



innate pharma

French *société anonyme* governed by an executive board and a supervisory board with a share capital 1,884,339.7 euros composed by 37,686,794 shares of a nominal value of 0.05 euros each.

Registered office: 117, Avenue de Luminy, F-13009 Marseille. Registered with the Company and Trade Register of Marseille under number 424 365 336.

Interim Financial Report June 30, 2010

Interim financial situation as of June 30, 2010

The following interim consolidated financial statements have been prepared by the Executive Board of the Company, and have been subject to a limited review by our Statutory Auditors. They have been examined by the Supervisory Board of the Company on August 27, 2010.

Summary

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Innate Pharma at a glance

Innate Pharma S.A. (the "Company") is a clinical-stage biopharmaceutical company developing first-in-class immunotherapy drugs for cancer and other severe diseases. The company was incorporated in 1999 and listed on NYSE-Euronext in Paris in 2006.

The Company has significant expertise in identifying new targets and bringing novel drug candidates through to clinical proof-of-concept trials. It currently has several drug candidates in development, two of which are at the Phase II clinical trial stage. Two other programs are out-licensed to the Danish biopharmaceutical company Novo Nordisk A/S, a shareholder.

With its strong scientific position in immuno-pharmacology, its robust intellectual property portfolio and its R&D expertise, Innate Pharma intends to become a leading player in the growing market for immuno-therapeutics.

Innate Pharma is based in Marseilles, France, and had 81 employees as at June 30, 2010.

Learn more about Innate-Pharma at www.innate-pharma.com

I. Financial Highlights and Management Discussions and Analysis

The key elements of Innate Pharma's financial results for the first half of 2010 are as follows:

- A decrease in the operating loss to 6.7 million euros in the first half of 2010, compared to 7.9 million euros in the same period last year. This results mainly from a decrease in operating expenses (9.2 million euros for the six-month period ended June 30, 2010 vs. 13.1 million euros for the six-month period ended June 30, 2009). Operating revenue also decreased (2.5 million euros for the six-month period ended June 30, 2010 vs. 5.2 million euros for the six-month period ended June 30, 2009).
- Before changes in working capital, stable cash absorbed by the operations (6.3 million euros in the six-month period ended June 30, 2010 vs. 6.2 million euros for the six-month period ended June 30, 2009), and a **solid balance sheet**: 39.1 million euros in cash, cash equivalent and current financial instruments as at June 30, 2010, and 7.9 million in financial debt, of which 4.5 million euros are related to long term lease-financing.

The table below summarizes the IFRS consolidated financial statements for the six-month period ended June 30, 2010, with a comparison to the same period in 2009:

| In thousands of euros, except for data per share | 6-month period ended June 30 | |
|--|------------------------------|-------------------|
| | 2010 | 2009 |
| Operating revenue | 2,476 | 5,159 |
| Research and development | (7,179) | (9,753) |
| General and administrative | (2,005) | (3,311) |
| Net operating expenses | (9,184) | (13,064) |
| Operating income (loss) | (6,709) | (7,904) |
| Interest income/(expenses), net | (21) | (42) |
| Net loss | (6,730) | (7,946) |
| Average number of shares outstanding (in thousand) | 37,184 | 25,912 |
| Net loss per share | (0.18) | (0.31) |
| | June 30, 2010 | December 31, 2009 |
| Cash, cash equivalents and current financial instruments | 39,142 | 49,194 |
| Total assets | 55,292 | 64,219 |
| Shareholders' equity | 40,506 | 47,122 |
| Total financial debt | 7,936 | 8,277 |

Operating revenue:

The following table summarizes operating revenue for the periods under review:

| | 6-month period ended June 30 | |
|---|------------------------------|--------------|
| In thousands of euros | 2010 | 2009 |
| Revenue from collaboration and licensing agreements | 210 | 2,590 |
| Government funding for research expenditures | 2,264 | 2,507 |
| Other revenue | 1 | 62 |
| Operating revenue | 2,476 | 5,159 |

Turnover is composed by revenue from collaboration and licensing agreements as well as by other revenue.

For the six-month period ended on June 30, 2010 and 2009, revenue from collaboration and licensing agreements mostly came from agreements signed with Novo Nordisk A/S in March 2006 as well as in 2009.

After the research and development collaboration part of the 2006 agreement ended in March 2009, the Company received additional research and development funding from Novo Nordisk A/S for collaborative work performed after March 2009 on selected products that are licensed to Novo Nordisk A/S.

Government funding for research costs is mostly composed of the research tax credit. Despite an increase in R&D expenses between the two periods under review decreased, net R&D expense eligible to research tax credit were stable, due notably to the deduction from the tax credit basis of subsidies received during the first half of 2009. Research tax credits were respectively 1.9 million euros for the six-month period ended June 30, 2010 and 2.1 million euros for the same year-ago period.

Net operating expenses, by business function:

The following table breaks down the net operating expenses by function for the periods under review:

| In thousands of euros | 6-month period ended June 30 | |
|-------------------------------------|------------------------------|-----------------|
| | 2010 | 2009 |
| Research and development expenses | (7,179) | (9,753) |
| General and administrative expenses | (2,005) | (3,311) |
| Net operating expenses | (9,184) | (13,064) |

Research and development ("R&D") expenses include mostly R&D staff costs, product manufacturing costs, subcontracting costs (research, pre-clinical and clinical development) as well as costs of materials (reagents and other consumables) and pharmaceuticals products.

The decrease in R&D expenses between the two periods under review (7.2 million euros for the six-month period ended June 30, 2010 vs. 9.8 million euros for the year-ago period, or -26%) reflects notably the end of the clinical costs related to IPH 1101 Phase II program, only partly offset by the costs associated with the start of IPH 2101 Phase II program, as well as the decrease in share-based compensation (7 thousand euros for the six-month period ended June 30, 2010, vs. 740 thousand euros for the six-month period ended June 30, 2009).

Expenses for clinical development represented a total of 4.0 million euros for the six-month period ended June 30, 2010, or 56% of the R&D costs, to be compared with 6.2 million euros for the same year-ago period, or 64% of the R&D costs.

R&D expenses accounted for 78% of net operating expenses for the six-month period ended June 30, 2010 vs. 75% for the same year-ago period.

General and administrative ("G&A") expenses include mostly costs of the "support" staff as well as external expenses for the management and development of our business (legal, auditing, business development, etc.). These costs amounted to 2.0 million euros for the six-month period ended June 30, 2010 vs. 3.3 million euros for the six-month period ended June 30, 2009. The decrease of G&A expenses is mostly related to the decrease in share-based compensation (13 thousand euros for the six-month period ended June 30, 2010, vs. 1,006 thousand euros for the six-month period ended June 30, 2009).

G&A expenses accounted for 22% of net operating expenses for the six-month period ended June 30, 2010 vs. 25% for the six-month period ended June 30, 2009.

Net operating expenses, by nature:

The following table breaks down the net operating expenses by nature of expense for the periods under review:

| In thousands of euros | 6-month period ended June 30 | |
|---|------------------------------|-----------------|
| | 2010 | 2009 |
| Costs of supplies and consumable materials | (1,491) | (1,065) |
| Intellectual property expenses | (446) | (440) |
| Other purchases and external expenses | (3,572) | (5,751) |
| Employee benefits other than share-based compensation | (3,014) | (3,323) |
| Share-based compensation | (20) | (1,747) |
| Depreciation and amortization | (489) | (512) |
| Other income and (expenses), net | (152) | (225) |
| Net operating expenses | (9,184) | (13,064) |

The changes in the most significant line items can be analyzed as follows:

- Costs of supplies and consumable materials: costs of supplies and consumable materials have increased between the two periods under review mainly as the result of an increase in manufacturing expenses for IPH 2101.
- Other purchases and external expenses: the decrease in these expenses between the two periods under review (3.6 million euros vs. 5.8 million euros for the six-month period ended June 30, 2010 and 2009 respectively, or -38%) is mostly explained by a decrease in costs of sub-contracted clinical operations, notably related to the end of the Phase II program with IPH 1101.
- Employee benefits other than share-based compensation: the decrease of these expenses between the two periods under review (3.0 million euros for the six-month period ended June 30, 2010 vs. 3.3 million euros for the period ended June 30, 2009) is mostly explained by the change in headcount (82.8 persons in average for the six-month period ended June 30, 2010 vs. 87.5 persons for the period ended June 30, 2009).
- The decrease in share-based compensation between the two periods under review is explained by the acceleration, in early 2009, of the vesting conditions of the free shares distributed in 2008 (see Note 12 for more details).

Balance sheet items:

Cash, cash equivalent and current financial instruments amounted to 39.1 million euros as at June 30, 2010, as compared to 49.2 million euros on December 31, 2009. The balance as at June 30, 2010 does not take into account 3.7 million euros in research tax credit received in July 2010.

Since its inception in 1999, the Company has been primarily financed by issuing new securities. The Company also generated cash flow from its licensing activity (mostly in relation with the agreements with Novo Nordisk A/S), from research tax credit and from repayable government financing (Oséo). Repayable government financing amounted to 2.5 million euros on June 30, 2010, accounted as non-current financial liabilities.

The other key balance sheet items as at June 30, 2010 were as follows:

- Receivables from the French government in relation to research tax credits of 5.7 million euros, of which 1.9 million euros for the six-month period ended June 30, 2010, and 3.7 million euros for the twelve-month period ended December 31, 2009 (fully repaid in July 2010).
- Property, plant and equipment of 7.7 million euros, mainly composed by the new headquarters and laboratories of the Company, acquired and renovated in 2008 through a lease-financing agreement with SOGEBAIL, an affiliate of Société Générale. As at June 30, 2010, the net financial liability in relation to this acquisition amounted to 4.5 million euros.
- Shareholders' equity of 40.5 million euros including the net loss for the period (6.7 million euros).

Cash-flow items:

The net cash flow absorbed in the operations over the six-month period ended on June 30, 2010 amounted to 10.1 million euros, compared to a net cash flow generated by the operations of 2.0 million euros for the same year-ago period. This change is mostly explained by the effect on working capital of the early repayment (by the French' State) in the first half 2009 of the research tax credit balance as at December 31, 2008, amounting 10.4 million euros.

Key events since January 1, 2010:

- Report of final results with favorable complete response rate for the Phase II clinical trial with IPH 1101 in combination with rituximab in follicular Lymphoma (trial IPH 1101-202) at the Annual European Hematology Association ("EHA") Meeting.
- Report of updated interim data for the Phase I trial with IPH 2101 in Multiple Myeloma patients (trial IPH 2101-103) at the Annual American Society of Clinical Oncology ("ASCO") Meeting.
- Ongoing authorization process for new Phase II clinical trials with IPH 2101 in the US.
- Appointment of Mr. Patrick Langlois as member of the Supervisory Board and of the FSI (French Sovereign Fund) as observer to the Supervisory Board.

Mr. Stéphane Boissel, EVP and CFO, and Mr. Hemanshu Shah, EVP and CBO, have recently resigned from their position in the management team of the Company to pursue other business interests. A search for completing the management team is ongoing.

Nota:

The interim consolidated financial statements have been subject to a limited review by our Statutory Auditors and approved by the Executive Board of the Company on August 27, 2010. They have been reviewed by the Supervisory Board of the Company on August 2, 2010. They will not be submitted for approval to a general meeting of shareholders.

Risk factors:

Risk factors identified by the Company are presented in paragraph 4 of the "Document de Référence" submitted to the French stock-market regulator, the "Autorité des Marchés Financiers", on April 23, 2010.

Related party transactions:

Transactions with related parties during the periods under review are disclosed in the Note 17 to the Interim consolidated financial statements prepared in accordance with IAS 34.

Forward-looking statements:

Certain information contained in this presentation includes forward-looking statements. Forward-looking statements are not guarantees of future performance of the Company and its actual financial condition, actual results of operations and cash flows and the development of the industry in which it operates may differ materially from those made in or suggested by the forward-looking statements contained in this presentation. In addition, even if the Company's financial condition, results of operations and cash flows and the development of the industry in which the Company operates are consistent with the forward-looking statements contained in this presentation, those results or developments may not be indicative of results or developments in future periods. These statements are based on management's current expectations or beliefs and involve risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The Company does not undertake, nor does it have any obligation, to provide updates or to revise the forward-looking statements contained in this presentation to reflect events that occur or circumstances that arise after the date of this presentation. The Company takes no responsibility for the use of this information by any person.

II. Statutory auditors' limited review report on interim consolidated financial statements

To the Shareholders,

In compliance with the assignment entrusted to us by the General Meeting of shareholders and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (*Code monétaire et financier*), we hereby report to you on:

- The review of the interim financial statements of Innate Pharma S.A. for the six-month period ended June 30, 2010 ;
- The verification of the information contained in the interim management report.

These interim consolidated financial statements are the responsibility of the Executive Board. Our role is to express a conclusion on these financial statements based on our review.

1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists in discussing with persons responsible for financial and accounting matters in the company as well as in conducting analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - the IFRS standard as adopted by the European Union applicable to interim financial information.

2. Specific verification

We have also verified the information given in the interim management report on the interim consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the interim consolidated financial statements.

Marseilles, August 27, 2010

The Statutory Auditors

French original signed by

AUDIT CONSEIL EXPERTISE, SA
Member of PKF INTERNATIONAL
Guy CASTINEL

PRICEWATERHOUSECOOPER AUDIT
François Callens

III. Interim consolidated financial statements

Consolidated Interim Balance Sheet (in thousands of euros)

| | Note | June 30, 2010 | December 31, 2009 |
|---|------|---------------|-------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | 3 | 36,391 | 46,448 |
| Current financial instruments | 3 | 2,751 | 2,746 |
| Current receivables and prepayments | 4 | 8,372 | 7,071 |
| Assets available for sale | 4 | 100 | - |
| Total current assets | | 47,614 | 56,266 |
| Non-current assets | | | |
| Property, plant and equipment | 5 | 7,667 | 7,943 |
| Other non-current assets | | 11 | 10 |
| Total non-current assets | | 7,679 | 7,953 |
| Total assets | | 55,292 | 64,219 |
| Liabilities and equity | | | |
| Current liabilities | | | |
| Trade payables | 6 | 6,518 | 8,369 |
| Financial liabilities | 7 | 740 | 723 |
| Provisions | | 24 | 173 |
| Total current liabilities | | 7,283 | 9,265 |
| Non-current liabilities | | | |
| Financial liabilities | 7 | 7,196 | 7,554 |
| Defined benefit obligations | 8 | 308 | 278 |
| Total non-current liabilities | | 7,504 | 7,832 |
| Capital and reserves attributable to equity holders of the Company | | | |
| Share capital | 9 | 1,884 | 1,832 |
| Share premium | | 108,233 | 108,295 |
| Retained earnings | | (63,223) | (48,597) |
| Net loss for the year or the period | | (6,730) | (14,626) |
| Other comprehensive income | | 343 | 219 |
| Total capital and reserves attributable to equity holders of the Company | | 40,506 | 47,122 |
| Total liabilities and equity | | 55,292 | 64,219 |

Consolidated Interim Income Statement
(in thousands of euros)

| | Note | 6-month period ended June 30 | |
|---|------|------------------------------|-----------------|
| | | 2010 | 2009 |
| Revenue from collaboration and licensing agreements | 15 | 210 | 2,590 |
| Government financing for research expenditures | | 1 | 63 |
| Other revenue | | 2,264 | 2,507 |
| Operating revenue | | 2,476 | 5,159 |
| Cost of supplies and consumable materials | 10 | (1,491) | (1,065) |
| Intellectual property expenses | | (446) | (440) |
| Other purchases and external expenses | 10 | (3,572) | (5,751) |
| Employee benefits other than share-based compensation | 11 | (3,014) | (3,323) |
| Share-based compensation | 12 | (20) | (1,747) |
| Depreciation and amortization | | (489) | (512) |
| Other income and (expenses), net | 13 | (152) | (225) |
| Net operating expenses | | (9,184) | (13,064) |
| Operating income / (loss) | | (6,709) | (7,904) |
| Financial income (expenses), net | 14 | (21) | (42) |
| Income / (loss) before tax | | (6,730) | (7,946) |
| Income tax expense | | - | - |
| Net income / (loss) | | (6,730) | (7,946) |
| Net income / (loss) per share attributable to the equity holders of the Company: | | | |
| (in per share) | | | |
| - basic | 18 | (0.18) | (0.31) |
| - diluted | 18 | (0.18) | (0.31) |

Consolidated Interim Statement Of Cash Flows
(in thousands of euros)

| | 6-month period ended June 30 | |
|--|------------------------------|----------------|
| | 2010 | 2009 |
| <u>Cash flows from operating activities:</u> | | |
| Loss from operating activities | (6,730) | (7,946) |
| Adjustments to reconcile net loss to net cash from operating activities: | | |
| Depreciation and amortization | 489 | 519 |
| Provisions for expenses and defined benefit obligations | (149) | (586) |
| Share-based compensation | 20 | 1,747 |
| Profit / (loss) on asset disposals | 23 | 66 |
| Net cash generated from / (used in) operating activities before changes in working capital: | (6,347) | (6,200) |
| Changes in working capital: | | |
| - Current receivables and prepayments | (1,294) | 12,017 |
| - Non-current receivables | - | (2,088) |
| - Trade payables | (1,821) | (1,364) |
| Net cash generated from / (used in) operating activities: | (9,461) | 2,365 |
| <u>Cash flows from investing activities:</u> | | |
| Acquisition of property, plant and equipment | (227) | (166) |
| Net cash generated from / (used in) investing activities: | (95) | (166) |
| <u>Cash flows from financing activities:</u> | | |
| Share buy-back (liquidity contract) | (29) | - |
| Debt repayment | (341) | (187) |
| Net cash generated from financing activities: | (370) | (187) |
| Net increase / (decrease) in cash and cash equivalents: | (10,057) | 2,011 |
| Cash and cash equivalents at the beginning of the period: | 46,448 | 10,885 |
| Cash and cash equivalents at the end of the period (i): | 36,391 | 12,896 |
| (i) Does not include current financial instruments: | 2,751 | 23,178 |

Interim Statement Of Changes In Equity
(in thousands of euros)

| | Share capital | Share premium | Retained earnings | Net gain / (loss) | Other comprehensive income | Total attributable to equity holders of the Company |
|---|---------------|---------------|-------------------|-------------------|----------------------------|---|
| Balance as at January 1, 2009 | 1,296 | 84,117 | (36,739) | (11,862) | 954 | 37,767 |
| Net loss appropriation for 2008 | - | - | (11,862) | 11,862 | - | - |
| Net loss for the six-month period ended June 30, 2009 | - | - | - | (7,946) | - | (7,946) |
| Share-based compensation | - | 1,747 | - | - | - | 1,747 |
| Unrealized gains on securities available for sale | - | - | - | - | 252 | 252 |
| Foreign exchange gain / (loss) | - | - | - | - | 3 | 3 |
| Balance as at June 30, 2009 | 1,296 | 85,865 | (48,601) | (7,946) | 1,209 | 31,823 |
| Net loss for the six-month period ended December 30, 2009 | - | - | - | (6,680) | - | (6,680) |
| Share-based compensation | - | 27 | - | - | - | 27 |
| Unrealized gains on securities available for sale | - | - | - | - | (1,002) | (1,002) |
| Foreign exchange gain / (loss) | - | - | - | - | 12 | 12 |
| Owned shares | - | (178) | - | - | - | (178) |
| Capital increase, December 2009 | 536 | 22,581 | - | - | - | 23,117 |
| Balance as at December 31, 2009 | 1,832 | 108,295 | (48,597) | (14,626) | 219 | 47,122 |
| Net loss appropriation for 2009 | - | - | (14,626) | 14,626 | - | - |
| Net loss for the six-month period ended June 30, 2010 | - | - | - | (6,730) | - | (6,730) |
| Share-based compensation | - | 20 | - | - | - | 20 |
| Unrealized gains on | - | - | - | - | 5 | 5 |

| | Share capital | Share premium | Retained earnings | Net gain / (loss) | Other comprehensive income | Total attributable to equity holders of the Company |
|------------------------------------|---------------|----------------|-------------------|-------------------|----------------------------|---|
| securities available for sale | | | | | | |
| Foreign exchange gain / (loss) | - | - | - | - | 119 | 119 |
| Owned shares | - | (29) | - | - | - | (29) |
| Capital increase, March 2010 | 52 | (52) | - | - | - | - |
| Capital increase, April 2010 | - | - | - | - | - | - |
| Balance as at June 30, 2010 | 1,884 | 108,233 | (63,223) | (6,730) | 343 | 40,506 |

Statement of comprehensive income
(in thousands of euros)

| In thousands of euros | 6-month period ended June 30 | |
|--|------------------------------|----------------|
| | 2010 | 2009 |
| Net loss for the period: | (6,730) | (7,946) |
| Unrealized gains / (loss) on available-for-sale securities | 5 | 252 |
| Currency translation gain / (loss) | 119 | 3 |
| Other comprehensive income for the period: | 124 | 255 |
| Comprehensive income for the period: | (6,606) | (7,691) |

Notes to the Interim Consolidated Financial Statements

1) The Company

Innate Pharma (the "Company") is a French Société Anonyme incorporated and domiciled in Marseilles, France. The Company, founded in 1999, is listed on the NYSE-Euronext stock exchange in Paris, France, since 2006.

Innate Pharma is a biopharmaceutical firm specialized in immunology, developing first-in-class drug candidates. The Company works on immunotherapies, with two different approaches: immunomodulatory compounds, activating or inhibiting specific innate immunity cells, and cytotoxic antibodies (biological molecules directly targeting antigens expressed by cancer cells and, by doing so, destroying those cells). These approaches could have an application in several therapeutic areas such as cancer, inflammation or infectious diseases.

As at June 30, 2010 the Company had several products under development (none of which marketed yet) including two pre-clinical programs licensed to the Danish biopharmaceutical company Novo Nordisk A/S, a shareholder.

Currently, the Company's strategy is to develop its drug-candidates in cancer on its own or through partnerships, and through partnerships only for the other therapeutic areas.

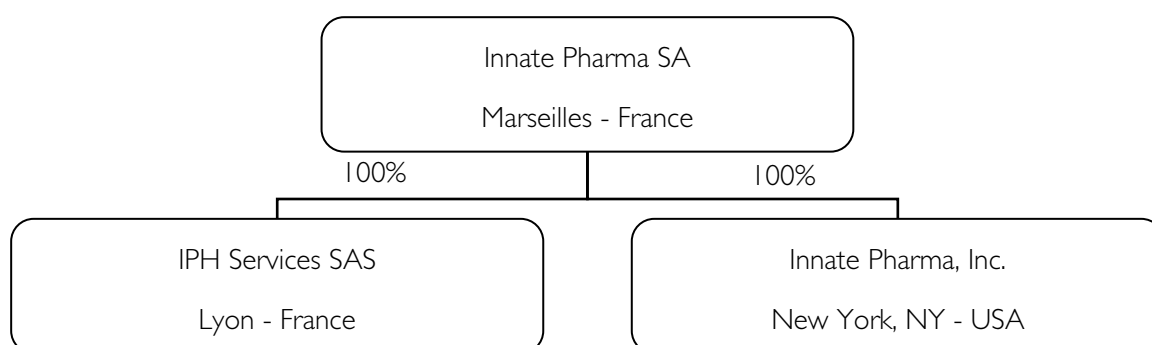
In the long run, the Company intends to become a commercial company, selling its product directly or through commercial partners. The Company is and should continue, in the near to mid-term, to be financed primarily through the issuance of new equity instruments as well as through partnering activity.

The Company's activity is not subject to seasonal fluctuations.

The Company has incorporated in 2008 two fully-owned subsidiaries: IPH Services SAS (previously Innate Pharma France SAS), a company which is intended to provide immuno-monitoring services to third-party clients, and Innate Pharma, Inc, registered in the Delaware, United States, to manage its business development activities in the United States.

These two companies are fully consolidated.

The organization chart of the Company and its subsidiaries as at June 30, 2010 is as follows:



The Executive Board has approved these interim consolidated financial statements presented under IFRS on August 27, 2010. They also have been examined by the Supervisory Board on the same day and subject of a limited review by the statutory auditors of the Company. They are not subject to approval by the General Meeting of shareholders.

2) Accounting policies

a) Basis of preparation

The interim financial statements for the six-month period ended 30 June 2010 have been prepared in accordance with IAS 34, *Interim Financial Reporting*. They should be read in conjunction with the annual consolidated financial statements as at 31 December 2009 prepared in accordance with IFRS as adopted by the European Union and presented in paragraph 20.1 of the "Document de Référence" submitted to the French stock-market regulator, the "Autorités des Marchés Financiers", on April 23, 2010.

b) Accounting policies

The accounting policies applied are the same as those adopted in the preparation of the annual financial statements in accordance with IFRS as adopted by the European Union as at December 31, 2009.

Application of the following existing standard amendment is mandatory for the first time for the financial period beginning on January 1, 2010 and, as such, has been adopted by the Company:

- IFRS 3 (revised), Business combinations and consequential amendments to IAS 27, Consolidated and separate financial statements, IAS 28, Investments in associates and IAS 31, Interests in joint ventures;
- IAS 39, Financial instruments: recognition and measurement – Amendment regarding eligible hedged items;
- IFRS 2009 annual improvement process;
- IFRIC 12, Service concession agreements;
- IFRIC 15, Agreements for the construction of real estate ;
- IFRIC 16, Hedges of a net investment in a foreign operation;
- IFRIC 17, Distributions of non-cash assets to owners; and
- IFRIC 18, Transfers of assets from customers.

None of these amendments is applicable to the Company's operations as of today.

As at June 30, 2010, estimate of the amount of research tax credit for the first half period is calculated on the basis of eligible expenses in the period (30% of these expenses). The same calculation applied for the six-month period ended June 30, 2009.

3) Cash, cash equivalents and current financial instruments

Cash and cash equivalents are composed by bank accounts and available-for-sale marketable securities.

Bank accounts are denominated in EUR and USD and were opened with Société Générale, Crédit Lyonnais and TD Bank.

Available-for-sale marketable securities owned by the Company are mainly composed of Société Générale and Crédit Lyonnais money market mutual funds. These funds have money market objectives and the funds' management target is to yield a return close to that of EONIA, the EU inter-bank reference rate.

Current financial instruments are broken down as follows (in thousands of euros):

| | June 30, 2010 | December 31, 2009 |
|--------------------------------------|---------------|-------------------|
| AMUNDI – TRESO 9 | 2,751 | 2,746 |
| Current financial instruments | 2,751 | 2,746 |

As at June 30, 2010, the Company had only one current financial instrument in its portfolio, the AMUNDI-TRESO 9 mutual fund, an instrument in which the Company has invested 2,589 thousand euros invested in December 2006.

The unrealized gain relating to this current financial instrument amounted to 162 thousand euros as at June 30, 2010, and was booked under the line item "Other comprehensive income" in the shareholders equity of the Company.

Amundi is an asset management company, co-owned by Société Générale and Crédit Agricole.

4) Current receivables and prepayments

Current receivables and prepayments are analyzed as follows (in thousands of euros):

| | June 30, 2010 | December 31, 2009 |
|--|---------------|-------------------|
| Prepayments made to suppliers | 114 | 299 |
| Trade account receivables | 86 | 683 |
| VAT refund | 767 | 1,058 |
| Grants and government subsidies | 476 | 372 |
| Prepaid expenses | 1,184 | 792 |
| Other receivables | 14 | 12 |
| Liquidity contract – Cash position | 52 | 122 |
| Research tax credit | 5,679 | 3,733 |
| Current receivables and prepayments | 8,372 | 7,071 |

The amounts booked as current receivables and prepayments as at June 30, 2010 have a maximum maturity of twelve months.

5) Property, plant and equipment

Property, plant and equipment can be broken down as follows (in thousands of euros):

| | Buildings | Equipment and machinery | In progress | Total |
|---|--------------|----------------------------|-------------|--------------|
| Year ended December 31, 2009 | | | | |
| Net opening balance | 1,581 | 1,913 | 5,029 | 8,523 |
| Reclassification | 5,029 | 21 | (5,029) | 21 |
| Acquisitions | - | 426 | - | 426 |
| Disposals | - | (15) | - | (15) |
| Depreciation | (373) | (639) | - | (1,012) |
| Net closing balance | 6,237 | 1,706 | - | 7,943 |
| 6-month period ended June 30, 2010 | | | | |
| Net opening balance | 6,237 | 1,706 | - | 7,943 |
| Reclassification | - | (37) | - | (37) |
| Acquisitions | - | 227 | 25 | 252 |
| Disposals | - | - | - | - |
| Depreciation | (187) | (302) | - | (489) |
| Net closing balance | 6,050 | 1,592 | 25 | 7,667 |

6) Trade payables

This line item is analyzed as follows (in thousands of euros):

| | June 30, 2010 | December 31, 2009 |
|----------------------------|---------------|-------------------|
| Suppliers | 5,171 | 6,022 |
| Tax and social liabilities | 1,049 | 1,765 |
| Other payables (subsidies) | 298 | 372 |
| Prepaid income | - | 210 |
| Trade payables | 6,518 | 8,369 |

7) Financial liabilities

This line item, per maturity, is analyzed as follows (in thousands of euros):

| | June 30, 2010 | December 31, 2009 |
|--|---------------|-------------------|
| Oséo | 18 | - |
| Other borrowings | 722 | 723 |
| Total – Current financial liabilities | 740 | 723 |
| Oséo | 2,456 | 2,364 |
| Other borrowings | 4,740 | 5,190 |
| Total – Non current financial liabilities | 7,196 | 7,554 |
| Total financial liabilities | 7,936 | 8,277 |

The amounts presented in current liabilities as at June 30, 2010 are to be repaid with twelve months.

The table below details the repayment schedule of the principal for the aforementioned borrowings (in thousand of euros):

| Repayment schedule | 2010 | 2011 | 2012 | 2013 | 2014 | Total |
|--------------------|------------|------------|--------------|--------------|--------------|--------------|
| Oséo | 18 | 20 | 469 | 618 | 1,349 | 2,474 |
| Other borrowings | 722 | 681 | 591 | 521 | 2,947 | 5,462 |
| Total | 740 | 701 | 1,060 | 1,139 | 4,296 | 7,936 |

The table below details the repayment schedule for the contractual flow (principal and interest) of the aforementioned borrowings (in thousand of euros):

| Repayment schedule | 2010 | 2011 | 2012 | 2013 | 2014 | Total |
|--------------------|------------|------------|--------------|--------------|--------------|--------------|
| Oséo | 18 | 20 | 469 | 618 | 1,349 | 2,474 |
| Other borrowings | 935 | 863 | 747 | 653 | 3,314 | 6,512 |
| Total | 953 | 883 | 1,216 | 1,271 | 4,663 | 8,986 |

8) Pension benefits

The Company's pension benefits correspond to indemnities due to employees who leave the Company in the context of their retirement. The Company uses an external actuary firm so as to evaluate this provision.

9) Capital

Share Capital

As at June 30, 2010, the share capital is composed by 37,686,794 common shares with a 0.05 euro par value, or a share capital amounting 1,884,339.70 euros. Compared to December 31, 2009, changes in the number of shares as well as on the share capital can be further analyzed as follows:

| | Number of shares outstanding | Share capital (in euros) |
|---|---------------------------------|-----------------------------|
| Opening balance: | 36,636,794 | 1,831,839.70 |
| Capital increase following the final acquisition of free shares (Executive Board dated March 26, 2010) | 1,043,140 | 52,157,00 |
| Capital increase following the final acquisition of free shares (Executive Board dated May 5, 2010) | 6,860 | 343,00 |
| Closing balance: | 37,686,794 | 1,884,339.70 |

Issuance of redeemable warrants ("BSAAR")

On June 18, 2010, the Company distributed 100 000 redeemable warrants ("BSAAR") to officers and certain employees, as per a delegation given by the General Meeting of shareholders dated June 23, 2009. All BSAAR were acquired by beneficiaries. Each BSAAR will give beneficiaries the option to acquire one new share of the Company at a price of 2.34 euros within the five years following their distribution.

The Company will have the right, at its sole option, to buy back the BSAAR from the beneficiaries at any given time after their distribution at a price of 0.01 euros per BSAAR. However, such a buy-back will only be possible if the average share price as calculated over ten working days within the twenty working days prior to the decision taken by the Company to use its right is above 3,51 euros, or 150% of the strike price.

This issuance of BSAAR, for which acquisition period closed on July 13, 2010, is a post balance sheet event and, as such, had no incidence on the accounts as at June 30, 2010.

Fully diluted capital

The number of shares that could be issued from the warrants already distributed (234,998), the stock-options distributed and vested (819,800) and the free shares already distributed but not yet vested (248,350) totaled 1,303,148, representing approximately 3.46% of the Company's share capital based on the existing number of shares at June 30, 2010 (i.e. 38,989,942 on a fully diluted basis).

This number does not take into account the authorized but not yet issued warrants ("BSA"; 350,000), nor the authorized but not yet distributed free shares (900), nor the BSAAR.

10) Cost of supplies and consumable materials, other purchases and external expenses

Cost of supplies and consumable materials consists mainly in procurement of the Company's drug substance and/or drug product manufactured by third-parties.

Other purchases and external expenses are analyzed as follows (in thousands of euros):

| | 6-month period ended June 30 | |
|---|------------------------------|----------------|
| | 2010 | 2009 |
| Subcontracting | (1,921) | (3,747) |
| Scientific advisory and consulting | (295) | (332) |
| Leasing, maintenance and utilities | (435) | (656) |
| Travel expenses and participation to congresses | (324) | (364) |
| Non-scientific advisory and consulting | (298) | (365) |
| Marketing, communication and public relations | (157) | (184) |
| Telecommunications and postal services | (44) | (51) |
| Insurance | (61) | (63) |
| Bank charges | (8) | (16) |
| Others, net | (28) | 27 |
| Other purchases and external expenses | (3,572) | (5,751) |

11) Employee benefits other than share-based compensation

The Company had 81 employees as at June 30, 2010, to be compared with 80 as at December 31, 2009.

12) Share-based compensation

The share-based compensation expenses are broken down as follows (in thousands of euros):

| | 6-month period ended June 30 | |
|---------------------------------|------------------------------|----------------|
| | 2010 | 2009 |
| Free shares 2007 and 2008 | - | (1,713) |
| Warrants - BSA 2007 | (16) | (30) |
| Warrants - BSA 2009 | (4) | (4) |
| Share-based compensation | (20) | (1,747) |

In 2009, the Company has decided to amend the vesting conditions of the free shares 2007 and 2008 distributed in 2008. In the six-month period ended June 30, 2009, the share-based compensation relating to these shares notably reflects the accelerated vesting of these shares. There shall be no additional share-based compensation expense in relation to the free shares 2007 and 2008 in the upcoming accounting periods.

13) Other income and other expenses

Other expenses are analyzed as follows (in thousands of euros):

| | 6-month period ended June 30 | |
|---------------------------------|------------------------------|--------------|
| | 2010 | 2009 |
| Taxes | (68) | (108) |
| Loss on the disposal of assets | - | (65) |
| Attendance fee | (57) | (52) |
| Loss on asset available to sale | (22) | |
| Others | (5) | - |
| Other expenses | (152) | (225) |

14) Financial income (expenses), net

Financial income and expenses can be analyzed as follows (in thousands of euros):

| | 6-month period ended June 30 | |
|--|------------------------------|-------------|
| | 2010 | 2009 |
| Interests paid on borrowings, including lease-financing agreements | (201) | (156) |
| Gains / (losses) on foreign exchange | 31 | 5 |
| Interest income and gains on sales of marketable securities | 149 | 109 |
| Financial income (expenses), net | (21) | (42) |

Interest income and gains on sales of marketable securities do not include the unrealized gain relating to current financial instruments amounting to 162 thousand euros as at 30 June 2010, as disclosed in Note 3.

Interest paid on borrowings, including lease-financing agreements, include notably the agreement for the lease-financing related to the acquisition and renovation of the Company's main premises.

15) Licensing revenue

For the six-month period ended June 30, 2010, the Company's licensing revenue relate mostly to collaboration and licensing agreements with Novo Nordisk A/S.

16) Commitments, contingencies and litigation

In the context of the lease-financing contract signed with SOGEBAIL for the financing of the acquisition and renovation of the main premises of the Company, a down-payment of 1,500 thousand euros was made to SOGEBAIL by the Company as a collateral to the lease-financing agreement. This deposit carries interests and is deducted (principal and interests) from the repayments of the lease-financing contract over its 12-year duration.

In January 2004, the Company has engaged into an exclusive license agreement with the German company Bioagency AG for all claims relating to two families of patents regarding the IPH 1201 drug candidate. Bioagency AG pretends to have unilaterally terminated this agreement in August 2009. The Company has immediately contested this termination and considers this agreement as being still in force. Bioagency AG has then started legal action in France against Innate Pharma for counterfeiting and is requesting 2.0 million euros in damages to the Company.

The Company considers firstly that Bioagency AG had no right to terminate the agreement and that, secondly, there has been no counterfeiting. In addition, Innate Pharma considers that the court before which Bioagency AG has started a legal action against the Company is, under the terms of the license agreement, not competent to solve a possible dispute between the two parties.

Innate Pharma has also engaged into a legal action against Bioagency AG considering that, by its action, it has had access to confidential information on research and development of IPH 1201 that could cause a serious prejudice to the Company. In this context, the Company is asking Bioagency AG for 6.0 million euros in damages.

The dispute is now in court. Considering the time taken by justice to resolve such disputes, the arguments developed by the Company and its advisors to contest the claims as well as the inherent uncertainty associated with such kind of dispute, the Company considers that this is a possible liability which has not be subject of a provision for risks in the accounts.

17) Related party transactions

The following compensations were expensed to the benefit of the members of the executive committee of the Company (in thousands of euros):

| | 6-month period ended June 30 | |
|---|------------------------------|--------------|
| | 2010 | 2009 |
| Salaries and short-term employee benefits other than share-based compensation | 781 | 526 |
| Extra pension benefits | 6 | 5 |
| Share-based compensation | - | 1,250 |
| Key management compensation | 787 | 1,781 |

18) Earnings per share

Basic

Basic earnings per share are calculated by dividing the net earnings attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

| | 6-month period ended June 30 | |
|--|------------------------------|---------|
| | 2010 | 2009 |
| Net loss for the period | (6,730) | (7,946) |
| Weighted average number of ordinary shares issued (in thousands) | 37,184 | 25,912 |
| Basic loss per share (per share) | (0.18) | (0.31) |

Diluted

Diluted loss per share are calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at June 30, 2010 and 2009, warrants, stock options and free shares had a relative impact.

| | 6-month period ended June 30 | |
|---|------------------------------|---------|
| | 2010 | 2009 |
| Net loss for the period | (6,730) | (7,946) |
| Weighted average number of ordinary shares issued (in thousands) | 37,184 | 25,912 |
| Adjustment for warrants, stock options and free shares (in thousands) | - | - |
| Diluted loss per share (per share) | (0.18) | (0.31) |

19) Post balance sheet events

Issuance of BSAAR, as described in Note 9.

20) Income statement by function

The income statement by function is set out below (amounts in thousands of euros):

| | 6-month period ended June 30 | |
|---|------------------------------|-----------------|
| | 2010 | 2009 |
| Revenue from collaboration and licensing agreements | 210 | 2,590 |
| Government financing for research expenditures | 2,264 | 2,507 |
| Other revenue | 1 | 62 |
| Operating revenue | 2,476 | 5,159 |
| Research and development expenses | (7,179) | (9,753) |
| General and administrative expenses | (2,005) | (3,311) |
| Net operating expenses | (9,184) | (13,064) |
| Operating income / (loss) | (6,709) | (7,904) |
| Financial income (expenses), net | (21) | (42) |
| Net income / (loss) | (6,730) | (7,946) |

IV. Declaration by the person responsible for this Interim Financial Report

I hereby declare, to the best of my knowledge, that the financial statements have been prepared in accordance with generally accepted accounting principles and give a true image of the assets, financial position and results of the company, and that the interim financial report reflects the changes in the Company's turnover, results and financial position and of all of the entities included within the consolidation scope as well as a description of the principle risks and uncertainties for the six months to come.

Chairman of the Executive Board

Mr. Hervé Brailly

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