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 2011

MARCH 5, 2012

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, 2011.

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") in July 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 on corporate governance and executive compensation refering to the AFEP/MEDEF Code, published on February 9, 2012 in the format of a presentation of consolidated recommendations contained in its annual reports.

This report was prepared on the basis of the summary of the Company's operations in 2011. The draft report was submitted for discussion to the Statutory Auditors and to the Executive Board. A final draft was presented and discussed during the Audit committee meeting on March 5, 2012.

In accordance with article L.225-68 of the Code of Commerce, this report was approved by the Supervisory Board during its meeting on March 5, 2012.

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 2011 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.

The Company complies with the AFEP/MEDEF consolidated corporate governance recommendations for publicly listed companies updated in April 2010 ("AFEP/MEDEF recommendations") which can be consulted on the site www.medef.com, and applies the principles set out therein. In accordance with the recommendations included in this code, the reasons for not applying certain principles are explained in this report.

1.1 ORGANIZATION AND OPERATION OF THE SUPERVISORY BOARD

The Supervisory Board has adopted a Charter describing its functioning. This Charter can be found in Appendix 3 of this Reference Document for 2011.

1.1.1 COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board currently comprises six members, elected for two years. Four of these members are independent within the meaning of the rules set out in the AFEP/MEDEF recommendations.

In contrast with the AFEP/MEDEF recommendations, mandates of the Supervisory Board members are all renewed at the same time, and not in phases. This decision 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

In accordance with the AFEP/MEDEF recommendations, the Charter of the Supervisory Board, as modified on September 23, 2010, 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[2], and

- He or she does not represent a shareholder who holds more than 10% of the voting rights of the Company.

The exact criteria specified by the Company for determining the independence of a Member of the Supervisory Board are given in article 2.2 of the Charter (see Appendix 3 in this Reference document).

At the date of this report, the only non-independent members of the Supervisory Board are Novo Nordisk A/S (as it holds over 10% of the capital of the Company) and Mr. Patrick Langlois.

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 an independent member. Any board mandate held by the members of the Supervisory Board in other companies (such as described in Section 14.1.2 of this 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 affiliate and the joint-venture of the Company.

The mandates of the Members of the Supervisory Board will expire at the General Meeting of shareholders called to vote on the accounts for the fiscal year ended on December 31, 2012.

The current members of the Supervisory Board are as follows:

NAME	FUNCTION AND STATUS	NATIONALITY	Age
Gilles Brisson	Chairman of the Supervisory Board	French	age 60
Irina Staatz-Granzer	Independent member Independent member. Vice-Chairman of the Supervisory Board	German	age 51
Novo Nordisk A/S	Non-independent member . Represented by Lars Fruergaard Jorgensen	Danish	age 45
Philippe Pouletty	Independent member	French	age 53
Patrick Langlois	Non-independent member	French	age 66
Alta Biopharma Partners II	-independent member . Represented by Ekaterina Smirnyagina	French	age 45

More information on the members of the Supervisory Board, including the duration of their mandate and the list of the other mandates and positions held in other companies during the last five years are given in Section 14.1.2 of the Reference Document.

Members of the Supervisory Board are globally recognized experts in the Company's business. In this context, the AFEP/MEDEF recommendation regarding the number of mandates they hold in other publicly listed companies is not necessarily always complied with.

The Supervisory board comprises two women (Ms Staatz-Granzer and Ms Smirnyagina), representing one third of board members and therefore complies with the article 5-II of the French Act No. 2011-103 dated January 27,

2011[1]. This act specifies that the Supervisory Board of the Company must include at least 20% female members after the first General Meeting of shareholders held in 2014.

1.1.2 CHARTER OF THE SUPERVISORY BOARD

On March 15, 2007, the Supervisory Board first approved its Charter dealing notably with the way it works and the organization and missions of its committees. The Charter, which was last modified on September 23, 2010, can be found in Appendix 3 of the Reference Document.

1.1.3 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,
- 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, and
- 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.

1.1.4 MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board meets as often as necessary and at least once per quarter. Meetings are called by its Chairman, in accordance with article 19 of the Company by-laws. In 2011, the Supervisory Board met seven times with an average attendance rate of 93%.

In the course of the 2011 financial year, the main topics addressed by the Supervisory Board were the set up of the collaboration agreement with the company Bristol-Myers Squibb for the clinical development of IPH21 program, the pre-clinical development of the other drug candidates, as well as the partnership strategy for the different product platforms of the Company.

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.

1.1.6 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. A first self-evaluation was carried out in June 2008. No self-evaluations were carried out since. The Board members were elected or re-elected, as appropriate, during the last General Meeting of shareholders on June 29, 2011. The decision and the means of a potential self-evaluation to be organized in 2012 is at the agenda of the Supervisory board meeting of March 5, 2012.

1.2 EXECUTIVE BOARD AND EXECUTIVE COMMITTEE ORGANIZATION AND OPERATION

The Executive Board of Innate Pharma was initially composed of three members appointed for a renewable term of three years. However, the terms of office of the members of the Executive Board (duly nominated for six

[1] Article 5-II point 3 of the French Act No n°2011-103 dated January 27, 2011 stipulates that the permanent representative of a legal person is taken into account to evaluate compliance of the Board with Article 5-II point 1 of this same law

years by the Supervisory Board on June 13, 2005 by virtue of the statutory provisions applicable at that time and which stipulated a term of six years for the mandates) were continued until the initially stipulated term, i.e. until the General Meeting of shareholders called to approve the accounts of the financial year ended on December 31, 2010, which took place on June 29, 2011.

The mandates of the Executive Board members were renewed by the Supervisory board on June 29, 2011.

In 2011, the members of the Executive Board were:

- Hervé Brailly, Chairman of the Executive Board,
- François Romagné,
- Catherine Moukheibir, from May 4, 2011 onwards

In 2011, the Executive Board met nine times with an average attendance rate of 78%. Since the beginning of 2012, the Executive Board has met twice with an average attendance rate of 83%.

The Executive Board is responsible for the management of the Company that it represents. It defines the Company's development strategy and implements its commercial and financial choices in relation to the operational personnel. It submits its progress to the Supervisory Board on a quarterly basis.

It 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 members of the Executive Board are kept informed on a daily basis of any subject related to their specific area of competence.

The Executive Board is particularly competent for determining, implementing and controlling the Company's strategy, for nominating key personnel, as well as for the external communication and general policy of the company.

The members of the Executive Board are appointed, in accordance with the law, by the Supervisory Board. In compliance with the By-laws of the Company, they may also be revoked individually by the Supervisory Board.

The Company's Executive Committee is composed of six 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 subjects regarding the management of the Company, and in particular its exposure to risks and accounting and budgeting monitoring.

In 2011, the members of the Executive Committee were:

- Hervé Brailly,
- François Romagné,
- Jérôme Tiollier,
- Marcel Rozencweig
- Catherine Moukheibir
- Yannis Morel

A more detailed description of the responsibilities and composition of the Executive Board and the Executive Committee are given in Section 14.1.1 of the Reference Document.

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 Scientific, Audit, Compensation and nomination or the Transactions committees.

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

These committees are as follows:

- An Audit committee, currently composed of, at the date of this Reference document, Patrick Langlois, Chairman of the Committee, Gilles Brisson and Novo Nordisk A/S, represented by Lars F. Jorgensen. Mr Brisson, an independent member of the Supervisory Board, is the 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 has held at 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 Audit committee meets at least twice a year, after the limited audit of the half-year accounts or the audit of the annual accounts but before the Executive Board meet to approve the latter and before the first Supervisory Board meeting following the half-year and annual accounting closing dates. The main missions of the Audit committee are the following of the legal control of the half-year and annual accounts, internal control practices, risk analysis, 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.

  The Audit committee report to the next Supervisory board and, depending on the case, minutes, signed by one of its members, 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. A more specific description of the powers of this Committee, together with details of its membership, may be found in Section 16.3.1 of this Reference document and in the charter of the Supervisory board, included in Appendix 3 in this Reference document. .

  In 2011, the Audit committee met twice with an average rate of attendance of 83%.

- A Compensation and nomination committee, currently composed of three members, Mr Brisson (Chairman of the Supervisory board), Mr Langlois and Mr Pouletty. Mr Brisson and Mr Pouletty are independent members of the Supervisory Board.

  For the record, the article 10.1 of the charter will be soon modified to reflect the fact that the Chairman of the Executive Board is no longer a member of the Compensation and nomination committee, since the meeting of the Supervisory board of February 28, 2011.

  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 Committee), the compensation of the members of the Executive Committee and the policy concerning the distribution of warrants, stock-options and free shares.

  The Compensation and nomination committee meets as often as required and at least once a year. The committee report to the next Supervisory board and, depending on the case, minutes of its meetings are sent to the members of the Supervisory Board following the meeting of the Compensation and nomination committee. A more specific description of the powers of this Committee, together with details of its membership, may be found in Section 16.3.2 of the Reference Document.

  In 2011, the Compensation and nomination committee has met four times with an attendance of 91%

- A Transactions committee, created in 2007, was composed in 2011 of three members: Mr Brisson and Ms Staatz-Granzer, independent members of the Supervisory Board and the company Novo Nordisk A/S, represented by Mr Fruergaard Jorgensen.

  The primary responsibility of the Transactions committee is to examine, with the Company and its investments 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). The committee report to the next Supervisory board and, depending on the case, minutes of its meetings are sent to the members of the Supervisory Board.

  In 2011, the Transactions committee has met three times with an attendance of 77%.

- The Scientific committee, composed of four members in 2011, which all work in academic laboratories outside of the Company.

  The Scientific committee analyzes 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 is an observer at Supervisory Board meetings. He intervenes during the Supervisory Board meeting, particularly in order to comment the work of the Scientific committee, and, depending on the case, minutes sent to the Supervisory board. A more specific description of the powers of this Committee, together with details of its membership, may be found in Section 16.3.3 of the Reference Document.

  In 2011, the Scientific committee met twice with an average rate of attendance of 100%.

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 15 of the Reference Document

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. It has nevertheless been decided that attendance fees would also be paid to Mr. Langlois.

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 is eligible for payments depending on his attendance to meetings of the Supervisory Board and of the committees (see Section 1.3 of this report).

The envelope of attendance fees voted at the General Meeting of shareholders on June 29, 2011 was 150,000 euros.

The table below provides the amounts paid to each of the independent members of the Supervisory Board for the years 2010 and 2011:

In euros	**Attendance fees 2010**	**Attendance fees 2011**
Gilles Brisson	33,250,	37,250
Frank Morich	28,000	N/A[2]
Philippe Pouletty	23,750	32,500
Irina Staatz-Granzer	22,500,	28,500
Patrick Langlois	11,750,	32,500
Jean Deleage	22,500	4,750
Total	**141,750**	**135,500**

Warrants

Warrants are distributed to independent Supervisory Board members on a regular basis.

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

	Number of warrants		
Date of the General Meeting	**Jun. 26, 2007**	**Jun. 27, 2008**	**Jun. 29, 2011**
Date of the Executive Board meeting	**Mar. 25, 2008**	**Jan. 19, 2009**	**Jul. 29, 2011**
Gilles Brisson, Chairman of the Supervisory Board, independent member	47,059	-	25,000
Jean Deleage, Vice-Chairman of the Supervisory Board, independent member	-	-	-
Frank Morich, independent member of the Supervisory Board	35,294	-	-
Philippe Pouletty, independent member of the Supervisory Board	23,529	35,000	12,500
Irina Staatz-Granzer, Vice-chairman of the Supervisory Board, independent member	-	-	25,000

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 nominations 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.

[2] Mr Morich resigned from its Supervisory board member mandate on September 23, 2010

The remunerations and any benefits in kind of the members of the Executive Board and the Executive Committee are detailed in Section 15.1 of the Reference Document. The fixed part of the remuneration is separate from the variable part, whose mechanisms are explained in Section 15.1. 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 19 of the AFEP/MEDEF recommendations, relating to employment contract for the Chairman of the Executive Board, this recommendation only applies to mandates given after October 6, 2008 or at the time of the renewal of these mandates when the initial mandate was given before this date, and is at the appreciation of the Supervisory Board. Mr. Hervé Brailly, Chairman of the Executive Board, was first appointed on June 13, 2005 for a six-year tenure. His mandate comes for renewal at the General Meeting of shareholders that will approve the accounts for the fiscal year ended December 31, 2010. On June 29, 2011, the Supervisory Board renewed the mandate of Mr Brailly 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 is not remunerated, as for other members of the Executive Board.

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 29, 2011 at the Company's head office, in accordance with articles 26 to 34 of the Company by-laws. Shareholders present or represented composed 70.49% 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.

All resolutions which were recommended to be adopted by the Executive Board, were adopted, each with a significant majority.

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

The information stipulated by article L.225-100-3 of the French Code of Commerce is set out in the Company's Reference Document.

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.

The mechanism applies to the parent company Innate Pharma and its subsidiary Innate Pharma Inc., fully owned, as well as its subsidiary Platine Pharma Services SAS, owned at 50%. 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 personnel.

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
- Its financial information is reliable.

The mechanism contributes to the prevention and control of the risk 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 of an ISO 9001 certified quality system and is currently extending its commitment by assessing and improving its internal control mechanism.

Because of its business model which relies on regular 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 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 Scientific committee, the Compensation and nomination committee and the Transactions 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.

A position dedicated to Internal Control and risk management was set up in late 2008. This person departed from the Company during the fourth quarter of 2011 but still takes care of the evaluation of risks, as a consultant during the annual review of the risk mapping. She reports, directly and independently on his/her tasks, to the Executive Board, to the Chairman of the Audit committee and to the Chairman of the Supervisory Board.

Interim evaluations can be done in case of a major change, with potential impact on the Company's risk profile.

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 and ensure that they are accessible. This database is also used to ensure the traceability of research and development activities.

2.4.3 Crisis management

A crisis management procedure was set up in 2009. It defines the various crisis management steps, from the alert and watch phase to management of the crisis per se, and to the evaluation of the crisis management. Given the Company's field of activity, the most likely crisis situations have been identified and work has been undertaken to define associated action plans.

2.5 MAPPING AND ANALYSIS OF RISKS

The operational risks identified as of today are presented in Section 5 "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. Identifying and evaluating the risks indeed actions to be defined for better risk control. These actions constitute the Company's internal control system.

The macro risk map has currently identified the following types of risks: financial, legal, operational, regulatory, human resources, strategic, environment/safety/facilities, commercial, partnerships, communication/reputation, information system and fraud.

In order to improve the relevance of risk identification and evaluation, an annual review of risks is conducted with the staff directly involved in each family of risks.

Following the annual review, the list of raw risks has been updated and re-assessed in terms of probability, impact and severity; the list of control actions has also been updated and their effectiveness has been assessed.

The resulting analysis of residual risks was discussed in the Executive Committee meeting onFebruary 16, 2012.

The residual risks will be presented and discussed at the Audit committee.

The main families of risks are the following:

- Strategic risks, including risks related to the clinical failure of a product,
- Operational risks, including risks related to product development,
- Risks related to the partnership strategy,
- Financial risks, notably the inability to finance the Company's activity.

The Company distinguishes three types of risks related to accounting and financial information:

- 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 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 relies on the work performed by its Statutory Auditors as well as on their recommendations, which are discussed each year with the Audit Committee and the Supervisory Board. The matrix of key controls, set up in 2007, was reviewed and updated in December 2011. 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. Following the renewal audit conducted in June 2011, the Company's ISO 9001:2008 certificate was renewed. The quality system is one of the major processes in the control of 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:

- 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 internal control over operational risks. 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

Organisational factors participating to risks limitation:

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 ensures that there is an internal separation between the production and supervision of financial statements, and calls upon independent experts for the evaluation of accounting entries that are complex or require significant management estimates.
- 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.
- Payroll management is subcontracted to the external chartered accountant.
- Responsibility for external financial communication is entrusted exclusively to the members of the Executive Board and to the Director of Investor Relations, a position created in 2007.

Since March 1, 2011, Catherine Moukheibir is in charge of the financial strategy of the Company within the frame of a consultancy contract. She is also member of the Executive board.

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. One of the third-parties is the French association of biotechnology companies, which provides the Company with a forum in which it can exchange views on accounting matters specific to its industry, such as revenue recognition or accounting for research tax credit.

The book of accounting and financial procedures defines the accounting principles, responsibilities, provisions as well as the main processes performed in the Company’s operations. The compliance with these procedures is verified through internal audits.

2.6.3 INTERNAL CONTROL SYSTEM IN PLACE

Through the yearly update of risk mapping enabling risks and control actions to be reviewed and re-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.

In 2004, 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 at the end of 2008 (one person). 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 contractual management module 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 in 2010 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 of 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.

During the second half-year 2011, the following risk matrix were formalized for the accounting cycles of the Company : purchases, pay and assets.

These matrices identify for each risk the appropriate risk control() measures in place. In addition, in order to ensure the absence of conflicting functional responsibilities, a matrix of tasks across the organization has been developed.

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 twice 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 of quality management system processes, the evaluation of the application of the procedures which have been set up, as well as internal control audits to ensure that the internal control mechanisms comply with regulations and with the Company's needs, and that controls are performed.

The Supervisory Board is informed regularly and as needed, by the Executive Board, of the processes related to risk management and internal control. The Audit Committee annually evaluates the efficiency of the risk management and internal control procedures set up by the Company. The 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.

2.8 SUMMARY OF ACTIONS TAKEN IN 2011

Following the signature of the collaboration and licence agreement with Bristol-Myers Squibb, an interim risk analysis was undertaken to measure the impact of the implementation of this agreement on the risk profile of the company. The findings of this interim analysis were presented to the Audit Committee on 30 August 2011.

An update of the book of accounting and financial procedures as well as the major administrative processes was completed in 2011 to ensure the continued relevance of such procedures and processes and to adjust where necessary given best practice. The internal publication of the updated book was also an efficient way to reinforce the implementation of these rules by the responsible staff

An operating guide for the 'Clinical'module of IP Center was produced and implemented.

In order to facilitate and improve internal control systems, the previously mentioned matrices were implemented, enumerating the relevant interna control steps for each accounting cycle.

2.9 OUTLOOK

Following three years of process formalisation, ongoing thought and actions are undertaken with a view to continuous improvement,

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 appropriate 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.

The Company is committed to continuing the use of the risk analysis methodology and making it even more operational so that it can become a true management and decision support tool. Innate Pharma also intends to continue to comply with market recommendations and to review market practices in order to maintain an appropriate standard in this area.

March 5, 2012

The Chairman of the Supervisory Board