

# **INNATE PHARMA**

Société Anonyme

117, avenue de Luminy  
BP 30191  
13276 Marseille Cedex 9

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## **Statutory Auditors' special report on regulated agreements and commitments**

Shareholders' Meeting held to approve the financial statements for the year ended 31 December 2016

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*This is a free translation into English of the statutory auditors' special report on regulated agreements and commitments issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements and commitments reported on are only those provided by the French Commercial Code and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.*

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby report to you on regulated agreements and commitments.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or which we may have identified during the course of our audit, as well as the reasons justifying that such agreements and commitments are in the Company's interest, without expressing an opinion on their usefulness and appropriateness or identifying such other agreements and commitments, if any. It is your responsibility, pursuant to Article R. 225-58 of the French Commercial Code, to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.

Furthermore, it is our responsibility, as applicable, to provide you with the information stipulated in Article R. 225-58 of the French Commercial Code (Code de Commerce) concerning the performance over the past fiscal year of the agreements and commitments previously approved by the Shareholders' Meeting.

We carried out the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (Compagnie Nationale des Commissaires aux Comptes) relating to this engagement. These procedures consisted in verifying the consistency of the information provided to us with the relevant source documents.

#### AGREEMENTS AND COMMITMENTS SUBMITTED TO THE SHAREHOLDERS' MEETING FOR APPROVAL

##### **Agreements and commitments authorised during the fiscal year**

Pursuant to Article L. 225-88 of the French Commercial Code, we have been advised of the following agreements and commitments which were previously approved by your Supervisory Board.

##### *Agreement concluded with Mr. Hervé Brailly, Chairman of the Supervisory Board*

Nature and purpose: on 14 December 2016 but effective as from 30 December 2016, the Supervisory Board entrusted Mr. Hervé Brailly with a special assignment under Article L. 225-84 of the French Commercial Code, in addition to his duties as Supervisory Board Chairman, which will expire on 31 December 2017.

Reasons: this special assignment mainly consists in securing the transition with the new Innate Pharma management team and providing strategic advice.

Terms and conditions: under this assignment, Mr. Hervé Brailly will collect an annual gross fixed compensation of €100,000 in 2017. No amounts were paid in respect of this compensation in fiscal 2016.

##### *Agreement concluded with Mr. Mondher Mahjoubi, Chairman of the Executive Board*

##### Nature and purpose:

On 14 December 2016 but effective as from 30 December 2016, and following his appointment as Executive Board Chairman, Mr. Mondher Mahjoubi concluded a mandate agreement with your company.

##### Reasons:

This mandate agreement forms part of the Executive Board's reorganisation.

##### Terms and conditions:

The terms of compensation included in this mandate agreement are as follows:

- A lump-sum allowance equal to two years of fixed and variable compensation, in consideration for a non-compete and non-solicitation obligation, paid in monthly

instalments over a period of 24 months as from the date on which he will no longer assume his duties as Executive Board Chairman;

- An unemployment insurance agreement (GSC) to guarantee the payment of compensation in the event of unemployment. This agreement was set up as from 30 December 2016 following the authorisation of the Supervisory Board on 14 December 2016.

No amounts were paid under this Mandate in 2016.

*Agreements with Novo Nordisk A/S, shareholder: amendment to the exclusive licensing agreement*

Nature and purpose:

To recap, amendment no. 7 to the cooperation and exclusive licensing agreement of 28 March 2006 (binding Novo Nordisk A/S and Innate Pharma for the development and commercialisation of IPH 2101) was signed on 5 February 2014. Under the amendment, Novo Nordisk A/S transferred to Innate Pharma the development and commercialisation rights to the candidate NKG2A anti-body and Innate Pharma undertook to reimburse Novo Nordisk A/S for the annual maintenance costs of an underlying license payable by Novo Nordisk A/S to a third party.

Amendment no. 8 to the cooperation and exclusive licensing agreement of 28 March 2006 (binding Novo Nordisk A/S and Innate Pharma for the development and commercialisation of IPH 2101) was signed on 3 November 2016, with retroactive effect to 16 September 2016. Under the amendment, Novo Nordisk A/S and Innate Pharma agreed to adjust the payment terms and conditions and align Innate Pharma's reimbursement obligations to Novo Nordisk A/S with the costs payable by Novo Nordisk A/S to the third party.

Reasons:

Amend the annual reimbursement terms by indexing this amount to the Retail Price index, so as to align the amount payable with regard to the reimbursement paid by your Company to Novo Nordisk A/S and the amount payable by Novo Nordisk A/S to the relevant third party.

Terms and conditions:

Under amendment no.7, your company paid Novo Nordisk A/S the sum of USD 98,888.92 in 2016 regarding the reimbursement of the annual maintenance costs for the license. No amounts were paid in 2016 under amendment no. 8.

*Agreements with Novo Nordisk A/S, shareholder: memorandum of agreement relating to the contract concluded with MedImmune, a subsidiary of AstraZeneca*

Nature and purpose:

On 24 March 2016, a memorandum of agreement was entered into between Innate Pharma and Novo Nordisk A/S concerning the amounts payable to Novo Nordisk A/S under the contract concluded with MedImmune, a subsidiary of AstraZeneca in April 2015.

Reasons:

Conclude an agreement between Innate Pharma and Novo Nordisk A/S concerning the amounts payable to Novo Nordisk A/S with respect to the transaction with AstraZeneca.

Terms and conditions:

Innate Pharma paid Novo Nordisk A/S the sum of €6.5 million. If AstraZeneca pays the sum of USD 100 million as stipulated in the agreement concluded between Innate Pharma and AstraZeneca in April 2015, Innate Pharma will then have to pay an additional USD 15 million to Novo Nordisk A/S. On the date of this report, considering the uncertain results, any additional future payment to Novo Nordisk A/S based on an additional payment by AstraZeneca is unlikely. However, if AstraZeneca does not make this additional payment or should the co-development and commercialisation agreement with AstraZeneca be terminated for whatever reason, Innate Pharma would then pay Novo Nordisk A/S a portion of the remaining R&D budget initially forecast and not yet spent or incurred. Nevertheless, on the date of this report, given the uncertainty surrounding the development plans, the Company is not planning to make such a payment to Novo Nordisk A/S.

**AGREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE SHAREHOLDERS' MEETING**

**Agreements and commitments approved in previous years with continuing effect during the past fiscal year**

In accordance with Article R. 225-57 of the French Commercial Code, we have been advised that the following agreements and commitments approved in previous years by the Shareholders' Meeting have had continuing effect during the past fiscal year.

*Agreements with Mr. Hervé Brailly, Chairman of the Executive Board*

Compensation:

Mr. Hervé Brailly received a fixed monthly compensation of €21,667 over six months from January to June 2016 and €25,000 over six months from July to December 2016 pursuant to his employment contract and a collective bonus of €21,667 for fiscal 2016. Furthermore, in 2016 Mr. Hervé Brailly received an individual bonus of €82,333 and an exceptional bonus of €60,000 for fiscal 2015.

Article 83 pension:

Mr. Hervé Brailly also has an “Article 83” pension plan with AG2R La Mondiale at a rate of 2% of gross compensation, of which 1.20% payable by Innate Pharma. The amount paid by Innate Pharma in respect of fiscal 2016 was €3,635.

Convention Garantie Sociale des Chefs et Dirigeants d’Entreprise – Social security agreement for company executive officers:

The purpose of this agreement is to guarantee the payment of compensation in the event of unemployment (up to 70% of the most recent professional income declared to the French tax authorities) to company executive officers who are not entitled to receive French unemployment benefits. This agreement was set up as from 1 April 2006 following the authorisation of the Supervisory Board on 23 September 2005. The amount paid by Innate Pharma in fiscal 2016 was €7,514.

Company vehicle:

Under the terms set forth by the Compensation Committee on 19 January 2007, Mr. Hervé Brailly has use of a company car under a long-term lease that generated an expense of €1,860 in respect of fiscal 2016.

*Agreements with Mr. Nicolai Wagtmann, member of the Executive Board*Compensation:

Mr. Nicolai Wagtmann received a fixed monthly compensation of €13,494 over six months from January to June 2016 and €15,000 over six months from July to December 2016 pursuant to his employment contract and a collective bonus of €13,333 for fiscal 2016. Furthermore, in 2016 Mr. Nicolai Wagtmann received an individual bonus of €30,667 and an exceptional bonus of €30,000 for fiscal 2015. In addition, in 2016 Mr. Nicolai Wagtmann received tuition fee reimbursements for €16,158.

Article 83:

Mr. Nicolai Wagtmann also has an “Article 83” pension plan with AG2R La Mondiale at a rate of 2% of gross compensation, of which 1.20% payable by Innate Pharma. The amount paid by Innate Pharma in respect of fiscal 2016 was €2,121.

Company vehicle:

Mr. Nicolai Wagtmann has use of a company car under a long-term lease that generated an expense of €2,720 in respect of fiscal 2016.

*Agreements with Mr. Yannis Morel, member of the Executive Board*Compensation:

Mr. Yannis Morel received a fixed monthly compensation of €12,500 over six months from January to June 2016 and €15,000 over six months from July to December 2016 pursuant to his employment contract and a collective bonus of €12,500 for fiscal 2016. Furthermore, in 2016 Mr. Yannis Morel received an individual bonus of €23,500 and an exceptional bonus of €50,000 for fiscal 2015.

Article 83:

Mr. Yannis Morel also has an “Article 83” pension plan with AG2R La Mondiale at a rate of 2% of gross compensation, of which 1.20% is payable by Innate Pharma. The amount paid by Innate Pharma in respect of fiscal 2016 was €2,032.

Company vehicle:

Mr. Yannis Morel has use of a company car under a long-term lease that generated an expense of €1,950 in respect of fiscal 2016.

*Agreement with Mrs. Catherine Moukheibir, member of the Executive Board*

A consultant agreement was entered into on 18 April 2011 between Innate Pharma and Mrs. Catherine Moukheibir, who has worked on assignments as “Senior Advisor, Finance” since 1 March 2011. This agreement was amended on 30 April 2011, and renewed twice for 2 years on 4 March 2013 and 6 March 2015.

Under this agreement, Innate Pharma paid €264,004 for services performed between 1 January 2016 and 29 December 2016.

Following the resignation of Catherine Moukheibir from the Executive Board, the consultant contract of 6 March 2015 was modified by amendment no. 1 dated 14 December 2016, effective as of 30 December 2016 for a period of six months until 30 June 2017.

Under this amendment, the modus operandi and duties of Mrs. Catherine Moukheibir were modified.

*Agreements with Novo Nordisk A/S, shareholder*Cooperation agreement:

On 28 March 2006, Novo Nordisk A/S and Innate Pharma signed a cooperation agreement including an exclusive licence for development and commercialisation of IPH 2101.

On 6 October 2008, amendment no. 1 was signed by the parties in order to grant Innate Pharma exclusive development and commercialisation rights to the IPH 2101 drug candidate.

On 6 October 2008, amendment no. 2 was signed; under this amendment, Innate Pharma waived rights to milestone payments and royalties for IPH 2301, another drug candidate licensed to Novo Nordisk A/S.

On 26 June 2009, amendment no. 3 was signed to adjust the management of patents.

On 16 December 2010, Novo Nordisk A/S and Innate Pharma signed amendment no. 4 to their cooperation agreement, modifying the scope of their respective developments, with no financial impact.

On 5 January 2011, amendment no. 5 was signed by the parties to update the list of patents.

On 5 July 2011, amendment no. 6 was signed to align certain contractual terms with the agreement entered into between Bristol-Myers Squibb and Innate Pharma on 6 July 2011.

On 5 February 2014, amendment no. 7 was signed under which Novo Nordisk A/S transferred to Innate Pharma the development and commercialisation rights to the candidate NKG2A anti-body for €7.0 million, comprising €2.0 million in cash and 600,000 Innate Pharma shares.

Licensing agreement:

On 9 December 2013, Novo Nordisk Health Care AG, the wholly-owned subsidiary of Novo Nordisk A/S, and Innate Pharma signed a licensing agreement under which Novo Nordisk Health Care AG granted Innate Pharma a co-exclusive license for protein engineering patents.

Marseille, 29 March 2017

The Statutory Auditors

Audit Conseil Expertise SAS  
*Member of PKF International*

Deloitte & Associés

Nicolas LEHNERTZ

Hugues DESGRANGES