Mr. Patrick Langlois, Ms. Irina Staatz-Granzer, Mr. Michael Caligiuri and Ms. Véronique Charbernaud.

Possible conflicts of interest that could result from certain discussions in the Supervisory board lead to the exclusion of the conflicted Supervisory board member(s) from these discussions.

The Chairman of the Supervisory board is currently a non-independent member.

Any Board mandate held by the members of the Supervisory board in other companies (such as described in Reference Document) is independent of their mandate with the Company. Members of the Supervisory board of Innate Pharma SA have no such mandate in the affiliates of the Company.

The members of the Supervisory board have been renewed, or nominated, at the General Meeting of shareholders of April 27th, 2015 for two years and their mandate will expire at the General Meeting of shareholders held in 2017 called to vote on the accounts for the fiscal year ended on December 31, 2016.

Following the resignation of Mr. Philippe Pouletty on December 14, 2016 with effect on December 30th 2016, the Supervisory board of December 14, 2016 appointed, according to Article L. 225-78 of the Code of Commerce, a new member and Chairman of the Supervisory board, provided that the next General Meeting of the Company ratifies such appointment. Therefore, Mr. Hervé Brailly was appointed as Chairman of the Supervisory board until the 2017 General Meeting voting on the 2016 financial statements, its mandate being subject to ratification by such meeting. The members of the Supervisory board are, at the date of this report:

Name	Function and Status	Nationality	Age
Hervé Brailly	Chairman of the Supervisory board Non-independant member	French	55
Irina Staatz-Granzer	Vice-President of the Supervisory board Independent member	German	56
Gilles Brisson (1)	Independent member	French	65
Patrick Langlois	Independent member	French	71
Novo Nordisk A/S	Non-independant member – Represented by Karsten Munk Knudsen	Danish	45
Michael A. Caligiuri	Independent member	American	61
Véronique Chabernaud	Independent member	French	55

(1) Gilles Brisson resigned from his functions as Chairman of the Supervisory board while keeping its mandate as member of the Supervisory Board.

More information on the members of the Supervisory board, including their name, surname, age and position and the duration of their mandate and the list of the other mandates and positions held in other companies during the last five years as well as the number of the Company's shares held by each will be given in sections 2.1.1.2 and 2.2.2 of the Reference Document.

Members of the Supervisory board are globally recognized experts in the Company's business.

With Ms Staatz-Granzer and Ms Chabernaud, the Supervisory board comprises two women out of seven members. The Article L.225-69-1 of the Code of Commerce, in its version in force as from January 1st, 2017 provides that the Supervisory board must comprise at least 40% of members of each sex and the gap between the number of members of each sex cannot be higher than two. The Supervisory board currently studies candidatures so that upon renewal of the members of the Supervisory board during the annual General Meeting, which will be held in 2017 at the latest, the Board's composition comprises at least 40% female members in accordance with aforesaid provisions.

Observers

The By-laws of the Company gives the General Meeting of shareholders the right to appoint, at its discretion, one or more observers, who may be either individuals or legal entities, shareholders or not, for a term of one year that expires at the General Meeting of shareholders called to vote on the latest financial accounts prepared after the first anniversary of their mandate. These mandates are renewable indefinitely.

The observers take part in all meetings of the Supervisory board, with the right to speak under the same procedures as those set forth for the members of the Supervisory board. They receive the same information and communications as the latter and are bound by the same terms of confidentiality and discretion. The obligations of deontology mentioned in the Charter of the Supervisory board are applicable to the observers.

The mandate of Bpifrance Participations, represented by Mr. Olivier Martinez has been renewed for a one-year term expiring at the General Meeting called in 2017 to approve the financial statements for the 2016 financial year. Bpifrance Participations is shareholder of the Company.

1.2.2 CHARTER OF THE SUPERVISORY BOARD

On March 15, 2007, the Supervisory board first approved its Charter setting operating rules of the Board and of its committees. The Charter, which was last modified on June 28th, 2012, is currently under updating to adapt it to the changes in legislation and regulations and is available on the Company's website .

1.2.3 MISSIONS OF THE SUPERVISORY BOARD

The main missions of the Supervisory board are as follows:

- Discussion of strategic orientations,
- Appointment of the members of the Executive Board,
- Exercise of permanent control over the Company's management by the Executive Board, review of the annual and half-year accounts and communication of relevant information to shareholders and to the financial markets,
- Review of the annual budget (in December, for the following year) and the revised budget (in September, for the ongoing year),
- Review of the reports of its committees,
- Approval of the present annual report from the Chairman of the Supervisory board regarding the conditions of the composition, preparation and organization of the Supervisory board, as well as the internal control and risk management procedures, and
- Authorization of significant transactions.

It may therefore carry out any verifications and inspections it deems appropriate and obtain any documents it considers useful for the performance of its tasks, at any time during the year. In the framework of its monitoring of the management of the Executive Board, the Supervisory board is informed by all means about the financial position, treasury, commitments of the Company and the most significant events and operations for the Company as provided by the Supervisory board internal rules. Once a quarter, the Supervisory board receives a report written by the Executive Board.

The Supervisory board presents its comments on the Executive Board's annual management report (the *Rapport de Gestion*) and the accounts at the General Meeting of shareholders.

The Supervisory board may give one or more of its members special powers for one or more particular purposes. The Supervisory board may decide to create specific committees and set their composition and powers; such committees carry out their work under the control of the Supervisory board, although the powers given to the Supervisory board itself by law or the By-laws may not be delegated to such committees, nor may such committees reduce or limit the powers of the Executive Board.

On December 14, 2016 the Supervisory board entrusted Mr. Hervé Brailly, in addition to its functions as Chairman of the Supervisory board, under Article L. 225-84 of the Code of Commerce, with a special mission, which will be performed during the 2017 financial year and will end on December 31, 2017 and may be renewed for one-year period, consisting in:

- Support the change of Company's team in 2017 and facilitate the transition;
- Introduce Mr. Mahjoubi to the local, regional and French interlocutor (politicians, scientifics, economists) of the Company and to the key opinion leaders in the Company's fields of activities;
- Advise the Company with regard to scientific strategy and notably with regard to bi-specifics platforms and ADC and new targets and technologies;
- Continue and, as the case may be, establish some contacts required for business development activities;
- Help to identify new targets of acquisition (preclinical projects, companies)
- Be involved in some financial relations activities.

There are no service contracts between members of the Supervisory board and the Company or its subsidiaries.

1.2.4 MEETINGS OF THE SUPERVISORY BOARD

The Supervisory board meets as often as is required in the interest of the Company, and at least once per quarter. Meetings are called by its Chairman or its Vice-Chairman, at the headquarters or in any other place indicated in the notice of the meeting in accordance with Article 19 of the Company by-laws. In 2016, the Supervisory board met eight times with an average attendance rate of 92.86%.

The Chairman of the Supervisory board must call a meeting of the Supervisory board within 15 days if one or more members of the Executive Board or one-third or more of the members of the Supervisory board present a request for him to do so. If the request remains unanswered, the members requesting the meeting may call it themselves and must provide a notice of the meeting's agenda.

The Supervisory board is not validly in session unless at least half of its members are present. Decisions are approved by a majority of the members of the Supervisory board present or represented at the meeting. Each member of the Supervisory board has one vote and cannot represent more than one fellow colleague. If there is a tie vote, the Chairman has the casting vote.

In the course of the 2016 financial year, the main topics addressed by the Supervisory board were the monitoring of the clinical trials, which took place in 2016, discussion on the results obtained and their impact on the Company's development, monitoring of the partnership agreements and notably the discussions with Novo Nordisk A/S following the co-development partnership relating to IPH2101 entered into between the Company and Astra Zeneca and the signing of the related agreement with Novo Nordisk A/S, research strategy and preclinical development of new drug candidates, discussion of the strategy of the Company and the outlooks of business development and monitoring activities of financial communication and investor relations, extension of the existing premises and laboratories and the real estate project related thereto, changes of governance and notably the appointment of Mondher Mahjoubi as CEO. For the preparation of the Supervisory board meetings, the members are sent, in the days preceding the meeting, a detailed agenda together with the Executive Board's report on activity since the previous meeting, plus any other document that may be necessary or useful for consultation or decision-making purposes during the Supervisory board meeting.

After the Supervisory board meetings, the minutes are drafted by a secretary appointed during the Supervisory board meeting. These draft minutes are sent to the members along with the agenda and documentation for the next meeting. They are approved and signed, if necessary after correction by the members.

1.2.5 EVALUATION OF THE SUPERVISORY BOARD'S WORK

In accordance with the AFEP/MEDEF recommendations, a periodic evaluation of the Supervisory board's works is conducted through a self-evaluation based on a questionnaire drawn up by the Company. The Board members have decided at the Supervisory board's meeting of April 25, 2016, to establish a self-assessment of which results have been presented and discussed during the Supervisory board meeting held on February 2, 2017 during which this report has been presented.

1.3 EXECUTIVE BOARD AND EXECUTIVE COMMITTEE ORGANIZATION AND OPERATION

Executive Board

The Company is managed by an Executive Board composed by a minimum of two members and a maximum of five, who perform their duties under the control of a Supervisory board. Under current law, the age limit for being a member of the Executive Board is 65. The mandate of any Executive Board member who reaches this legal age limit is terminated immediately and the Executive Board member is considered to have resigned its position.

The Executive Board of Innate Pharma is composed of four members appointed for a renewable term of three years. In 2016, the members of the Executive Board were:

- Hervé Brailly, Chairman of the Executive Board, who resigned on December 14, 2016 with effect on December 30, 2016 from its functions as Chairman and member of the Executive Board,
- Nicolai Wagtmann,

- Yannis Morel,
- Catherine Moukheibir, linked to the Company by a consultancy agreement, who resigned on December 14, 2016 with effect on December 30, 2016 from its functions as member of the Executive Board.

Since December 30th, 2016, the members of the Executive Board are:

- Mondher Mahjoubi, Chairman of the Executive Board, appointed for a three-year period as from December 30, 2016 by the Supervisory board held on December 14, 2016,
- Nicolai Wagtmann, appointed for a three-year period as from December 30, 2015 by the Supervisory board held on December 14, 2016,
- Yannis Morel, appointed for a three-year period as from December 30, 2015 by the Supervisory board held on December 14, 2016,

The members of the Executive Board are appointed, in accordance with the law, by the Supervisory board, which appoints one of them as the Chairman and establishes the method and amount of their compensation when they are appointed. While members of the Executive Board are not required to be shareholders, they must be individuals. In compliance with the By-laws of the Company, they may also be revoked individually by the Supervisory board.

If one of the seats of the Executive Board becomes vacant, the Supervisory board must fill it within two months. The member of the Executive Board appointed as a substitute remains in office for the duration of his predecessor's mandate.

The Executive Board is not validly in session unless at least half of its members are present. Any member of the Executive Board may send a representative or attend meetings by video conference or by any other means of telecommunication. No member of the Executive Board may hold more than one proxy. The decisions of the Executive Board are approved by a majority of the votes present and represented.

In 2016, the Executive Board met 8 times with an average attendance rate of 81.25%. Since the beginning of 2017, the Executive Board has met once with an average attendance rate of 100%.

The Executive Board is responsible for the management of the Company that it represents. The Supervisory board exercises permanent control over the Company's management. The members of the Executive Board meet as often as required in the interest of the Company, but at least once a quarter, as called for by the Chairman or a member of the Executive Board appointed for this purpose. The meetings of the Executive Board are chaired by the Chairman of the Executive Board. In his absence, the Executive Board appoints a Chairman for a particular meeting.

The Executive Board has the widest powers to act on behalf of the Company in accordance with the corporate purpose and within the limits of the powers expressly attributed by the law to the Supervisory board and to meetings of shareholders and defined in the Company By-laws, which are regularly updated. The Executive Board also exercises its power subject to any restriction of power set by the Supervisory board. The Company By-laws and the Supervisory board internal rules do not mention any limitation to the Executive Board's powers. The members of the Executive Board are kept informed on a daily basis of any subject related to their specific area of competence.

Therefore, the Executive Board may not make any decisions about the sale of real estate property, the total or partial sale of holdings, granting securities, pledges, warrants and guarantees, without the approval of the Supervisory board.

The Chairman of the Executive Board represents the Company in its relations with third parties. The Supervisory board may also assign this power of representation to one or more other members of the Executive Board; such persons then have the title of "Managing Director".

The Executive Board is notably empowered for determining, implementing and controlling the Company's strategy, for implementing the commercial and financial orientations in relation to operational actors, for nominating key personnel, as well as for the external communication and general policy of the Company.

If so authorized by the Supervisory board, the members of the Executive Board may divide management tasks among themselves. However, this division may under no circumstances result in the Executive Board losing its shared responsibility for managing the Company. There are no family ties between the members of the Executive Board and the Executive committee, either between themselves or with any member of the Supervisory board, the Audit, Compensation and Nominations or the Transaction committees, or the Scientific advisory board.

Executive committee

The Company's Executive committee is composed of members with significant experience in strategy, financial management, research and development project management, the negotiation of industrial and commercial agreements in the field of innovative companies in general and in biotechnology in particular. The Executive committee meets at least once a month and deals with all subject regarding the management of the Company, and in particular its exposure to risks and accounting and budgeting monitoring.

In 2016, the members of the Executive committee were as follows:

Name	Start date	Age	Main operation responsibilities
Hervé Brailly	Since 1999	55	CEO, General management, General corporate policy and Human resources
Nicolai Wagtmann	Since 2014	53	Executive Vice-President, CSO
Yannis Morel	Since 2011	43	Executive Vice-President, Business Development
Catherine Moukheibir	Since 2011	57	Executive Vice-President, Senior Advisor Finance
Pierre Dodion	Since 2014	62	Executive Vice-President, CMO
Jérôme Tiollier	Since 2001	57	Executive Vice-President , CDO
Marcel Rozencweig	Since 2010	71	Executive Vice-President, President of the subsidiary Innate Pharma, Inc.
Laure-Hélène Mercier	Since 2016	39	Executive Vice-President, Finance

Since December 30th, 2016, the members of the Executive committee are:

Name	Start date	Age	Main operation responsibilities
Mondher Mahjoubi	Since 2016	58	CEO, General management, General corporate policy and Human resources
Nicolai Wagtmann	Since 2014	53	Executive Vice-President, CSO
Yannis Morel	Since 2011	43	Executive Vice-President, Business Development
Pierre Dodion	Since 2014	62	Executive Vice-President, CMO
Jérôme Tiollier	Since 2001		Executive Vice-President , CDO
Marcel Rozenzweig	Since 2010	71	Executive Vice-President, President of the subsidiary Innate Pharma, Inc.
Laure-Hélène Mercier	Since 2016	39	Executive Vice-President, CFO

Mrs. Catherine Moukheibir resigned from her functions as member of the Executive Board on December 14, 2016 with effect on December 30, 2016 and is no longer a member of the Executive committee since that date.

Mrs. Laure-Hélène Mercier was appointed to the Executive committee by the Supervisory board held on October 21, 2016, upon recommendation of the Compensation and nomination committee held on October 13, 2016. Mrs. Laure-Hélène Mercier was appointed as Chief Financial Officer (CFO) on December 14, 2016 with effect on December 30, 2016.

Mr. Hervé Brailly resigned from his functions as Chairman of the Executive Board on on December 14, 2016 with effect on December 30, 2016 and is no longer a member of the Executive committee since that date.

Mr. Mondher Mahjoubi was appointed as Chairman of the Executive Board on December 14, 2016 with effect on December 30, 2016 and is member of the Executive committee since that date.

Detailed information on the expertise and experience of the members of the Executive committee are presented in section 2.1.1.3 of the Reference Document.

There are no service contracts between members of the Executive committee and the Company or its subsidiaries, except for a consultancy agreement signed between Mr. Marcel Rozenzweig and the Company.

There are no family ties between the members of the Executive committee, either with any member of the Supervisory board, the Audit, Compensation and Nominations or the Transaction committees, or the Scientific advisory board.

1.4 ORGANIZATION AND OPERATION OF THE GOVERNANCE COMMITTEES OF THE SUPERVISORY BOARD

Audit committee

An Audit committee has been created by the Executive committee (when the Company was a *société par actions simplifiée*) on July 1, 2003 and confirmed by the Supervisory board on April 27, 2006.

The members of the Audit committee and their relationship with the Company, at the date of this report, are listed in the table below:

Name	Relationship to the Company	Audit committee member since
Patrick Langlois (Chairman of the Audit committee)	Member of the Supervisory board	2010
Gilles Brisson (expert member)	Member of the Supervisory board	2010
Irina Staatz-Granzer	Member of the Supervisory board	2013
Hervé Brailly	Chairman of the Supervisory board	December 30, 2016

Mr. Patrick Langlois, Mr Gilles Brisson and Mrs Irina Staatz Granzer are independent members of the Supervisory board. Mr. Hervé Brailly is Chairman and non-independent member of the Supervisory board

Mr Brisson, an independent member of the Supervisory board, is the Audit committee member “with special financial or accounting skills” as stipulated by Article L. 823-19 of the Code of Commerce and the report of the work group on Audit committees (AMF recommendation dated July 22, 2010), due to his experience in the pharmaceutical industry and the senior management positions he previously held with Rhône-Poulenc and Aventis. The Charter of the Supervisory board sets the rules relating to the composition, the organization and the role of the Audit committee.

The Chairman of the Audit committee, and the other members, all members of the Supervisory board, receive attendance fees for their participation on this committee.

In addition to the Audit committee members, representatives from the finance and internal control departments as well as the Statutory Auditors attend the Audit committee meetings.

The Audit committee meets as often as the Company’s interests require, and at least twice a year, after the limited audit of the half-year accounts or the audit of the annual accounts and before the first Supervisory board meeting following the half-year and annual accounting closing dates. He hears the Company’s management, the Chief Financial Officer and the Statutory Auditors. The Chief Financial Officer presents the account. In addition, a risk mapping is reviewed on a regular basis by the Audit committee. The statutory auditors present the essential points of the legal audit and accounting options adopted. When appropriate, the Audit committee may use the services of an external expert. The main missions of the Audit committee are the following of the legal control of the half-year and annual accounts, evaluation of internal control practices, risk analysis, the monitoring of the process for drawing up the financial information published by the Company and consistency checking and, the assessment of whether it would be opportune to make any changes to the accounting methods, the review of the Statutory Auditors’ conclusions, the choice of Statutory Auditors (at the end of their term), their fees, and a review of their independence. The committee reviews and approves the report from the Chairman of the Supervisory board on the internal control. The question of internal control is a recurrent item in the agenda of the Audit committee.

During the 2016 fiscal year, the main issues dealt with by the Audit committee were:

- Review of the financial reports presented by management,
- Auditors’ presentation regarding the legal audit and the accounting options adopted,
- Review of the budget process, and
- Review of the risk mapping;
- Review of the cash management.

The Audit committee reports to the next Supervisory board and, depending on the case, minutes are sent to the members of the Supervisory board, along with other documentation for the Supervisory board meeting following the Audit committee meeting. A member of the Audit committee also intervenes during the Supervisory board meeting in order to report on the principal conclusions of the Audit committee.

The financial reports and the agenda are sent to the members of the Audit committee one week before the meeting. At the end of the committee meeting, a session takes place between the members of the Audit committee and the Auditors.

In 2016, the Audit committee met four times with an average rate of attendance of 100%.

Compensation and nomination committee

A Compensation and nomination committee, that was created by the Management committee (when the Company was a *société par actions simplifiée*) on January 17, 2001 and confirmed by the Supervisory committee on April 27, 2006. At the date of the present report, the Compensation and nomination committee is composed of:

Name	Relationship to the Company	Member of the Compensation and nomination committee Since
Gilles Brisson (Chairman of the Compensation and nomination committee)	Member of the Supervisory board	2007
Hervé Brailly	Chairman of the Supervisory board	December 30, 2016
Patrick Langlois	Member of the Supervisory board	2011
Véronique Chabernaude	Member of the Supervisory board	2015

Mr. Brisson, Mr. Langlois and Ms. Chabernaude are independent members of the Supervisory board. Mr. Hervé Brailly is a non-independent member of the Supervisory board.

Mr. Gilles Brisson was appointed as Chairman of the Compensation and nomination committee by the Supervisory board held on December 14, 2016, with effect on December 30, 2016.

Mr. Pouletty is no longer member of the Compensation and nomination committee since he resigned from his functions as member of the Supervisory board on December 14, 2016, with effect on December 30, 2016.

Given its size, resources and business, the Company does not believe that a nomination committee separate from the compensation committee is necessary.

The main missions of the Compensation and nomination committee are: the review of the Company’s remuneration policy, in particular the evolution of the payroll, the description of the collective objectives (for the whole company) and individual objectives (for members of the Executive Board and the Executive committee), the compensation of the members of the Executive Board and the Executive committee and the policy concerning the distribution of tools equity such as warrants, stock-options, free shares and capital increase reserved for members of the Company savings plan.

The Compensation and nomination committee meets as often as required and at least once a year. The Committee reports to the next Supervisory board and, depending on the case, minutes of its meetings are sent to the members of the Supervisory board under the meeting of the Supervisory board following the meeting of the Compensation and nomination committee.

In 2016, the key tasks of the Compensation and nomination committee were as follows:

- Review the professionalism and objectivity of the procedures for appointing officers and members of the Executive committee, as well as certain key employees. The Committee was responsible for arranging the recruitment of independent members of the Supervisory board;
- Analyze the situation of each member of the Supervisory board in terms of their other relations with the Company in order to verify that there is no conflict of interest and ensure that their independence is not compromised;
- Make recommendations for salary adjustments for members of the Executive Board and Executive committee;

- Set the collective objectives of the Company as well as the individual objectives of the members of the Executive Board and Executive committee and make proposals for appropriate bonuses;
- Assess the extent to which such goals have been reached and make recommendations about the amount of the final collective and individual bonuses to be given each year to the members of the Executive Board and the Executive committee;
- Make recommendations as to the Company's salary policy for the other members of the staff; and
- Make recommendations to the Executive Board on allocating investment instruments approved or authorized by the General Meeting of shareholders.

In 2016, the Compensation and nomination committee met six times with an average attendance rate of 93.33%.

In 2016, the main issues addressed by the Compensation and nomination committee were:

- The description of collective objectives (of the Company) and individual objectives (of the members of the Executive Board and of the Executive committee)
- The compensation of the members of the Executive Board and of the Supervisory board;
- The policy for the distribution of means of equity participation;
- The distribution of attendance fees to the independent members of the Supervisory board;
- The change of CEO and the change in the members of the Supervisory board;
- The appointing and the determination of the compensation allocated to the new CEO;
- The appointment of the previous CEO as Chairman of the Supervisory board, determination of its compensation, its special mission and the compensation attached.

Transaction committee

A Transaction committee, created by the Supervisory board on September 21, 2007, and at the date of the present report currently composed of :

Name	Relationship to the Company	Member of the Transaction committee since
Irina Staatz-Granzer	Member of the Supervisory board	2009
Gilles Brisson	Member of the Supervisory board	2007
Novo Nordisk A/S represented by Karsten Munk Knudsen	Member of the Supervisory board	2011

The primary responsibility of the Transaction committee is to examine, with the Company and its investment bankers or consultants, the business and corporate development opportunities that the Company could be considering (these strategic opportunities may include the acquisition of rights on products or the acquisition of other companies as well as out-licensing opportunities), and to this end it has to :

- Analyze the fundamentals of the products and/or companies targeted by the Company, notably in relation to the Company's own fundamentals,
- Analyze the feasibility of a transaction, and
- If need be, participate in the process of selecting and defining the missions for the Company's investment bankers and/or consultants.

The Committee reports to the next Supervisory board and, depending on the case, minutes of its meetings are sent to the members of the Supervisory board, under the meeting of the Supervisory Board following the meeting of the Transaction committee. The frequency and contents of the meetings depend on operations of development engaged by the Company.

In 2016, the Transaction committee did not meet.

1.5 ORGANIZATION AND OPERATION OF THE SCIENTIFIC ADVISORY BOARD

The Company get also a Scientific advisory board, composed of five consultants in 2016, which all work outside of the Company. It was created by the Management Committee on May 9, 2000, given that the Company was established in the form of simplified joint stock company (*Société par actions simplifiée*). The Scientific advisory board is not a committee of the Supervisory board as provided in Article R. 225-56 of the Code of Commerce. Its members are appointed by the Executive Board.

The members of the Scientific advisory board and their relationship with the Company, at the date of the present report, are listed in the table below:

Name	Relationship to the Company	Member of the Scientific Committee since
Bernard Malissen	Consultant	2000
David Raulet	Consultant	2000
Philip Greenberg	Consultant	2000
Ronald Levy	Consultant	2013
François Romagné	Consultant	2014

Detailed information on the expertise and experience of the members of the Scientific advisory board are presented in section 2.1.3 of the Reference Document.

The Scientific advisory board analyses the research and development work in progress at the Company plus any significant expansion project in its scientific field or in a related field. The Chairman of the Scientific Committee intervenes during the Supervisory board meeting, particularly in order to comment the work of the Scientific advisory board, and, depending on the case, minutes sent to the Supervisory board.

This type of advisory committee is very common in companies involved in biotechnologies. In 2016, the key tasks of the Scientific Committee were as follows:

- To evaluate the Company's new products development strategy from a scientific perspective,
- To evaluate the progress of the Company's research programs to implement this strategy, examining both the results obtained and the skills and expertise involved, and
- To propose or evaluate opportunities for acquiring new products and new technologies.

The members of the Scientific advisory board receive compensation based on their attendance at meetings of the Scientific advisory board. In the 2016 fiscal year, this compensation totaled USD 20,000 (around EUR 18,358).

In 2016, the Scientific advisory board met once with an average rate of attendance of 100%.

The Charter of the Supervisory board governs the operating rules of the Scientific advisory board.

2 COMPENSATION OF SUPERVISORY BOARD MEMBERS AND COMPANY OFFICERS

Full information relating to the principles and rules set by the Supervisory board to determine the remuneration and other perks granted to Supervisory board members appears in chapter 2.2.2 of the Reference Document and in chapter VI of the Executive Board's annual management report.

It is stated that the Company uses the device "say on pay" under which the remuneration of company officers due or awarded for the year ended is subject to a shareholder vote.

The information relating to the "say on pay" are set ou in chapter VI of the Management Report and the Executive Board Report.

2.1 SUPERVISORY BOARD

Attendance fees

Since 2007, the Company pays attendance fees to independent members of the Supervisory board. Attendance fees include a fixed and a variable part, the latter being based on actual participation in meetings of the Supervisory board and its committees.

The rules of distribution were discussed in the Compensation and nomination committee and then approved by the Supervisory board meeting on December 11, 2007. In addition to a fixed annual amount common to all the beneficiaries, each member, except for the Chairman of the Supervisory board, is eligible for payments depending on his attendance to meetings of the Supervisory board and of the committees (see Section 1.4 of this report). The variable part depending on the attendance to meetings of the Supervisory boards or committees predominates over the annual lump sum.

The envelope of attendance fees voted at the General Meeting of shareholders on June 2nd, 2016 was 200,000 euros.

Mr. Brailly appointed as Chairman of the Supervisory board, will receive in 2017, upon recommendation of the Compensation and nomination committee held on December 13th, 2016, agreed by the Supervisory board held on December 14, 2016, an annual fixed gross compensation amounting to EUR 50,000, according to Article L. 225-81 of the Code of Commerce. Besides, upon recommendation of the Compensation and nomination committee held on December 13, 2016, agreed by the Supervisory board held on December 14, 2016, Mr. Brailly will receive during the 2017 financial year, according to Article L. 225-84 of the Code of Commerce, an exceptional compensation amounting to EUR 100,000 in consideration for its special mission, which will be performed in addition to its functions as Chairman of the Supervisory board (see 1.2.3 of this report).

The table below provides the amounts granted to each of the independent members of the Supervisory board for the years 2015 and 2016:

In euros	Attendance Fees 2015	Attendance Fees 2016
Gilles Brisson	44,500	47,113
Philippe Pouletty	36,000	35,335
Irina Staatz-Granzer	27,500	27,643
Patrick Langlois	40,500	38,700
Michael Caligiuri	21,750	23,076
Véronique Charbernaud	17,000	28,123
Total	187,250	199,990

Warrants

Warrants giving the right to purchase shares, have been distributed to independent Supervisory board members.

The table below summarizes the last distribution of warrants still available to independent members of the Supervisory board, where each warrant entitles the holder to subscribe one new share:

	Number of warrants			
	06/29/11	06/28/13	04/27/15	04/27/15
Date of the General Meeting	06/29/11	06/28/13	04/27/15	04/27/15
Date of the Executive Board meeting	07/29/11	07/17/13	04/27/15	04/27/15
Gilles Brisson , Chairman of the Supervisory board, independent member	25,000	-	15,000	-
Philippe Pouletty , independent member of the Supervisory board	-	-	10,000	-
Irina Staatz-Granzer , Vice-chairman of the Supervisory board, independent member	25,000	-	10,000	-
Michael A. Caligiuri , independent member of the Supervisory board	-	25,000	-	-
Patrick Langlois , independent member of the Supervisory board	-	-	-	-
Véronique Chabernaud , independent member of the Supervisory board	-	-	-	14,200

- (1) Philippe Pouletty resigned from his functions as member of the Supervisory board on December 14, 2016 with effect on December 30, 2016

To distribute these warrants, the recommendation of the Compensation and nomination committee is notably based on market practices, as known and detailed by the members of the Compensation and nomination committee, as well as on external information collected by the Company and made available to the Compensation and nomination committee, including a comparison with public companies of the biotechnology industry in France and Switzerland.

2.2 EXECUTIVE BOARD

The remuneration of the members of the Executive Board and the Executive committee is set by the Supervisory board, following the recommendation of the Compensation and nomination committee.

The remunerations and any benefits in kind of the members of the Executive Board and the Executive committee are detailed in Chapter 2.2 of the Reference Document and in section VI of the Executive Board's annual management report (in particular with respect to Say on pay information). The fixed part of the remuneration is separate from the variable part, whose mechanisms are explained in that document. In order to set the remuneration and any benefits in kind of the members of the Executive Board and the Executive committee, the Supervisory board, assisted for this purpose by the Compensation and nomination committee, take into account the performance of the Company as a whole, the collective and individual performances of the executives and the current practices in companies of comparable size and maturity in the biotechnology sector, in France and abroad.

Regarding Article 22 of the AFEP/MEDEF recommendations, relating to employment contract for the Chairman of the Executive Board, the Supervisory board of March 27, 2014, renewed the mandate of Mr Brailly, as CEO until December 30, 2016 and authorized him to hold concurrently his employment contract and his mandate as Chairman of the Executive Board. Mr Brailly's position as Chairman of the Executive Board was not remunerated, as for other members of the Executive Board.

Mr. Mondher Mahjoubi, new CEO since December 30, 2016, is not bound by any employment contract with the Company.

Under the resignation of Mr. Brailly from its functions as CEO, the Supervisory board held on December 14, 2016, upon recommendation of the Compensation and nomination committee, agreed the payment of an exceptional gross amount amounting to EUR 300,000 to Mr. Brailly in consideration of its crucial role as founder and CEO of the Company for 17 years.

The Company does not provide contractual indemnities ("golden parachutes") for Executive Board members.

3 PARTICIPATION OF SHAREHOLDERS AT GENERAL MEETINGS

The last annual General Meeting of shareholders was held on June 2, 2016 at the Company's head office, in accordance with Articles 26 to 34 of the Company by-laws. Shareholders (present or represented) represented 45.084% of the capital and voting rights of the Company. Shareholders were offered the choice to vote by mail, to give a proxy to the Chairman of the meeting or to attend to the meeting.

4 ARTICLE L.225-100-3 OF THE CODE OF COMMERCE

The information stipulated by Article L.225-100-3 of the Code of Commerce is set out in the section IV of the Executive Board's annual management report.

5. Table of recommendations of AFEP/MEDEF Code not followed by the Company

AFEP MEDEF Code	Non compliance	Explanations
<p>The Code recommends that the Supervisory board of the Company includes at least 40% female members after the first General Meeting of shareholders held in 2016. When the Board is composed of fewer than nine members, the gap between the number of male and female members cannot exceed two (§6.4).</p>	<p>The Supervisory board is currently composed of seven members including two female members representing less than 40%.</p> <p>The gap between the members of each sex is higher than two.</p>	<p>The Board shall review applications to remedy the situation before the terms of the mandates of the members of the current Supervisory board, that is before the 2017 General Meeting called to approve the 2016 financial statements in accordance with the law n°2011-103 of January 27th 2011.</p>
<p>The Code recommends that all members of the Audit committee must get financial and accounting expertise (§ 1.5.1).</p>	<p>The Rules of Procedure of the Supervisory board, in accordance with Article L.823-19 of the Code of Commerce, provides only one member of the Audit committee should present financial and accounting skills.</p>	<p>The rules of procedure are consistent with the law and the size, resources and accounting issues of the Company. In any event, Mr. Brailly, Brisson, Langlois and Mrs Irina Staatz-Granzer have, in terms of their career, the skills required.</p>
<p>The code recommends the renewal of members of the Supervisory board for each. (§ 13).</p>	<p>The mandates of the members of the Supervisory board are renewed at the same time and not in phases.</p>	<p>This choice is explained by the short duration of the mandates (two years), which allows for a renewal of the composition of the Company's Supervisory board on a regular basis and so, in the Company's view, achieves the intended purpose.</p>
<p>The code recommends that the nominations committee designs a plan for replacement of executive directors in the event of unforeseeable vacancy (§16.2.2).</p>	<p>The Compensation committee has not yet decided on this issue.</p>	<p>Under the Company's by-laws, in the event of vacancy of the Executive board members, the Supervisory Council must make an appointment to fill the post within two months.</p>
<p>When an officer is a corporate officer of the company, it is advisable to terminate his employment contract which binds the Company (§ 21).</p>	<p>Until December 30, 2016, the CEO combined an employment contract with a mandate.</p>	<p>The Supervisory board during the renewal of Mr. Brailly on March 27, 2014, authorized Mr. Brailly to hold his employment contract and its mandate. The employment contract of Mr. Brailly terminated when he resigned from his functions as CEO (<i>i.e.</i> on December 29, 2016). Mr. Mahjoubi, new CEO is not bound by any employment contract with</p>

		the Company.
<p>The Code recommends that the fixed remuneration of the executive directors shall be reconsidered at relatively long intervals, for example three years (§24.3.1)</p>	<p>The reference base wage of the members of the Executive Board and of the other members of the Executive committee is fixed annually by the Supervisory board on the basis of a recommendation from the Compensation and nomination committee.</p>	<p>The Company complies with Article L. 225-82-2 of the Code of Commerce (Law n°2016-1691, dated December 9, 2016 relating to the transparency, the fight against corruption and the modernization of the economic life), which provides for two shareholders' votes:</p> <ul style="list-style-type: none"> - An "ex ante" vote on the "principles and criteria of determination, allocation and distribution of fixed, variable and exceptional components of the total compensation and the benefits of all kinds" allocated to the corporate officers; and - An "ex post" vote on the "fixed, variable and exceptional components of the total compensation and the benefits of all kinds paid or allocated under the previous financial year".

CHAPTER 2 INTERNAL CONTROL PROCEDURES

The internal control mechanism set up by the Company based on the recommendations set out in “risk management and internal control reference framework: implementation guidelines for small and mid-cap companies”, updated and published by the French financial markets authority (AMF) on July 22, 2010.

As a reminder, the scope of internal control is not limited solely to procedures for making financial reporting more reliable.

The mechanism applies to the parent company Innate Pharma and its subsidiary Innate Pharma Inc., fully owned. Internal control procedures specific to each subsidiary could be put in place in the future, based on their specific operations and risks.

2.1 DEFINITION AND OBJECTIVES OF INTERNAL CONTROL

Within the Company, internal control is a process set up by the Supervisory board, the Executive Board, the Executive committee, the intermediate management and the employees.

It comprises a range of resources, behaviors, processes and actions adapted to the specificities of the Company and contributes to the control of its activities, the efficiency of its operations and the efficient use of its resources. It must also take appropriately into account the significant risks, whether operational, financial or conformity risks.

The internal control system aims at providing the Company with reasonable assurance that:

- It complies with the applicable laws and regulations;
- It is applying instructions and strategic orientations such as determined by the management;
- Its internal processes work well, notably those related to the protection of its assets; and
- Its financial information is reliable.

The mechanism contributes to the prevention and control of the risks that the Company will not achieve the objectives that it has set itself. The purpose of controlling risks related to the Company's operations and to accounting and financial information is aimed at (i) providing managers with tools necessary for managing the business, (ii) providing shareholders and the public with reliable accounting and financial information and (iii) enabling the Company to comply with the applicable laws and regulations.

The Company's internal control process is nevertheless essentially based on human means. Thus, while it may give a reasonable assurance, it cannot provide an absolute guarantee that the risks the Company is facing are fully controlled.

2.2 COMPANY POLICY WITH REGARD TO INTERNAL CONTROL

The internal control policy is determined based on the Company's objectives.

One of Innate Pharma's significant concerns is to ensure that its activities are controlled. The executive management has therefore backed the installation and the retention of a quality system, certified ISO 9001 since 2005, a mechanism of internal control and a mechanism of risk management.

Because of its business model which relies on capital increases, and the nature of its activity, i.e. research and development of drug candidates in the immunotherapy field, the Company is very much exposed to various financial, legal, strategic and operational risks. Innate Pharma is therefore especially committed to identifying and controlling these risks and wants to be able to give its shareholders a relevant vision of its risk environment. The implementation of actions aiming at reducing the risk is integrated to the quality system or the system of internal control based on the nature of the risks.

The Company sees its internal control mechanism as a process of continuous and progressive improvement with the objective of complying with the internal control recommendations published by the AMF.

In order to formalize the control process, an internal control manual has been drafted and is regularly updated. It defines the Company's policy regarding internal control, defines responsibilities as well as all the decisions contributing to the control of this activity and to internal control.

2.3 INTERNAL CONTROL RESPONSIBILITIES

By virtue of its mission, the Supervisory board is the primary participant in the Company's internal control system.

The Audit committee, the Compensation and nomination committee and the Transaction committee are the key tools the Supervisory board has at its disposal for internal control tasks.

Members of the Executive Board, of the Executive committee, the intermediate management and the personnel are the actors of the internal control process.

The Quality system and the Risk Management mechanism are monitored by the Director Quality & Compliance in collaboration with the Director, Administration & Finance, for aspects related to internal control and financial risks. The Director Administration & Finance is in charge of implementing, formalizing and monitoring the mechanism of internal control within the Company. He reports to the Executive Board, to the President of the Audit committee and to the President of the Supervisory board.

2.4 DISTRIBUTION OF RELEVANT INFORMATION

2.4.1 External communication

As a listed company, the Company complies with strict rules relating to the distribution of information. A code of ethics stipulates that all staff have a duty of confidentiality with regard to certain information, and a code of stock market deontology defines the confidentiality and secrecy obligations relating to so-called privileged information. A list of "insiders" who are party to such privileged information has been drawn up.

Press announcements are released on a regular basis by the Company. They are drafted internally and subject to a reviewing process involving the Executive Board and the Supervisory board for strategic and financial information. Press releases comprising half-year or full-year financial accounts are also reviewed and discussed by the Audit committee.

The Reference Document provides the main financial information and notably a discussion on the Company's financial situation and results, the main risk factors, an overview of the activities as well as the governance rules. This document is updated on yearly basis.

Information about the Company can be accessed on its website www.innate-pharma.com.

2.4.2 Internal communication

Internally, the Company has set up certain tools to distribute and share information.

Information regarding the Company's policy and objectives are discussed during annual "strategic goals" meetings with all employees. The Executive committee members share information regarding the Company and their own field with their teams through various *ad hoc* forums.

As described above, the Executive committee reviews on a monthly basis the strategic, budgeting and accounting information and reports to the Executive Board and the Supervisory board.

For operational use, an Electronic Document Management (EDM) system is used to manage Quality system procedures, documentation related to the Company's activities and ensure that they are accessible.

2.5 MAPPING AND ANALYSIS OF RISKS

The operational risks identified as of today are presented in Section 1.9 “Risk factors” of the Reference Document.

Risk mapping is one of the first and major steps for setting up and optimizing an internal control system and control of the operations.. Indeed, identifying and evaluating the risks enables to identify actions to be defined for better risk and operation control

The macro risk map has currently identified the following families of risks:

- Strategic;
- Operational;
- Financial;
- related to fraud;
- related to communication;
- regulatory legal and related to intellectual property;
- related to human resources;
- related to hygiene, security of technical installations and environment;
- related to IT systems

The risk mapping was updated in 2016 following a detailed review.

The residual risks as well as new control actions proposed are presented and discussed at the Audit committee.

- In terms of financial and accounting information, the Company distinguishes three types of risks: Risks related to establishing the accounts and producing financial data, which could result from different dysfunctions arising from the accounting and financial processes themselves;
- Risks related to the disclosure and communication of financial information, with regards to the selection of indicators, the drafting of documents and the financial communication itself;
- Market-related risks linked to foreign exchange risks on operating expenses and to variations of interest rates concerning cash flow and financial instruments.

In order to complete the approach described above, which directly derives from the control actions already in place, the Company also takes into account the conclusions given by its Statutory Auditors as well as their recommendations, which are discussed each year with the Audit committee and the Supervisory board. The matrix of key controls, is currently being updated. The results of this external evaluation by the Statutory Auditors are presented and discussed with the Audit committee and with the Supervisory board.

2.6 CONTROL ENVIRONMENT

2.6.1 INTERNAL CONTROL PROCEDURES RELATING TO OPERATIONAL PROCESSES

Since its inception, the Company has adopted a quality approach which led to ISO 9001 certification in 2005 for its research and development activities in the field of immunotherapy medication. Since then, the certification was renewed every year.

The Quality system is one of the major mechanism in place for monitoring the operational risks.

The application of strategic direction and orientations given by the Executive Board is partly defined in the context of the strategic goals process.

The functioning and the control of the operations are described in the quality system, which covers the following processes:

- Policies and strategic goals ;
- Management of the quality system;
- Human resources: skills management ;
- Research and development (pre-clinical and clinical);

- Pharmaceutical operations ;
- Procurement ;
- Animal facilities ;
- Management of scientific equipment ;
- Management of buildings and facilities;
- Information systems.

The organization of the quality system is the first element of the operational risk management. The implementation of the procedures as described in the Quality System is subject to regular internal control audits.

Compliance with laws and regulations is the responsibility of the participants in the various processes (process pilots, program managers and project managers).

2.6.2 INTERNAL CONTROL PROCEDURES RELATING TO ACCOUNTING AND FINANCIAL INFORMATION

The Company considers that risks regarding financial management are currently limited, for the following reasons:

- In general, the Company's Senior management and more particularly the personnel of the accounting and finance department are trained and experienced, and thus familiar with internal control matters and respond positively to the recommendations of the Audit committee and the Statutory Auditors,
- The Company calls upon independent experts for the evaluation of accounting entries that are complex or require significant management estimates (for instance for the free preferred shares allocated during the 2016 period);
- The half-year and annual accounts are reviewed by an external chartered accountant prior to their presentation to the Statutory Auditors,
- Independent consultants are retained to calculate provisions for retirement compensation and seniority awards
- Payroll management is subcontracted to the external chartered accountant,

Responsibility for external financial communication is entrusted exclusively to the members of the Executive committee and to a department of Financial communication and Investor Relations, Catherine Moukheibir was a member of the Executive committee since March 1, 2011 and provided the financial strategy of the Company under a consultant contract, she was also a member of the Executive Board. Catherine Moukheibir resigned from her functions within the Executive committee on December 14, 2016, with effect on December 30 2016 retaining her consultant contract and was replaced by Laure-Hélène Mercier.

Furthermore, an EVP Finance function was created in the year 2016.

The Company has a regular dialogue with its Statutory Auditors, its Audit committee or with third-parties for the interpretation or adoption of new accounting standards be they French or IFRS adoption of new accounting as well as for measures related to internal control.

The book of accounting and financial procedures defines the accounting principles, responsibilities of the personnel of the accounting and finance department, as well as the main processes performed in the Company's operations.

As part of the annual closing 2016, the accounting team has been strengthened with the arrival of a new person who will particularly improve the segregation of duties and enhance the effectiveness of operational controls related to the preparation of the financial statements.

2.6.3 INTERNAL CONTROL SYSTEM IN PLACE

Through the yearly update of risk mapping enabling risks and control actions to be reviewed and evaluated, and also through the work performed by the Statutory Auditors on internal control as part of their legal assignment, the Company believes that it possesses the necessary means for the implementation of appropriate control tools. This system complements the active role played by the Audit committee in this respect.

The Company also created a proprietary management information system, IP Center, which is gradually integrating the various management procedures likely to represent a risk in view of their economic significance for the Company. For example, a module for procurement was introduced in 2006 to ensure that no purchase order is issued by the Company without prior verification and authorization by the persons possessing the appropriate delegation. The computerization of this process has also improved accounting cut-offs between periods (separation of accounting years).

A dedicated purchasing function was also created . This person is responsible for price negotiation with suppliers as well as the verification of services performed before payment is made to the suppliers.

The management of contracts has been gradually integrated into the IP Center. The management module of the contracts enables the Company to gain a better appreciation of its commitments by providing a rapid and convenient overview of agreements signed or awaiting signature, and by matching the contractual information with the resulting accounting elements.

The IP Center, which operates as a database management system and extracts elements from various software programs, including the Company's own accounting software, is also the tool used for formalizing the budget process and monitoring this budget during the year. This monitoring was further improved through the installation of a module specific to the clinical activity, used to monitor the progress of current clinical trials based on two criteria: the number visits made by the patients included and the duration of the trial.

Time and activity management software was implemented in order to improve resource management and notably the identification of needs and the calculation of the allocation of resources per project. This software also contributes to improving the documentation relating to subsidies and research tax credit.

Risk matrices were formalized for the following accounting cycles of the Company: "Purchasing", "Payroll" and "Fixed Assets". These matrices identify, for each risk, the appropriate implemented risk control(s) covering this risk. In addition, in order to ensure the absence of conflicting functional responsibilities, a matrix of tasks across the organization has been set up. A matrix of controls on the closing process was also formalized.

2.7 MONITORING AND SUPERVISION OF THE INTERNAL CONTROL PROCESS

The Executive Board monitors and supervises the internal control process and ensures that it is relevant and appropriate for the Company's objectives.

The continuous monitoring is part of the day to day activities and comprises regular checks conducted by the Executive committee. The existence of a quality management system contributes to the supervision of the process: it enables to control the changes related to the process and the documentation, to identify non-conformities, and to analyze the efficiency indicators of the defined processes. A formal review of the quality system takes place once a year to evaluate its effectiveness.

Periodic supervision has also been set up, entailing an internal audit program. The internal audits program involves "quality" audits, allowing the evaluation of the implementation of the procedures which have been set up.

The Supervisory board is informed regularly and as needed, by the Executive Board, of the processes related to risk management and internal control. Besides, the results of each significant update of the risk mapping and the conclusions of the auditors, under their audit mission, on the past period are presented to the Audit committee.. The main conclusions of this evaluation are then reported to the Supervisory board by the Chairman of the Audit committee.

This report, which is drafted each year by the Chairman of the Supervisory board, reports the conditions of the preparation and organization of the works of the Supervisory board and of the internal control and risk management processes implemented by the Company.

Despite the procedures and mechanisms stated previously, we identified during the 2016 period a significant deficiency of our internal control related to contract which generated an accelerated recognition of our turnover in the 2015 half-year financial statements. This one-time error, resulting from an exceptional event, has been corrected in the 2015 annual financial statements.

In addition, we identified that our risk assessment process related to the preparation of our financial statements was not detailed enough to identify, implement and follow actions of specific controls to address those risks. In order to solve these problems and in a progress-making approach in relation with the growth of the Company, we implemented and formalized a review of operational cycles and prior half-year and annual closing in order to

identify the major impacts on the financial statements linked to the period. As a result, we identified existing controls or controls to be implemented in order to reduce the identified risks. In particular, such actions will promote closer ties between the clinical data and the accountancy, the decision making in case of one-time significant events, a deeper review of the accounting entries and the data development files impacting the accountancy.

2.8 SUMMARY OF ACTIONS TAKEN IN 2016

In 2016, the Company has implemented a system of double signatures for transfers according to defined ceilings.

As part of the 2016 half-year closing, the Company has, for the first time, formalized a half-year closing planning document. This document aims to identify areas of risk considered as significant by the management and controls set up to mitigate them. Furthermore, the Company implemented a new functionality of the IP Center aiming at identify the staff's inscriptions to the various scientific congresses. This module allows to accurately track costs related to these conferences (registration, travel and stay expenses) but also to formalize the process of authorization of travel for these events. We also started working on a project for the implementation of a software enabling to dematerialize and automatize the recording of the invoices received from the suppliers.

At year end, the Company also started to work to document the architecture of the IP Center "Clinic" module of, which will ensure continuity of service in the case of an extended leave of our provider.

In 2016, the Company developed a module for the IP Center to dematerialize and automate the entry, validation and booking of expenses reports. The module 'Purchases' had also been improved to automatically identify new suppliers designated as "critical" according to the criteria provided for in the procedure "Purchases".

2.9 OUTLOOK

As part of its continuous improvement process, the Company aims to continue the work of convergence of the system of management of quality and the systems of internal control and risk management.

2.10 CONCLUSIONS ON THE INTERNAL CONTROL AND RISK MANAGEMENT PROCESSES

In the light of the arrangements presented in this report, the level of formalization of the internal control mechanism is deemed satisfactory.

The way the various management bodies are involved in internal control work provides an separation between the management activities of the Executive Board and the Executive committee and the control functions of the Supervisory board and its committees.

The quality system, the internal control system as well as the meetings of the Executive Board and of the Executive committee enable the Company to monitor and control its risks appropriately as they result from the macro risk map.

The Company is committed to continuing the use of the risk analysis methodology associating it with an integrated system of management of quality and internal control so it can become a proper tool for management and decision making.

Innate Pharma also intends to continue to comply with regulations and market recommendations and to review market practices in order to maintain an appropriate standard in this area.

February 2nd, 2017

The Chairman of the Supervisory board