Previous Six Months	High	Low	Average
March, 2003	1.1080	1.0570	1.0806
February, 2003	1.0875	1.0708	1.0785
January, 2003	1.0861	1.0361	1.0622
December, 2002	1.0485	0.9927	1.0194
November, 2002	1.0139	0.9895	1.0013
October, 2002	0.9881	0.9708	0.9812

The exchange rate for the Euro against the U.S. dollar as at March 31, 2003 was €0.918 to $1.00. The Company makes no representation that French franc amounts have been, could have been or could be converted into dollars at any of the exchange rates referred to herein as of a given date.

Risk Factors

Certain statements made in this Annual Report on Form 20-F are forward-looking statements based on our current expectations, assumptions, estimates and projections about our business and our industry. These forward-looking statements involve risks and uncertainties. Our business, financial condition and results of operations could differ materially from those anticipated in these forward-looking statements as a result of certain factors, as more fully described below and elsewhere in this Annual Report. You should consider carefully the risks and uncertainties described below, which are not the only ones facing our company. Additional risks and uncertainties also may impair our business operations.

The Loss Of One Of Our Major Customers Could Reduce Our Revenues Significantly.

Revenues from Servier represented approximately 48% of our total revenues for the year ended December 31, 2002. The loss of the licensing agreement with Servier or failure to obtain other significant contracts with other partners who would pay us similar amounts of revenue could cause our revenues to decrease significantly, resulting in losses from our operations. If we cannot broaden our customer base, we will continue to depend on a few customers for the majority of our revenues. We may be unable to negotiate favorable business terms with customers that represent a significant portion of our revenues. If we cannot, our revenues and gross profits may not grow as expected and may be insufficient to allow us to achieve sustained profitability.

We Intend to Rely On Third Parties To Market, Distribute And Sell The Products Incorporating Our Drug Delivery Technologies And Those Third Parties May Not Perform.

Our pharmaceutical company partners are expected to market and sell the products we develop and manufacture. If one or more of our pharmaceutical company partners fails to pursue the marketing of our products as ultimately negotiated, our revenues and gross profits may not reach our expectations, or may decline. We often cannot control the timing and other aspects of the development of products incorporating our technologies because our partners may have priorities that differ from ours. Therefore, our commercialization of products under development may be delayed unexpectedly. Because we incorporate our drug delivery technologies into the dosage forms of products marketed and which are expected to be ultimately sold by our pharmaceutical company partners, we will not have a

direct marketing channel to consumers for our drug delivery technologies. The marketing organizations of our partners may be unsuccessful, or they may assign a low level of priority to the marketing of our products that is different from our priorities. Further, they may discontinue marketing the products that incorporate our technologies. If marketing efforts for our products are not successful, our revenues may fail to grow as expected or may decline.

If We Do Not Enter Into Additional Collaborative Agreements with Pharmaceutical Companies, We May Not Be Able To Achieve Sustained Profitability.

We depend upon collaborative agreements with pharmaceutical companies to develop, test and obtain regulatory approval for, and commercialize forms of active pharmaceutical ingredients using our drug delivery technologies. The number of products that we successfully develop under these collaborative agreements will affect our revenues. If we do not enter into additional agreements in the future, or if our current or future agreements do not result in successful marketing of our products, our revenues and gross profits may be insufficient to allow us to achieve sustained profitability. We currently have collaborative agreements with Servier, GlaxoSmithkline, Merck, Corning, and a number of other undisclosed large pharmaceutical companies.

We face additional risks related to our collaborative agreements, including the risks that:

- any existing or future collaborative agreements may not result in additional commercial products;
- additional commercial products that we may develop may not be successful;
- we may not be able to meet the milestones established in our current or future collaborative agreements; and
- we may not be able to successfully develop new drug delivery technologies that will be attractive in the future to potential pharmaceutical company partners.

If We Cannot Attract And Retain Key Personnel On Which We Depend, We May Not Be Able To Execute Our Business Plan As Anticipated.

During our operating history, we have assigned many key responsibilities within our company to a relatively small number of individuals. If we lose the services of Dr. Gerard Soula, our Chief Executive Officer, Stephen Willard, our Chief Financial Officer and General Counsel, or Raphael Jorda, our Director of Manufacturing, we may have difficulty executing our business plan in the manner we currently anticipate. The competition for qualified personnel is intense and the loss of services of key personnel could adversely affect our business. We do not have employment agreements with these key personnel. We do not maintain key person life insurance for any of our key personnel.

We May Experience Significant Delays In Expected Product Releases While Our Pharmaceutical Company Partners Seek Regulatory Approvals For The Products We Develop And, If They Are Not Successful In Obtaining The Approvals, We May Be Unable To Achieve Our Anticipated Revenues And Profits.

In the United States, the federal government, principally the U.S. Food and Drug Administration (the “FDA”), and state and local government agencies regulate all new pharmaceutical products, including our existing products and those under development. Our pharmaceutical company partners may experience significant delays in expected product releases while attempting to obtain regulatory approval for the products we develop. If they are not successful, our revenues and

profitability may decline. We cannot control, and our pharmaceutical company partners cannot control, the timing of regulatory approval for the products we develop.

Applicants for FDA approval often must submit extensive clinical data and supporting information to the FDA. Varying interpretations of the data obtained from pre-clinical and clinical testing could delay, limit or prevent regulatory approval of a drug product. Changes in FDA approval policy during the development period, or changes in regulatory review for each submitted new drug application, also may cause delays or rejection of an approval. Even if the FDA approves a product, the approval may limit the uses or "indications" for which a product may be marketed, or may require further studies. The FDA also can withdraw product clearances and approvals for failure to comply with regulatory requirements or if unforeseen problems follow initial marketing.

Manufacturers of drugs also must comply with applicable good manufacturing practices requirements. If we cannot comply with applicable good manufacturing practices, we may be required to suspend the production and sale of our products, which would reduce our revenues and gross profits. We may not be able to comply with the applicable good manufacturing practices and other FDA regulatory requirements for manufacturing.

If our products are marketed in other jurisdictions, we, and the pharmaceutical company partners with whom we are developing our technologies, must obtain required regulatory approvals from foreign regulatory agencies and comply with extensive regulations regarding safety and quality. If approvals to market our products are delayed, if we fail to receive these approvals, or if we lose previously received approvals, our revenues would be reduced. We may be required to incur significant costs in obtaining or maintaining foreign regulatory approvals.

Our Commercial Products Are Subject To Continuing Regulations And We May Be Subject To Adverse Consequences If We Fail To Comply With Applicable Regulations.

Even if our products receive regulatory approval, either in the United States or internationally, we will continue to be subject to extensive regulatory requirements. These regulations are wide-ranging and govern, among other things:

- adverse drug experience reporting regulations;
- product promotion;
- product manufacturing, including good manufacturing practice requirements; and
- product changes or modifications.

If we fail to comply or maintain compliance with these laws and regulations, we may be fined or barred from selling our products. If the FDA determines that we are not complying with the law, it can:

- issue warning letters;
- impose fines;
- seize products or order recalls;
- issue injunctions to stop future sales of products;
- refuse to permit products to be imported into, or exported out of, the United States;
- totally or partially suspend our production;

- withdraw previously approved marketing applications; and
- initiate criminal prosecutions.

If We Cannot Develop Additional Products, Our Ability To Increase Our Revenues Would Be Limited.

We intend to continue to enhance our current technologies and pursue additional proprietary drug delivery technologies. If we are unable to do so, we may be unable to achieve our objectives of revenue growth and sustained profitability. Even if enhanced or additional technologies appear promising during various stages of development, we may not be able to develop commercial applications for them because:

- the potential technologies may fail clinical studies;
- we may not find a pharmaceutical company to adopt the technologies;
- it may be difficult to apply the technologies on a commercial scale; or
- the technologies may be uneconomical to market.

If We Cannot Keep Pace With The Rapid Technological Change And Meet The Intense Competition In Our Industry, We May Lose Business.

Our success depends, in part, on maintaining a competitive position in the development of products and technologies in a rapidly evolving field. If we cannot maintain competitive products and technologies, our current and potential pharmaceutical company partners may choose to adopt the drug delivery technologies of our competitors. Companies with oral drug delivery technology that can compete with our Micropump® technology include Eurand, Biovail and Andrx. Our Medusa® technology competes with technologies from companies such as Alkermes and SkyePharma. We also compete generally with other drug delivery, biotechnology and pharmaceutical companies engaged in the development of alternative drug delivery technologies or new drug research and testing. Many of these competitors have substantially greater financial, technological, manufacturing, marketing, managerial and research and development resources and experience than we do and represent significant competition for us.

Our competitors may succeed in developing competing technologies or obtaining governmental approval for products before us. The products of our competitors may gain market acceptance more rapidly than our products. Developments by competitors may render our products, or potential products, noncompetitive or obsolete.

If We Cannot Adequately Protect Our Technology And Proprietary Information, We May Be Unable To Sustain A Competitive Advantage.

Our success depends, in part, on our ability to obtain and enforce patents for our products, processes and technologies and to preserve our trade secrets and other proprietary information. If we cannot do so, our competitors may exploit our innovations and deprive us of the ability to realize revenues and profits from our developments.

Any patent applications we may have made or may make relating to our potential products, processes and technologies may not result in patents being issued. Our current patents may not be valid or enforceable. They may not protect us against competitors that challenge our patents, obtain patents

that may have an adverse effect on our ability to conduct business or are able to circumvent our patents. Further, we may not have the necessary financial resources to enforce our patents.

To protect our trade secrets and proprietary technologies and processes, we rely, in part, on confidentiality agreements with our employees, consultants and advisors. These agreements may not provide adequate protection for our trade secrets and other proprietary information in the event of any unauthorized use or disclosure, or if others lawfully develop the information.

Third Parties May Claim That Our Technologies, Or The Products In Which They Are Used, Infringe On Their Rights And We May Incur Significant Costs Resolving These Claims.

Third parties may claim that the manufacture, the use or the sale of our drug delivery technologies infringe on their patent rights. If such claims are asserted, we may have to seek licenses, defend infringement actions or challenge the validity of those patents in court. If we cannot obtain required licenses, are found liable for infringement or are not able to have these patents declared invalid, we may be liable for significant monetary damages, encounter significant delays in bringing products to market or be precluded from participating in the manufacture, use or sale of products or methods of drug delivery covered by the patents of others. We may not have identified, or be able to identify in the future, U.S. and foreign patents that pose a risk of potential infringement claims.

We enter into collaborative agreements with pharmaceutical companies to apply our drug delivery technologies to drugs developed by others. Ultimately, we receive license revenues and product development fees, as well as revenues from the sale of products incorporating our technology and royalties. The drugs to which our drug delivery technologies are applied are generally the property of the pharmaceutical companies. Those drugs may be the subject of patents or patent applications and other forms of protection owned by the pharmaceutical companies or third parties. If those patents or other forms of protection expire, are challenged or become ineffective, sales of the drugs by the collaborating pharmaceutical company may be restricted or may cease.

Because We Have A Limited Operating History, Investors In Our Shares May Have Difficulty Evaluating Our Prospects.

We recorded the first commercial sales of products using our polymer technology through our partner Corning in 1999. We have had no commercial sales to date of products incorporating either our Medusa® or Micropump® technology. Accordingly, we have only a limited operating history, which may make it difficult to evaluate our prospects. The difficulty investors may have in evaluating our prospects may cause volatile fluctuations, including decreases, in the market price of our Shares as investors react to information about our prospects. Since 1995, we have generated revenues from product development fees and licensing arrangements and royalties. We are currently making the transition from research and product development operations with limited production to commercial operations with expanding production capabilities in addition to research and product development activities. Our business and prospects, therefore, must be evaluated in light of the risks and uncertainties of a company with a limited operating history and, in particular, one in the pharmaceutical industry.

If We Do Not Remain Profitable In The Future, The Value Of Our Shares May Fall.

Although we earned an operating profit for the year ended December 31, 2002, we have accumulated aggregate net losses from inception of approximately $56.4 million. If we are unable to remain profitable in future periods, the market price of our stock may fall. The costs for research and product development of our drug delivery technologies and general and administrative expenses have

been the principal causes of our losses in prior years. Our ability to achieve sustained profitable operations depends on a number of factors, many of which are beyond our direct control. These factors include:

- the demand for our technologies and products;
- the level of product and price competition;
- our ability to develop additional commercial applications for our products;
- our ability to control our costs; and
- general economic conditions.

We May Require Additional Financing, Which May Not Be Available On Favorable Terms Or At All And Which May Result In Dilution Of Your Equity Interest.

We may require additional financing to fund the development and possible acquisition of new drug delivery technologies and to increase our production capacity beyond what is currently anticipated. If we cannot obtain financing when needed, or obtain it on favorable terms, we may be required to curtail our plans to develop and possibly to acquire new drug delivery technologies or limit the expansion of our manufacturing capacity. We believe our cash and cash equivalents, and expected revenues from operations will be sufficient to meet our anticipated capital requirements for the foreseeable future. However, we may elect to pursue additional financing at any time to more aggressively pursue development of new drug delivery technologies and expand manufacturing capacity beyond that currently planned.

Other factors that will affect future capital requirements and may require us to seek additional financing include:

- the level of expenditures necessary to develop and, or, acquire new products or technologies;
- the progress of our research and product development programs;
- results of our collaborative efforts with current and potential pharmaceutical company partners; and
- the timing of, and amounts received from, future product sales, product development fees and licensing revenue and royalties.

If The Marketing Claims Asserted About Our Products Are Not Approved, Our Revenues May Be Limited.

Once a drug product incorporating our technologies is approved by the FDA, the Division of Drug Marketing, Advertising and Communication, the FDA’s marketing surveillance department within the Center for Drug Evaluation and Research, must approve marketing claims asserted about it by our pharmaceutical company partners. If our pharmaceutical company partners fail to obtain from the Division of Drug Marketing acceptable marketing claims for a product incorporating our drug technology, our revenues from that product may be limited. Marketing claims are the basis for a product’s labeling, advertising and promotion. The claims our pharmaceutical company partners may

assert about our drug delivery technology, or the drug product itself, may not be approved by the Division of Drug Marketing.

We May Face Product Liability Claims Related To Participation In Clinical Trials Or The Use Or Misuse Of Our Products.

The testing, manufacturing and marketing of products using our drug delivery technologies may expose us to potential product liability and other claims resulting from their use. If any such claims against us are successful, we may be required to make significant compensation payments. Any indemnification that we have obtained, or may obtain, from contract research organizations or pharmaceutical companies conducting human clinical trials on our behalf may not protect us from product liability claims or from the costs of related litigation. Similarly, any indemnification we have obtained, or may obtain, from pharmaceutical companies with whom we are developing our drug delivery technologies may not protect us from product liability claims from the consumers of those products or from the costs of related litigation. If we are subject to a product liability claim, our product liability insurance may not reimburse us, or be sufficient to reimburse us, for any expenses or losses we may suffer. A successful product liability claim against us, if not covered by, or if in excess of, our product liability insurance, may require us to make significant compensation payments, which would be reflected as expenses on our statement of operations and reduce our earnings.

Our Share Price Has Been Volatile And May Continue To Be Volatile.

The trading price of our Shares has been, and is likely to continue to be, highly volatile. The market value of an investment in our Shares may fall sharply at any time due to this volatility. In the year ended December 31, 2002, the closing sale price for ADRs ranged from $4.85 to $1.22. In the year ended December 31, 2001, the closing sale price of our ADRs ranged from $7.06 to $0.94. The market prices for securities of drug delivery, biotechnology and pharmaceutical companies historically have been highly volatile. Factors that could adversely affect our Share price include:

- fluctuations in our operating results;
- announcements of technological collaborations, innovations or new products by us or our competitors;
- governmental regulations;
- developments in patent or other proprietary rights owned by us or others;
- public concern as to the safety of drugs developed by us or others;
- the results of pre-clinical testing and clinical studies or trials by us or our competitors;
- litigation;
- decisions by our pharmaceutical company partners relating to the products incorporating our technologies;
- actions by the FDA in connection with submissions related to the products incorporating our technologies; and
- general market conditions.

Our Operating Results May Fluctuate, Causing Our Share Price To Fall.

Fluctuations in our operating results may lead to fluctuations, including declines, in our Share price. Our operating results may fluctuate from quarter to quarter and from year to year depending on:

- demand by consumers for the products we produce;
- new product introductions;
- pharmaceutical company ordering patterns;
- the number of new collaborative agreements that we enter into;
- the number and timing of product development milestones that we achieve under collaborative agreements;
- the level of our development activity conducted for, and at the direction of, pharmaceutical companies under collaborative agreements; and
- the level of our spending on new drug delivery technology development and technology acquisition, and internal product development.

ITEM 4. Information on the Company

General Overview

Flamel Technologies S.A. is a biopharmaceutical company principally engaged in the development of two unique polymer-based delivery technologies for medical applications. Flamel's Micropump® technology is a multiparticulate technology for oral administration of small molecule drugs with applications in controlled release, tastemasking and bioavailability enhancement. Flamel's Medusa nano-particulate technology is designed to deliver therapeutic proteins, peptides and small molecules. Flamel's expertise in polymer science has also been instrumental in the development of a photochromic eyeglass lens product that was launched by Corning in 1999. Additionally, Flamel has developed new herbicide delivery systems and has patented a biomaterial, ColCys.

The Company currently has three major products based on its Micropump technology: Asacard®, a controlled-release formulation of aspirin for the treatment of cardiovascular disease, Metformin XL, a controlled-release form of Metformin currently in development for use for the treatment of Type II diabetes, and Genvir®, a controlled-release acyclovir for the treatment of genital herpes. The Company is in active discussions with a number of potential partners for the further development and registration of its controlled-release Metformin. Flamel intends to file for registration of Genvir in the United States once a partnership is established with a major pharmaceutical company with a substantial sales force. The Company is also in active discussions seeking to obtain a marketing partner for Asacard®.

Flamel's Medusa® technology permits the long-acting controlled release of proteins without the denaturation or other adverse effects on such proteins of certain other delivery systems. The Company's initial application of Medusa is Basulin™, a long-acting insulin for the treatment of diabetes. Since 1999, the Company worked with Novo Nordisk A/S to optimize the Medusa polymer