

INNATE PHARMA

French *société anonyme* with a Supervisory Board and an Executive Board

With a share capital of 2,654,263.20 Euros

Registered office: 117 avenue de Luminy - 13009 Marseille - France

RCS Marseille 424 365 336

(the “**Company**”)

**ADDITIONAL REPORT OF THE EXECUTIVE BOARD
AT THE ANNUAL SHAREHOLDERS’ MEETING
OF 27 APRIL 2015**

Ladies and Gentlemen,

Dear Shareholders,

As part of the yearly Combined Shareholders’ Meeting, we have made available a report detailing the resolutions which would be submitted to your vote. This report and the text of the resolutions have been provided in accordance with the conditions and time periods set forth in the Company’s Articles of Association and under applicable law.

Prior to the discussions of the Shareholders’ Meeting, the Executive Board would like to highlight and clarify the implementation of some of the delegations which are submitted to your vote.

1. Financial delegations authorising the Executive Board to increase the share capital (Resolutions n°18 to 28)

Under these financial delegations, we propose that you allow the Executive Board to increase Company’s share capital, in order to make use of capital strengthening opportunities of the Company which are necessary to the development of its activities.

The Executive Board specifies that it is not envisaged to implement the financial delegations provided under the eighteenth to twenty eighth resolutions during a public offering.

2. Remuneration instruments of directors, corporate officers, employees and consultants (Resolutions n°25 to 28)

The Company is committed to continue to motivate and retain employees and officers of the Company and its subsidiaries, as well as consultants of the Company. In compliance with good governance practices, the Company would like to renew the free allocation of shares and granting of subscription warrants (“**BSA**”) and redeemable warrants for shares subscription and/or acquisition (“**BSAAR**”) to these categories of persons.

The terms and conditions of allocation and/or exercise of these various instruments by the Executive Board will be established by the Supervisory Board upon recommendation of the Remuneration Committee during the allocations. However, we can confirm that the

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main terms and conditions of the BSAAR and free shares which would be allocated would be as follows:

- BSAAR provided under resolution n°26 :
 - Beneficiaries: The allocation of BSAAR concerns all employees of the Company, its consultants and its officers, except members of the Supervisory Board.
 - Allocation: The allocation of all BSAAR authorised under resolution n°26 would be a third for members of the Executive Committee, a third for executive officer non-members of the Executive Committee (15 directors) and a third for the other Company's employees. The maximum amount of BSAAR which can be allocated to one person would be 250,000.
 - Acquisition period: The acquisition period would be spread over a maximum period of four years, with a requirement of the beneficiaries to be present in the Company at the moment of exercising each tranche of BSAAR (this requirement may be waived exceptionally by a decision of the Executive Board).
 - Performance conditions: As for other companies, the Company's business is not suited to an average or long term purely financial type of assessment of its performance. The performance of employees of the Company is rather assessed against the progress and success of its scientific programmes from one year to another. However, the financial dimension is not totally ignored because the level of cash at the end of the year – which reflects the ability to meet the scientific targets by maintaining an acceptable cash consumption level – is also taken into account. Finally, corporate targets such as stock market performance, capital strengthening (as in 2014) or licensing agreements (as in 2011 with BMS), the achievement of which is difficult to predict years in advance, are also taken into account. This explains why it is envisaged to tailor the allocation mechanism and the performance conditions of BSAAR to those of the bonus compensation paid every year to employees: on the one hand, it is the allocation of BSAAR and not their exercise during the four years which is subject to the satisfaction of these performance conditions set at the beginning of the financial year; on the other hand, these conditions of performance are similar to the targets to which bonus payments are subject. Thus, the allocation will depend particularly on the achievement of scientific, financial and/or corporate, group and/or individual targets defined at the beginning of the year by the Remuneration Committee and approved by the Supervisory Board.

In addition, the Executive Board may provide an accelerated exercise if specific targets are met in the long term after consultation with the Supervisory Board on the recommendation of the Remuneration Committee.
 - Early repayment: At any time from the end of the five year period following the BSAAR issuing date and until the end of the BSAAR exercise period, the Company may redeem all or part of the remaining BSAAR at their purchase price by the beneficiaries (which represent the market value at the time of allocation). The BSAAR may only be redeemed if the arithmetic

average, calculated over a market average preceding the redemption, of the product of the closing prices of the Company's shares and the applicable exchange ratio on each date, exceeds a certain percentage of the BSAAR exercise price. This threshold would be set by the Executive Board after consultation with the Supervisory Board on the recommendation of the Remuneration Committee. It would be in the range of 200% to 400% of the exercise price. Upon exercise of the right of redemption by the Company, the beneficiaries of the BSAAR will have a period to exercise their BSAAR if they do not wish the Company to redeem their BSAAR.

- Subscription: It is reminded that the beneficiary of BSAAR must acquire them by paying a subscription price equal to the market value appraised by an independent expert.
- Free shares provided under resolution n°27:
 - Beneficiaries: The free allocation of shares concerns all employees of the Company, and its officers who are eligible under the provisions of Articles L.225-197-1 *et seq.* of the French Commercial Code. It is not provided under this resolution to allocate free shares to members of the Supervisory Board.
 - Allocation: The allocation of all free shares authorised under resolution n°27 would be a third for members of the Executive Committee, a third for executive officer non-members of the Executive Committee (15 directors) and a third for the other Company employees. The maximum amount of free shares which can be allocated to one person would be 17,000.
 - Acquisition period: In accordance with applicable law, the Executive Board must determine an acquisition and/or retention period.
 - Performance conditions: The same philosophy prevails for the allocations of free shares and BSAAR, except that the free shares will replace all or part of the cash bonus payment. The allocation of free shares thus represent a potential cash savings for the Company. The difference with BSAAR on this point is that the beneficiary of BSAAR must acquire them by paying the subscription price equal to the market value appraised by an independent expert. It cannot therefore be required of the beneficiary to waive his/her cash bonus and to pay a subscription price. This is however possible for free instruments and reflects beneficiaries' undertakings in the future of the Company.

At the date of filing of the Company's Registration Document on 12 March 2015, the ownership of instruments giving access to Company's share capital by the CEO, management team and all employees, would permit the subscription of 1,506,050 new shares, representing approximately 2.76% of the share capital on a fully diluted basis. With voting on the resolutions n°25, 26 and 27 submitted to the General Meeting of 27 April 2015, enabling the first issue of BSAAR and free shares in favor of the management and employees since two years, and assuming the allocation of all the instruments covered by these resolutions (within the limits set by these resolutions), this dilution would represent about 3.10%.

This percentage is very significantly in the lower range of listed biotech companies of comparable size, particularly considering that the CEO is also the founder of the Company.

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These resolutions are essential to continue to motivate an efficient management team and to associate it, with all other employees, to the success of the Company and its shareholders.

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Should you approve our various proposals under our report to the yearly Shareholders' Meeting and this report, please confirm with your vote by adopting these resolutions which shall be read to you and have been held available at the registered office during the fifteen days preceding the Shareholders' Meeting of 27 April 2015, in accordance with law.

The Executive Board