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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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**FORM 6-K**

**Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16  
of the Securities Exchange Act of 1934**

For the month of May 2005

**Flamel Technologies S.A.**

(Translation of registrant's name into English)

**Parc Club du Moulin à Vent  
33 avenue du Dr. Georges Levy  
69693 Vénissieux cedex France**  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F       Form 40-F

Indicate by check mark whether registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes       No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-\_\_\_\_

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## INFORMATION FILED WITH THIS REPORT

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- 99.1 Notice of an Ordinary and Extraordinary General Meeting of Shareholders on June 22, 2005
- 99.2 Draft Resolutions submitted to the Ordinary and Extraordinary General Meeting of Shareholders to be held on June 22, 2005
- 99.3 Draft Resolutions proposed by Oscar S. Schafer & Partners I LP, Oscar S. Schafer & Partners II LP and O.S.S. Overseas Fund Ltd submitted to the Ordinary and Extraordinary General Meeting of Shareholders to be held on June 22, 2005
- 99.4 Management Report prepared by the Board of Directors and presented to the Annual Ordinary General Shareholders' Meeting to be held on June 22, 2005
- 99.5 Chairman's Report on the Conditions of Preparation and Organization of the Board of Directors and on the Internal Control Procedures implemented by the Company, presented to the Ordinary General Shareholders' Meeting to be held on June 22, 2005
- 99.6 Board Report to be submitted to the Extraordinary Shareholders' Meeting to be held on June 22, 2005
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- 99.11 Letter of the Chairman to the Shareholders dated May 19, 2005

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 20, 2005

Flamel Technologies S.A.

By: /s/ Stephen H. Willard

Name: Stephen H. Willard

Title: Executive Vice President, Chief Financial Officer and  
General Counsel

**FLAMEL TECHNOLOGIES**

Société Anonyme with a share capital of 2,652,688.41 euros

Registered Office:

Parc Club du Moulin à Vent  
33, avenue du Docteur Georges Lévy  
69693 VENISSIEUX (France)

379 001 530 R.C.S. LYON

**NOTICE OF AN ORDINARY AND EXTRAORDINARY GENERAL  
MEETING OF SHAREHOLDERS  
ON JUNE 22, 2005**

**Sent by Mail**

Ladies and Gentlemen,

You are cordially invited to attend the General Meeting (the "Meeting") of the shareholders of FLAMEL TECHNOLOGIES (the "Company") which will be held on June 22, 2005 at 10:00 a.m. at the registered office of the Company, in order to deliberate on the agenda below.

This agenda includes, in addition to the resolutions proposed by the Board of Directors, and in accordance with the provisions of article L. 225-105 of the French Commercial (*Code de commerce*), four (4) draft resolutions proposed by Oscar S. Schafer & Partners I LP, Oscar S. Schafer & Partners II LP and O.S.S Overseas Fund Ltd, which have not been approved by the Board of Directors.

Ordinary Agenda:

- Reading of the Management Report of the Board of Directors and of the Statutory Auditor's general report relating to the financial year ended on December 31, 2004;
- Approval of the financial statements for the financial year ended on December 31, 2004; discharge of the directors and in accordance with Article 223 quater of the General Tax Code, approval of the expenses referred to in Article 39-4 of the General Tax Code;
- Allocation of the result for the financial year ended on December 31, 2004;
- Renewal of the directors' offices;
- Appointment of two new directors;
- Allocation of annual attendance fees;
- Reading of the Statutory Auditor's special report and approval and/or ratification of the agreements referred to in Articles L. 225-38 et seq. of the Commercial Code;

Extraordinary Agenda:

- Issuance of 120,000 warrants (BSA), at a subscription price of 0.01 euro each, reserved to Messrs. Cesan, Dearstyne, Greco, Treilles, Smith and Deming; reading of the report of the Board of Directors and the special report of the Statutory Auditor; cancellation, as a

consequence, of the preemptive rights of the shareholders, the warrant holders and any holder of any combined security, to the subscription of these warrants (BSA); authorizing the Board of Directors to proceed with the capital increase subsequent to the exercise of these warrants (BSA);

- Issuance of 80,000 warrants (BSA), at a subscription price of 0.01 euro each, reserved to Mr. James C. Smith and Mr. David Deming; reading of the report of the Board of Directors and the special report of the Statutory Auditor; cancellation, as a consequence, of the preemptive rights of the shareholders, the warrant holders and any holder of any combined security, to the subscription of these warrants (BSA); authorizing the Board of Directors to proceed with the capital increase subsequent to the exercise of these warrants (BSA);
- Increase of the share capital reserved to the Company's employees;
- Regularization of the issuance of 80,000 warrants (BSA) decided on June 22, 2004;
- Powers and proxies.

Additional resolutions proposed by Oscar S. Schafer & Partners I LP, Oscar S. Schafer & Partners II LP and O.S.S Overseas Fund Ltd (the "OSS Group"), shareholders of the Company, and not approved by the Board of Directors to be added to the Ordinary Agenda

- Removal and replacement of all directors whose office has been renewed or who have been elected upon proposal of the Board of Directors;
- Appointment of Mr. Cornelis Boonstra as a director of Flamel Technologies SA for a one-year term to expire at the end of the Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005;
- Appointment of Mr. Randy H. Thurman as a director of Flamel Technologies SA for a one-year term to expire at the end of the Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005;
- Appointment of Mr. Elie Vannier as a director of Flamel Technologies SA for a one-year term to expire at the end of the Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005.

The Board of Directors at a meeting held on May 18, 2005 decided not to approve the four (4) draft resolutions proposed by the OSS Group.

Please note that in the event that you are an ordinary shareholder and not able to attend the meeting, you may either grant a proxy to your spouse or to another shareholder, who will be attending the meeting, or vote by mail. You may also address a proxy to the Company without indicating any representative. In this latter case, please note that the Chairman of the meeting will thus: (i) vote in favor of the resolutions approved by the Board of Directors, and (ii) vote unfavorably for the other resolutions, which would have not been approved by the Board. If you wish to vote in another way, you shall give a proxy to a representative, who will agree to vote as you require.

Under no circumstances will you be allowed to return to the Company a document including both instructions of vote by mail and by proxy.

THE BOARD OF DIRECTORS

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**IMPORTANT:**

IF YOU EXPECT NOT TO BE PRESENT AT THE MEETING, YOU MAY COMPLETE AND PROMPTLY RETURN THE FORM OF PROXY AND VOTE BY MAIL (*DOCUMENT UNIQUE DE VOTE PAR CORRESPONDANCE ET PAR PROCURATION*), WHICH IS ENCLOSED FOR YOUR CONVENIENCE.

PLEASE NOTE THAT ANY ABSTENTION EXPRESSED IN THE FORM OF PROXY AND VOTE BY MAIL (*DOCUMENT UNIQUE DE VOTE PAR CORRESPONDANCE ET PAR PROCURATION*) OR RESULTING FROM THE ABSENCE OF INDICATION OF VOTE WILL BE DEEMED TO BE AN UNFAVORABLE VOTE TO THE PROPOSED RESOLUTION.

IF THE QUORUM FOR THE ORDINARY MEETING IS NOT MET ON JUNE 22nd 2005, SHAREHOLDERS WILL BE INVITED TO VOTE ON A MEETING WHICH WILL BE HELD ON JUNE 30TH, 2005, ON THE SAME AGENDA, AS DESCRIBED IN THIS NOTICE .

**Quorum required under French law**

The required quorum for ordinary resolutions is one fourth (25%) of the total outstanding shares. If such quorum is not met, the Board of Directors will give a second notice of Shareholders' meeting.

At this second Meeting, no quorum is required for ordinary resolutions.

The required quorum for extraordinary resolutions is one third (33%) of the total outstanding shares with voting rights, upon first call of the shareholders' meeting. If such quorum is not met, the Board of Directors will give a second notice of shareholders' meeting. At this second meeting, which shall not take place earlier than six days after the first meeting, the required quorum is one fourth (25%) of the total outstanding shares with voting rights.

**Enclosed documents:**

- Draft resolutions proposed by the Board of Directors to be submitted to the ordinary and extraordinary shareholders' meeting;
- Draft resolutions proposed by the OSS Group and the supporting statement (*exposé des motifs*);
- Management report of the Board of Directors for the financial year ended on December 31, 2004, including a summary statement of the Company's situation during the last financial year, accompanied with the report of the Chairman regarding the organization and preparation of the Board of Directors' work and the internal control procedures;
- Reports of the Board of Directors on the proposed issuance of warrants and subsequent capital increase;
- Special Report of the Chairman on Stock Options;
- Table of the Company's results for the last five financial years;
- Form of proxy and vote by mail;
- Document and information request form;
- Letter to the Shareholders from the Chairman.

**FLAMEL TECHNOLOGIES**

*Société Anonyme* with a stated capital of 2,652,688.41 euros

Registered Office:

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**DRAFT RESOLUTIONS SUBMITTED TO THE ORDINARY AND  
EXTRAORDINARY GENERAL SHAREHOLDERS' MEETING  
TO BE HELD ON JUNE 22, 2005**

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**- DRAFT RESOLUTIONS WITHIN THE COMPETENCE OF THE ORDINARY GENERAL  
SHAREHOLDERS' MEETING -**

**FIRST RESOLUTION**

The General Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, after having taken cognizance of the financial statements for the fiscal year ended on December 31, 2004, and having heard a reading of the Board of Directors' management report and of the general report of the Statutory Auditor pertaining to said fiscal year, approves, in their entirety, the said financial statements as they have been presented to it, as well as the transactions recorder in such financial statements and reports, which show a loss in the amount of (6,365,947.95) euros.

Accordingly, the General Shareholders' Meeting grants the Directors full discharge for the performance of their duties during said fiscal year.

Furthermore and in accordance with Section 223 *quater* of the General Tax Code, the General Shareholders' Meeting acknowledges that no extravagant expenses or charges as set forth at Section 39-4 of the General Tax Code were incurred during the fiscal year ended December 31, 2004.

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**SECOND RESOLUTION**

After having heard a reading of the Board of Directors' management report, the General Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, decides to allocate the loss for the financial year ended on December 31, 2004, amounting to (6,365,947.95) euros, to the carry forward account, which will then amount to (36,540,291) euros.

It is recalled, pursuant to article 243 *bis* of the General Tax Code, that no dividend was distributed for the fiscal years ended December 31, 2003, December 31, 2002 and December 31, 2001.

**THIRD RESOLUTION**

The General Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, after having heard a reading of the Board of Directors' management report, acknowledging that the term of the Director's office of Gérard Soula expires at the end of this meeting, decides to renew his office for one (1) year, to expire at the end of the General Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005.

Gérard Soula has declared that he complied with all the conditions required by applicable laws and regulations in order to hold such office.

**FOURTH RESOLUTION**

The General Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, after having heard a reading of the Board of Directors' management report, acknowledging that the term of the Director's office of Stephen Willard expires at the end of this meeting, decides to renew his office for one (1) year, to expire at the end of the General Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005.

Stephen Willard has declared that he complied with all the conditions required by applicable laws and regulations in order to hold such office.

**FIFTH RESOLUTION**

The General Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, after having heard a reading of the Board of Directors' management report, acknowledging that the term of the Director's office of Raul Cesan expires at the end of this meeting, decides to renew his office for one (1) year, to expire at the end of the General Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005.

Raul Cesan has declared that he complied with all the conditions required by applicable laws and regulations in order to hold such office.

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**SIXTH RESOLUTION**

The General Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, after having heard a reading of the Board of Directors' management report, acknowledging that the term of the Director's office of William Dearstyne expires at the end of this meeting, decides to renew his office for one (1) year, to expire at the end of the General Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005.

William Dearstyne has declared that he complied with all the conditions required by applicable laws and regulations in order to hold such office.

**SEVENTH RESOLUTION**

The General Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, after having heard a reading of the Board of Directors' management report, acknowledging that the term of the Director's office of Michel Greco expires at the end of this meeting, decides to renew his office for one (1) year, to expire at the end of the General Shareholders' Meeting called on to approve the financial statements for the fiscal year ending December 31, 2005.

Michel Greco has declared that he complied with all the conditions required by applicable laws and regulations in order to hold such office.

**EIGHTH RESOLUTION**

The General Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, after having heard a reading of the Board of Directors' management report, acknowledging that the term of the Director's office of Jean Noel Treilles expires at the end of this meeting, decides to renew his office for one (1) year, to expire at the end of the General Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005.

Jean Noel Treilles has declared that he complied with all the conditions required by applicable laws and regulations in order to hold such office.

**NINTH RESOLUTION**

The General Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, after having heard a reading of the Board of Directors' management report, decides to appoint Mr. James C. Smith as Director for a period of one (1) year, to expire at the end of the General Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005.

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**TENTH RESOLUTION**

The General Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, after having heard a reading of the Board of Directors' management report, decides to appoint Mr. David Deming as Director for a period of one (1) year, to expire at the end of the General Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005.

**ELEVENTH RESOLUTION**

After having heard a reading of the Board of Directors' management report, the General Shareholders' Meeting voting under the quorum and majority conditions for ordinary general meetings, decides to allocate to the Board of Directors a maximum aggregate amount of 240,000 euros as annual attendance fees (*jetons de presence*) for the fiscal year ending December 31, 2005.

The General Shareholders' Meeting acknowledges that the Board will determine the allocation and payment date of said attendance fees

**TWELFTH RESOLUTION**

After having heard a reading of the Board of Directors' management report, and the statutory auditor's special report regarding the agreements referred to in article L. 225-38 *et seq.* of the Commercial Code, the General Shareholders' Meeting voting under the quorum and majority conditions for ordinary general meetings, approves the agreements entered into or previously authorized and which remained into force during the fiscal year ended December 31, 2004, together with the transactions mentioned therein.

**- DRAFT RESOLUTIONS WITHIN THE COMPETENCE OF THE EXTRAORDINARY GENERAL  
SHAREHOLDERS' MEETING -**

**THIRTEENTH RESOLUTION**

After having heard a reading of the Board of Directors' report and of the Statutory Auditor's special report acknowledging that the share capital of the Company is fully paid up,

In accordance with the provisions of articles L. 225-138 and L.228-91 *et seq.* of the Commercial Code, the General Shareholders' Meeting, voting under the quorum and majority conditions for extraordinary general meetings, decides to proceed with the issuance of 120,000 warrants (BSA) for a subscription price of 0.01 euro each, to be paid up in cash, representing a maximum subscription amount of 1,200 euros which will be registered in a special reserve account labeled "issue premium" which will carry rights for all shareholders.

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The General Shareholders' Meeting decides to cancel the preferential right of subscription attributed to the shareholders by article L. 225-132 of the Commercial Code and to reserve the subscription of these 120,000 warrants (BSA), to the following beneficiaries and in the following proportion:

- 20,000 warrants (BSA) to Mr. Raul Cesan,
- 20,000 warrants (BSA) to Mr. Michel Greco,
- 20,000 warrants (BSA) to Mr. William Dearstyne,
- 20,000 warrants (BSA) to Mr. Jean-Noël Treilles,
- 20,000 warrants (BSA) to Mr. James C. Smith,
- 20,000 warrants (BSA) to Mr. David Deming.

The General Shareholder's Meeting decides that each warrant (BSA) will give its holder, subject to the terms and conditions set forth hereafter, the right to subscribe to one share of the Company for a subscription price which shall be the market price for the share, in the form of ADS, on the NASDAQ, on the closing of the trades on June 21<sup>st</sup> 2005, provided that such price shall not be less than 80% of the average of the market price for the share on the NASDAQ, in the form of ADS, during the last twenty trading days preceding such meeting. In this case, the price for the share shall be equal to 80% of the average of the market price for the share on the NASDAQ, in the form of ADS, during the last twenty trading days preceding such meeting.

The General Shareholders' Meeting resolves that the shares thus subscribed upon exercise of the warrants (BSA) shall be fully paid up on the date of their subscription, either in cash or by offset of debt in the conditions laid down by law.

The General Shareholders' Meeting decides to set the dates of opening and closing of the subscription period for these warrants (BSA) as commencing on the day of this General Shareholders' Meeting and closing on July 31<sup>st</sup> 2005.

The General Shareholders' Meeting decides that each warrant (BSA) may be exercised by its holder as from the date of the annual General Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005 and within five years from its issuance date, and only if its holder is still a member of the Board of Directors of the Company on the day of such exercise.

If its holder fails to exercise the warrant in whole or in part at the expiry of the above mentioned period, the warrant (BSA) and the attached right to subscribe will lapse automatically.

The General Shareholders' Meeting decides that, as of, at the issuance date of the warrants (BSA), the Company will be entitled to:

- conduct any change in its corporate organization,
  - conduct any change in its corporate purpose,
  - change the allocation rule of its profits and to redeem its share capital, subject to the Company taking all the necessary measures to protect the warrants holders pursuant to article L.228-99 of the Commercial Code,
  - issue preferred shares subject to the Company taking all the necessary measures to protect the warrants holders pursuant to article L. 228-99 of the Commercial Code.
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The General Shareholders' Meeting decides that, in the event the Company issues, under any circumstances, new shares with a preferential right to subscribe reserved to its shareholders, or if the Company conducts a distribution of its reserves, in cash or in kind, and of its share premiums or if the Company changes the allocation of its profits through the issuance of preferred shares, the Company will take all the necessary measures to protect the interests of the warrants' holders pursuant to the provisions of article L.228-99 of the Commercial Code.

The General Shareholders' Meeting decides that, in the case of a capital reduction, motivated or not by losses, and conducted through either a decrease of the par value of the shares or a decrease of the number of shares, the warrants holders' rights will be decreased accordingly as if they had been exercised, before the date when the capital decrease has become final.

The General Shareholders' Meeting acknowledges that, pursuant to the provisions of article L. 228-103 *et seq.* of the Commercial Code, the warrants' holders will all be grouped together in order to defend their common interests, in an assembly (a "*masse*") with a civil personality. General warrants holders meetings will be convened to authorize any changes in the issuance terms and conditions and to decide on any decision regarding the conditions of subscription or allocation of the shares as set forth at the time issuance took place. Each warrant will give access to one voting right. The conditions regarding the quorum and the majority will be those determined in the second and third paragraph of article L. 225-98 of the Commercial Code. The expenses incurred in connection with such meetings, as well as, generally, any expenses in connection with the assembly ("*masse*") will be borne by the Company.

The General Shareholders' Meeting, consequently and in accordance with article L. 225-91 of the Commercial Code, decides the issue of a maximum of 120,000 new ordinary shares of an approximate nominal value of 0.12 euro each to which exercise of warrants (BSA) will give rise, that is, a capital increase of an approximate maximum nominal amount of 14,400 euros, without taking into account, as the case may be, any additional shares that may be issued to protect the interests of the warrants' holders pursuant to the provisions of article L.228-99 of the Commercial Code.

The General Shareholders' Meeting decides that the new shares remitted to the subscriber on exercise of the warrant will be subject to all the provisions of the bylaws of the Company and will carry distribution rights from the date of their creation,

In accordance with Article L. 225-132 paragraph 6 of the Commercial Code, the decision of the General Shareholders' Meeting automatically entails the waiver by the shareholders of their preferential rights in respect of the shares which may be issued upon exercise of the warrants (BSA), for the benefit of the holders of the above-mentioned 120,000 warrants (BSA), namely Messrs. Cesan, Greco, Dearstyne, Treilles, Smith and Deming.

The General Shareholder's Meeting decides to grant the Board of Directors with all necessary powers to implement this decision under the terms and conditions set by the present resolution and by law, and in particular:

- to issue the warrants (BSA), fix the issue price of the shares to be subscribed upon exercise of the warrants (BSA), the dates, periods and conditions of subscription and final details of the issue within the limits laid down by this general meeting of shareholders, to allocate the issue premium,
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- close the subscription period early or extend its date, if required,
- to gather the subscriptions and payments in respect of the subscription for the aforementioned warrants (BSA),
- to record the number of shares issued on exercise of the warrants (BSA) and carry out any formalities resulting from the corresponding increases in share capital and make the corresponding amendments to the bylaws,
- to take any action required to ensure the protection of the warrant holder in the event of financial operations relating to the Company, in accordance with the legal and regulatory provisions in force, and

generally, to take any action and carry out any formality which is useful in respect of this issue.

#### **FOURTEENTH RESOLUTION**

After having heard a reading of the Board of Directors' report and of the Statutory Auditor's special report acknowledging that the share capital of the Company is fully paid up,

In accordance with the provisions of articles L. 225-138 and L.228-91 *et seq.* of the Commercial Code , the General Shareholders' Meeting, voting under the quorum and majority conditions for extraordinary general meetings, decides to proceed with the issuance of 80,000 warrants (BSA) for a subscription price of 0.01 euro each, to be paid up in cash, representing a maximum subscription amount of 800 euros which will be registered in a special reserve account labeled "issue premium" which will carry rights for all shareholders.

The General Shareholders' Meeting decides to cancel the preferential right of subscription attributed to the shareholders by article L. 225-132 of the Commercial Code and to reserve the subscription of these 80,000 warrants (BSA), to the following beneficiaries and in the following proportion:

- 40,000 warrants (BSA) to Mr. James C. Smith,
- 40,000 warrants (BSA) to Mr. David Deming.

The General Shareholder's Meeting decides that each warrant (BSA) will give its holder, subject to the terms and conditions set forth hereafter, the right to subscribe to one share of the Company for a subscription price which shall be the market price for the share, in the form of ADS, on the NASDAQ, on the closing of the trades on June 21<sup>st</sup> 2005, provided that such price shall not be less than 80% of the average of the market price for the share on the NASDAQ, in the form of ADS, during the last twenty trading days preceding such meeting. In this case, the price for the share shall be equal to 80% of the average of the market price for the share on the NASDAQ, in the form of ADS, during the last twenty trading days preceding such meeting.

The General Shareholders' Meeting resolves that the shares thus subscribed upon exercise of the warrants (BSA) shall be fully paid up on the date of their subscription, either in cash or by offset of debt in the conditions laid down by law.

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The General Shareholders' Meeting decides to set the dates of opening and closing of the subscription period for these warrants (BSA) as commencing on the day of this General Shareholders' Meeting and closing on July 31<sup>st</sup> 2005.

The General Shareholders' Meeting decides that each warrant (BSA) may be exercised by its holder as from the date of the annual General Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005 and only if its holder is still a member of the Board of Directors of the Company on the day of such exercise.

The warrants (BSA) may be exercised, in whole or in part, in accordance with the following schedule:

- up to 25% as from the date of the annual General Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005,
- then, the balance, up to additional 25 % per year for each year expired as from the starting date mentioned above, and
- within 5 years from the issuance date.

If its holder fails to exercise the warrant in whole or in part at the expiry of the above mentioned period, the warrant (BSA) and the attached right to subscribe will lapse automatically.

The General Shareholders' Meeting decides that, as of, at the issuance date of the warrants (BSA), the Company will be entitled to:

- conduct any change in its corporate organization,
- conduct any change in its corporate purpose,
- change the allocation rule of its profits and to redeem its share capital, subject to the Company taking all the necessary measures to protect the warrants holders pursuant to article L.228-99 of the Commercial Code,
- issue preferred shares subject to the Company taking all the necessary measures to protect the warrants holders pursuant to article L. 228-99 of the Commercial Code.

The General Shareholders' Meeting decides that, in the event the Company issues, under any circumstances, new shares with a preferential right to subscribe reserved to its shareholders, or if the Company conducts a distribution of its reserves, in cash or in kind, and of its share premiums or if the Company changes the allocation of its profits through the issuance of preferred shares, the Company will take all the necessary measures to protect the interests of the warrants' holders pursuant to the provisions of article L.228-99 of the Commercial Code.

The General Shareholders' Meeting decides that, in the case of a capital reduction, motivated or not by losses, and conducted through either a decrease of the par value of the shares or a decrease of the number of shares, the warrants holders' rights will be decreased accordingly as if they had been exercised, before the date when the capital decrease has become final.

The General Shareholders' Meeting acknowledges that, pursuant to the provisions of article L. 228-103 *et seq.* of the Commercial Code, the warrants' holders will all be grouped together in order to defend their

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common interests, in an assembly (a “*masse*”) with a civil personality. General warrants holders meetings will be convened to authorize any changes in the issuance terms and conditions and to decide on any decision regarding the conditions of subscription or allocation of the shares as set forth at the time issuance took place. Each warrant will give access to one voting right. The conditions regarding the quorum and the majority will be those determined in the second and third paragraph of article L. 225-98 of the Commercial Code. The expenses incurred in connection with such meetings, as well as, generally, any expenses in connection with the assembly (“*masse*”) will be borne by the Company.

The General Shareholders’ Meeting, consequently and in accordance with article L. 225-91 of the Commercial Code, decides the issue of a maximum of 80,000 new ordinary shares of an approximate nominal value of 0.12 euro each to which exercise of warrants (BSA) will give rise, that is, a capital increase of an approximate maximum nominal amount of 9,600 euros, without taking into account, as the case may be, any additional shares that may be issued to protect the interests of the warrants’ holders pursuant to the provisions of article L.228-99 of the Commercial Code.

The General Shareholders’ Meeting decides that the new shares remitted to the subscriber on exercise of the warrant will be subject to all the provisions of the bylaws of the Company and will carry distribution rights from the date of their creation,

In accordance with Article L. 225-132 paragraph 6 of the Commercial Code, the decision of the General Shareholders’ Meeting automatically entails the waiver by the shareholders of their preferential rights in respect of the shares which may be issued upon exercise of the warrants (BSA), for the benefit of the holders of the above-mentioned 80,000 warrants (BSA), namely Mr. Smith and Mr. Deming.

The General Shareholder’s Meeting decides to grant the Board of Directors with all necessary powers to implement this decision under the terms and conditions set by the present resolution and by law, and in particular:

- to issue the warrants (BSA), fix the issue price of the shares to be subscribed upon exercise of the warrants (BSA), the dates, periods and conditions of subscription and final details of the issue within the limits laid down by this general meeting of shareholders, to allocate the issue premium,
- close the subscription period early or extend its date, if required,
- to gather the subscriptions and payments in respect of the subscription for the aforementioned warrants (BSA),
- to record the number of shares issued on exercise of the warrants (BSA) and carry out any formalities resulting from the corresponding increases in share capital and make the corresponding amendments to the bylaws,
- to take any action required to ensure the protection of the warrant holder in the event of financial operations relating to the Company, in accordance with the legal and regulatory provisions in force, and

generally, to take any action and carry out any formality which is useful in respect of this issue.

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**FIFTEENTH RESOLUTION**

The General Shareholders' Meeting, after having heard a reading of the Board of Directors' report and of the special report of the Statutory Auditors', voting under the quorum and majority conditions for extraordinary general meetings, and in accordance with the provisions of Articles L. 225-129-6 and L. 225-138-1 of the Commercial Code and Article L. 443-5 *et seq.* of the Labor Code, authorizes the Board of Directors and delegates to it the powers necessary to increase the share capital, in one or several times, in a maximum nominal amount of 1% of the Company's share capital, by the issuance of new shares at par value to be paid in cash and reserved to the Company's employees having subscribed to a company savings plan.

The General Shareholders' Meeting decides to cancel, in favor of those employees, the preferential subscription rights of the shareholders to the shares to be issued for cash under this resolution.

This authorization is granted for a term of 26 months years starting from the date of this as of the day of this General Shareholders' Meeting.

The General Shareholders' Meeting decides that the subscription price per share for the shares issued, shall be determined by the Board of Directors in accordance with Article L. 443-5 of the Labor Code, under the supervision of the statutory auditor.

The General Shareholders' Meeting decides to grant the Board of Directors with all powers necessary to implement this resolution in accordance with applicable laws and regulations, and subject to the limitations and conditions specified above, and in particular to:

- increase the share capital in a maximum nominal amount of 1% of the share capital, as of December 31, 2004, i.e., 26,526.41 euros, at its sole discretion and in one or several times, by way of the issuance of new shares at their par value, which will have to be fully paid-up upon subscription,
- set the amount of the subscription price, in accordance with the conditions set forth at in article L. 443-5 of the Labor Code, under the supervision of the statutory auditor, and the number of shares granted to each beneficiary, pursuant to article L. 225-138 of the Commercial Code,
- set the dates of commencement and close of subscriptions,
- inform the Company's employees, close the subscriptions in advance once all of the new shares have been subscribed,
- receive the payments, deposit the funds in accordance with the law, and

generally, amend the bylaws accordingly, take any action and carry out any formality which is useful in respect of this issue.

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**SIXTEENTH RESOLUTION**

The General Shareholders' Meeting, voting under the quorum and majority conditions for extraordinary general meetings,

acknowledging that, pursuant to Articles L. 225-121, L. 225-105 and L. 225-129-6 of the Commercial Code, the deliberation relating to the twelfth and fourteenth resolutions of the Extraordinary General Shareholders' Meeting held on June 22, 2004 may result in the voidability of the capital increase decision made in the course of that General Shareholders' Meeting,

decides, pursuant to Articles L. 235-3 and L. 235-4 of the Commercial Code, and in accordance with Article L. 225-129-6 of the Commercial Code, that the proposal made to the present Shareholders' Meeting to vote on the fifteenth resolution above (i) entails, on the one hand, the regularization of the decisions made by the combined General Shareholders' Meeting held on June 22, 2004 pursuant to its twelfth and fourteenth resolutions, which decided one capital increase, and (ii) on the other hand, discharges the obligations imposed by Article L. 225-129-6 of the Commercial Code with regard to the capital increases listed on the agenda of the present meeting, pursuant to its thirteenth and fourteenth resolutions.

**SEVENTEENTH RESOLUTION**

The General Shareholders' Meeting grants a power of attorney to the bearer of an original, an excerpt or a copy hereof, in order to effect all publication, filing and other formalities required by law.

**- DRAFT RESOLUTIONS PROPOSED BY OSCAR S. SCHAFER & PARTNERS I LP, OSCAR S. SCHAFER & PARTNERS  
II LP AND O.S.S OVERSEAS FUND Ltd TO THE GENERAL SHAREHOLDERS' MEETING AND NOT APPROVED BY THE  
BOARD OF DIRECTORS -**

**EIGHTEENTH RESOLUTION**

Subject to the approval of any resolution proposed by the Board of Directors proposing either (1) the renewal of the offices of Messrs. Gérard Soula, Stephen Willard, Raul Cesan, William Dearstyne, Michel Greco, and Jean-Nöel Treilles, as directors, or (2) the election of any other persons as directors, the Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, decides, pursuant to article L. 225-105 of the Code de commerce, to remove and replace all such directors.

**NINETEENTH RESOLUTION**

The Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, decides, pursuant to article L. 225-18 of the Code de commerce and Article 13 of the Bylaws (*statuts*) of Flamel Technologies SA, to elect Mr. Cornelis Boonstra as a director of Flamel Technologies

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SA for a one-year term to expire at the end of the Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005.

**TWENTIETH RESOLUTION**

The Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, decides, pursuant to article L. 225-18 of the Code de commerce and Article 13 of the Bylaws (*statuts*) of Flamel Technologies SA, to elect Mr. Randy H. Thurman as a director of Flamel Technologies SA for a one-year term to expire at the end of the Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005.

**TWENTY-FIRST RESOLUTION**

The Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, decides, pursuant to article L. 225-18 of the Code de commerce and Article 13 of the Bylaws (*statuts*) of Flamel Technologies SA, to elect Mr. Elie Vannier as a director of Flamel Technologies SA for a one-year term to expire at the end of the Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005.

**Reasons (*l'expose des motifs*) for the Draft Resolutions Proposed by Oscar S. Schafer & Partners I LP, Oscar S. Schafer & Partners II LP and O.S.S. Overseas Fund Ltd (collectively, the "OSS Shareholders").**

Flamel's technology has the potential to revolutionize drug delivery. Flamel has entered into partnerships with many leading pharmaceutical companies. These partnerships apply Flamel's technologies to improve the bioavailability, extend the effectiveness, and increase the patient compliance of major drugs. The OSS Shareholders believe that the potential exists for Flamel to partner with many additional companies. However, we believe that these potential opportunities are not being sufficiently developed, which has led to the steep decline in Flamel's share price.

In light of this, we are proposing new directors to replace the existing board of directors. The OSS Shareholders believe the new directors will provide the strategic leadership and direction to enable management to unlock Flamel's enormous potential and realize its long-term value for shareholders.

The OSS shareholders hereby are proposing a three-person board of directors who can help the company open doors to potential partners, and provide sufficient strategic direction to the management. Each director has broad experience in a variety of industries with a proven track record of creating shareholder value. In particular:

- Randy H. Thurman has both deep experience in the pharmaceutical and medical technology industries and has successfully served as the lead director of Valeant Pharmaceuticals International, Inc, after having led a successful dissident proxy contest for Valeant.
- Cornelis (Cor) Boonstra has a lifetime of marketing experience and is widely credited with having revitalized the fortunes of Philips Electronics NV during his tenure as Chairman and Chief Executive Officer from 1996 to April 2001.
- Elie Vannier has deep operating and financial experience, having been both a business executive and a banker. He has also served as chairman of the French Center for the Study of Corporate Governance.

It is expected that this three-person board, if elected, may take the subsequent actions necessary (including calling an extraordinary shareholder meeting) to increase the size of the board and elect additional directors, which may include one or more members of the current board of directors.

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**FLAMEL TECHNOLOGIES SA**  
Société Anonyme with a share capital of € [2,608,782.48]  
Registered office:  
Parc Club du Moulin á Vent  
33, avenue du Docteur Georges Lévy  
69693 VENISSIEUX (France)  
  
379 001 530 R.C.S. LYON

**Draft Resolutions proposed by Oscar S. Schafer & Partners I LP, Oscar S. Schafer & Partners II LP, and O.S.S. Overseas Fund Ltd, acting *de concert* within the meaning of Art. L. 233-10 of the French Commercial Code, to be submitted to the General Meeting of Shareholders dated June \_\_, 2005, pursuant to Art. L. 225-105 of the French Commercial Code.**

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### **1st Resolution**

*(Removal of Directors)*

Subject to the approval of any resolution proposed by the Board of Directors proposing either (1) the renewal of the offices of Mssrs. Gérard Soula, Steve Willard, Raul Cesan, William Dearstyne, Michel Greco, and Jean-Noël Treilles, as directors, or (2) the election of any other persons as directors, the Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, decides, pursuant to the provisions of Article L. 225-105 of the *Code de commerce*, to remove and replace all such directors.

### **2nd Resolution**

*(Election of Mr. Cornelis ("Cor") Boonstra)*

The Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, decides, pursuant to the provisions of Article L. 225-18 of the *Code de commerce* and Article 13 of the Bylaws (*Statuts*) of Flamel Technologies SA, to elect Mr. Cornlis Boonstra as a director of Flamel Technologies SA for a one-year term to expire at the end of Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005.

### **3rd Resolution**

*(Election of Mr. Randy H. Thurman)*

The Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, decides, pursuant to the provisions of Article L. 225-18 of the *Code de commerce* and Article 13 of the Bylaws (*Statuts*) of Flamel Technologies SA, to elect Mr. Randy H. Thurman as a director of Flamel Technologies SA for a one-year term to expire at the end of

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Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005.

**4th Resolution**

*(Election of Mr. Elie Vannier)*

The Shareholders' Meeting, voting under the quorum and majority conditions for ordinary general meetings, decides, pursuant to the provisions of Article L. 225-18 of the *Code de commerce* and Article 13 of the Bylaws (*Statuts*) of Flamel Technologies SA, to elect Mr. Elie Vannier as a director of Flamel Technologies SA for a one-year term to expire at the end of Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005.

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**Biographical Information on Nominees For Director.**

(including information required by Art. 135 of Décret N°67-236, dated March 23,1967)

**Cornelis (Cor) Boonstra (Age: 67).**

Cornelis (Cor) Boonstra is the former Chairman and Chief Executive Officer of Philips Electronics NV, the Dutch consumer electronics group. Mr. Boonstra served as Chairman and CEO of Philips Electronics NV from 1996 to April 2001. Before joining Philips in 1994, as President of Philips Lighting Holding BV, Mr. Boonstra was President and Chief Operating Officer of Sara Lee Corporation, where he had worked in various positions since 1974, including Chairman of Sara Lee Douwe Egberts (1982-1988) and Executive Vice President Sara Lee Corporation (1988-1993).

Mr. Boonstra currently serves on the boards of directors of Hunter Douglas NV, a Dutch manufacturer of window coverings and architectural products, and Koop Holding, a Dutch civil and hydraulic engineering and pipeline construction company with sales over \$1 billion, of which Mr. Boonstra is the majority shareholder. Previously, Mr. Boonstra has served on the board of directors of ING Bank, Vendex, Playtex Corporation, Polygram, Seagram and Royal Ahold.

Mr. Boonstra holds a PhD degree in economics from the University of Rochester. Mr. Boonstra is a Dutch citizen.

**Randy H. Thurman (Age: 56).**

Randy Thurman is Chairman, President and Chief Executive Officer of VIASYS Healthcare Inc., a global research-based medical technology company focused on respiratory, neurocare and medical/surgical products. Mr. Thurman joined VIASYS as Chief Executive Officer at the start of 2001 and led the consolidation of 15 independent companies and the subsequent successful public offering of VIASYS on the New York Stock Exchange in 2001.

Prior to joining VIASYS Healthcare, Inc., Mr. Thurman was Chief Executive Officer of Strategic reserves LLC and participated in several entrepreneurial ventures including the start-up of two medical device companies, two genomics companies, and, as Chairman of the Board of Enzon Inc. from 1994 to 2001, guided their growth from a \$70 million market capitalization to over \$2.5 billion. Prior to that, from 1993 to 1996, Mr. Thurman was Chairman and Chief Executive Officer of Corning Life Sciences Inc. From 1984 until 1993, Mr. Thurman held various positions, most recently President, at Rhone-Poulenc Rorer Pharmaceuticals and its predecessor companies. Mr. Thurman led Rorer Pharmaceuticals Inc.'s successful acquisition of Revlon Healthcare and its subsequent merger with Rhône-Poulenc.

Mr. Thurman is a director of Closure Medical Corporation and is the lead director of Valeant Pharmaceuticals International, Inc. Mr. Thurman led the dissident proxy contest for Valeant, which resulted in the slate of dissident directors winning by a larger margin of victory than in any previous proxy contest. Previously, Mr. has served as a director of Cooper

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Companies Inc. (NYSE: COO), a medical equipment and supplies company, and Immune Products Limited.

Mr. Thurman holds a B.S. degree in Economics from Virginia Polytechnic Institute and an M.A. in Management from Webster University. Mr. Thurman also graduated with distinction from the United States Air Force Air Command and Staff College. During the Viet Nam war, he flew 145 missions as a fighter. Mr. Thurman is a U.S. citizen.

**Elie Vannier (Age: 56).**

Elie Vannier has been Chief Operating Officer of Grandvision SA, the French optical retailing group, since 2001. Grandvision was acquired in 2004 by its senior management and the Dutch investment group HAL. From 1997 to 2001, Mr. Vannier was Chief Financial Officer and Senior Executive Vice President of Grandvision.

From 1991 until 1996, Mr. Vannier was a banker with Morgan Grenfell, serving as a director of Morgan Grenfell & Co. (London) and Chief Executive Officer of Morgan Grenfell France SA. Prior to that, from 1988-1991, Mr. Vannier was in charge of diversification at Strafor-Facom, a manufacturer of hand tools, office furniture and partition systems, and the chief executive officer of one of its five industrial divisions. Previously, from 1969 to 1988, Mr. Vannier held various positions as a reporter, editor and finally President for News for the French national television network.

Mr. Vannier is a member of the Supervisory Board of Promod, a leading French fashion retailer, and serves as the chairman of its compensation committee. He has previously served as a director of Puiforcat SA (now owned by Hermès), Jean-Charles de Castelbajac (a fashion designer), Peter Chadwick Limited (now part of Novell), RFM (a Radio Network), Delsey (a luggage manufacturer) and CMC Telecom (a service provider in GSM telephony). Mr. Vannier is the former chairman of the French Center for the Study of Corporate Governance, former nonexecutive chairman of Groupe des Publications Fiduciaires and the former chairman of Fondation Hépatite-Biliaire, a medical foundation that built and runs one of the largest liver transplant facilities in the world.

Mr. Vannier holds a *Maîtrise de droit* (LLD) and *Diplôme d'Etudes Supérieures* (doctoral masters) in law and political science from *Université Paris I Panthéon Sorbonne*. Mr. Vannier has formerly served as a Professor at the *Institut d'Etudes Politiques de Paris* (Sciences Po.) and at the *Ecole Supérieure de Guerre et d'Etat Major* (French Army War and Staff College). Mr. Vannier is a French citizen.

\* \* \* \* \*

Each of Mssrs. Boonstra, Thurman and Vannier has consented to being proposed as candidate and to serving as a director, if elected. None of Mssrs, Boonstra, Thurman or Vannier holds any office or employment with Flamel Technologies SA. None of Mssrs. Boonstra, Thurman or Vannier holds any ordinary shares or ADSs of Flamel Technologies SA, but each of them will comply with the share ownership requirements if elected. Each of Mssrs. Boonstra, Thurman and Vannier is otherwise qualified to serve as a director of Flamel, if elected.



**FLAMEL TECHNOLOGIES**

*Société Anonyme* with a stated capital of 2,652,688.41 euros

Registered Office:

Parc Club du Moulin à Vent  
33, avenue du Docteur Georges Lévy  
69693 VENISSIEUX – France

379 001 530 R.C.S. LYON

**MANAGEMENT REPORT PREPARED BY THE BOARD OF DIRECTORS  
AND PRESENTED TO THE ANNUAL ORDINARY GENERAL SHAREHOLDERS'  
MEETING TO BE HELD ON 22 JUNE 2005**

Ladies and Gentlemen,

In accordance with French law and the Company's bylaws, the Board of Directors called an Ordinary Shareholders' Meeting in order to report on the condition and the business of the Company during the financial year ended on December 31, 2004 (the "Financial Year") and to invite you to rule upon the financial statements for the financial year.

Moreover, we will propose to you to allocate some attendance fees to the Directors, to renew their mandates of Director and to appoint two additional Directors to the Board.

During this General Shareholders' Meeting, the statutory auditor's reports will be read.

These reports, the management report, the financial statements, and all related documents were made available to you at the company's registered office, as required by law.

The financial statements presented to you were prepared in accordance with the applicable French accounting laws, principles and methods.

Please note that the accounting methods used in preparing these financial statements are the same as those used in previous financial years.

**I. BUSINESS AND CONDITION OF THE COMPANY DURING THE FINANCIAL YEAR**

The financial year ended December 31, 2004 was a strong year for the Company with respect to technical progress, investment in people, plant and equipment and preservation of its financial situation, both in terms of net operating results and cash on the balance sheet.

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With respect to its Medusa® platform, the Company initiated clinical trials of its formulation of both Interferon-alpha and Interleukin-2.

With respect to its Micropump® platform, the Company had important revenues coming from the license agreement with GlaxoSmithKline. In 2004, a licensing and commercialization agreement was signed with TAP Pharmaceutical to develop and market a controlled release formulation of Lansoprazole. Additionally, continued feasibility studies were on going with other partners.

Coming, for its part, continued the commercial promotion of its photochromic eye glasses using the photochromic material developed by Flamel.

For the Financial Year, the Company had net sales in the amount of 27.2 M. Euros, compared with 37.7 M. Euros for the previous financial year.

## **II. RESULTS OF THE FINANCIAL YEAR**

The following results are in accordance with French GAAP.

### **1. Statement of operations**

2004 revenues amounted to 27.2 M. Euros compared to 37.7 M. Euros in 2003. 2004 revenues included 2.8 M. Euros of product sales, 23.6 M. Euros of license and research revenues, 0.6 M. Euros of royalties and 0.2 M. Euros of analysis services.

Salaries and social charges, representing 32% of total operational costs, increased 27% in 2004 to 11.8 M. Euros, compared to 9.3 M. Euros in 2003. This was principally due to the growth in the number of employees (221 salaried employees in December 2004 versus 166 salaried employees in December 2003).

Other costs in 2004 grew by 47% resulting from significant investments in research and development activities, and particularly with respect to subcontracting costs of pre clinical, clinical studies and clinical batches (+99%) compared to last year. Lab materials also increased to 5.4 M. Euros in 2004 versus 3.7 M. Euros in 2003.

Positive financial net income of 0.3 M. Euros in 2004 was due to realized gains from the sale of marketable securities of 0.5 M. Euros, partially offset by unfavorable exchange rate effects of 0.2 M. Euros.

The loss before tax (and excluding extraordinary items) in 2004 amounted to (9) M. Euros compared to a profit of 11.3 M. Euros in 2003.

Together with extraordinary loss of 0.8 M. Euros from a provision for contingencies, research tax credit of 3.7 M. Euros and tax for 0.3 M Euros, the net loss for the year amounted to 6,365,948 Euros compared with a gain of 12,800,854 Euros for the previous financial year.

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## 2. Balance Sheet

### ASSETS

Total assets increased to 105.3 M. Euros, of which 13.3 M. Euros related to fixed assets and 92.0 M. Euros to current assets.

Accounts receivable at the end of the year were 6.0 M. Euros, reflecting the high amounts invoiced in December 2004.

Marketable securities amounted to 72.6 M. Euros at the end of 2004, including money market funds and term deposits, compared to 85.5 M. Euros at the end of 2003.

### LIABILITIES

Shareholders' equity, after taking into account the loss for 2004, amounted to 87.0 M. Euros.

Total liabilities amounted to 18.3 M. Euros, with 6.6 M. Euros of accounts payable to suppliers and 1.3 M. Euros of conditional loans from French government agencies.

## 3. Capital investments

Capital investments for the year amounted to 11.1 M. Euros and were principally utilized for research and development activities, and especially at the Pessac plant, the building of a polymer pilot plant.

## 4. Financing

The Company did not made significant transactions in the 2004 year, as opposed to the funds raising of \$62.5 M. last year.

In 2004, a total of 360,000 options have been exercised by employees, leading to a capital increase of 619,753 Euros.

No important event, having any material effect on the financial statements of year 2004, occurred between January 1<sup>st</sup>, 2005 and the date of this management report.

The financial results will be submitted to the approval of the General Shareholders' Meeting. (first resolution)

### **III. IMPROVEMENTS – DIFFICULTIES EXPERIENCED**

The Company made substantial progress during the year, both with respect to its product pipeline and its financial position. Highlights included:

- A license agreement for controlled-release lansoprazole to TAP Pharmaceuticals Co, TAP sells Prevacid ® , a protein pump inhibitor with worldwide sales in 2003 in
-

excess of \$4 billion. The license provides for more than \$100 million in milestone payments and a substantial royalty.

- Initiation of clinical trials on Interferon-alpha and Interleukin-2.
- Construction of a new production facility in Pessac, funded in part by others, and obtaining significant money from GSK to support our production of their Micropump-formulated product.
- The continued application of our Medusa and Micropump technologies to various partnered projects, feasibility studies and proprietary formulations.
- The company announced in September that Bristol Myers Squibb terminated its license for Basulin, the Company's formulation of long-acting human insulin, with effect in December, 2004. The company is continuing its work the product and is actively seeking a partner for it.

#### **IV. ALLOCATION OF RESULTS**

It results from the accounts that we have presented to you that the net result of the financial year shows a loss of 6,365,947.95 Euros.

We propose you that this loss amounting to 6,365,947.95 Euros be allocated fully to the carry-forward account which, after allocation, will amount to (36,540,291) Euros. (second resolution).

#### **V. PURCHASE OF SHARES BY THE COMPANY**

None.

#### **VI. DIVIDENDS PAID DURING THE PAST THREE FINANCIAL YEARS AND CORRESPONDING TAX CREDIT**

We wish to note, as required by Section 243 bis of the General Tax Code, that no dividends were distributed in the preceding three financial years.

#### **VII. NON TAX-DEDUCTIBLE EXPENSES**

No extravagant expenses or charges as set forth by Section 223 *quater* of the General Tax Code were incurred during the Financial Year.

#### **VIII. SIGNIFICANT EVENTS BETWEEN THE CLOSE OF THE FINANCIAL YEAR AND THE DATE OF THIS REPORT**

None

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**IX. FORESEEABLE EVOLUTION OF THE COMPANY –PROSPECTS**

The Board of Directors believes that shareholders should look for the following developments in 2005:

- expected continuation and development of the collaboration with Servier, GlaxoSmithKline and TAP according to the license agreements signed;
- expected continuation of the applications of Micropump and Medusa technologies to other products, especially with feasibility studies contracted with pharmaceutical companies and also on self-funded projects;
- the establishment of new R&D partnerships to facilitate the commercialization of various projects;

The projected revenues and the present cash position will permit the Company to fund its activity and development in 2005.

**X. RESEARCH AND DEVELOPMENT ACTIVITIES OF THE COMPANY****Medusa®**

The Company continued its development of Basulin®, after termination of the license and commercialization agreement it signed with Bristol Myers Squibb. It also initiated the clinical trials of Medusa-enabled formulations of long-acting Interleukin-2 and long-acting Interferon-alpha. The Company continued its work on formulation of long-acting human growth hormone, and long-acting Erythropoietin.

**Micropump®**

The company licensed its controlled-release formulation of Lansoprazole to TAP on a worldwide basis. It continued its development of an ACE inhibitor with Servier and a controlled release formulation of Coreg with GlaxoSmithKline. Additionally, the company continued its work with Merck, as well as with undisclosed partners for feasibility studies.

**XI. TABLE OF THE RESULTS OF THE PAST FIVE FINANCIAL YEARS**

In accordance with Section 148 of Regulation n°67 236 dated March 23, 1967, the table summarizing our Company's results for the last five financial years is appended to this report.

**XII. EMPLOYEES**

The number of employees as of December 31, 2004 was 221.

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**XIII. CAPITAL OWNERSHIP**

On December 31, 2004, the share capital of the Company amounted to 2,652,688.41 Euros and consisted of 21,751,590 shares. Approximately 96% of the share capital is quoted on the Nasdaq under the form of ADSs, through the Bank of New York.

**XIV. AGREEMENTS REFERRED TO IN SECTIONS L. 225-38 ET SEQ. OF THE COMMERCIAL CODE**

Please note that the statutory auditor has prepared a special report, which is submitted to you, in which he indicates that some agreements referred to in Sections L. 225-38 *et seq.* of the Commercial Code have been entered into or renewed during the last financial year.

We ask you to approve and/or ratify, if applicable, any agreements referred to under Section L. 225-38 *et seq.* of the Commercial Code, which have been entered into or renewed during the Financial Year, and which may be mentioned in the report of the Statutory Auditor. (twelfth resolution)

**XV. MANAGEMENT AND CONTROL OF THE COMPANY**

The term of office of each Messrs. Gérard Soula, Jean-Noël Treilles, Stephen Willard, Raul Cesan, William Dearstyne and Michel Greco, in their capacity as directors of the Company, expires at the end of the Ordinary General Shareholders' Meeting to which you are called, we propose to renew their terms of office for one (1) year, *i.e.* until the Ordinary General Shareholders' Meeting that will be convened to vote on the financial statements for the financial year that will end on December 31, 2005. (third, fourth, fifth, sixth, seventh and eighth resolutions)

In addition, in order to benefit from the experience of Mr. James C. Smith and Mr. David Deming, we will propose that you appoint those persons as director of the Company for a term of office of one (1) year, *i.e.* until the Ordinary General Shareholders' Meeting that will be convened to vote on the financial statements for the financial year that will end on December 31, 2005 (see detailed information in Appendix A). (ninth and tenth resolutions)

**XVI. DETERMINATION OF DIRECTORS' ATTENDANCE FEES**

In prior years, the Board members have not received any fees for their service. In light of increased involvement by the Directors, greater responsibilities, and the Company strong financial position, we propose that a sum of 240,000 Euro be allocated to the Board of Directors as annual attendance fees, which will then determine the allocation of such attendance fees. (eleventh resolution)

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**XVII. TOTAL AMOUNT OF COMPENSATION AND IN-KIND BENEFITS RECEIVED BY EACH DIRECTOR AND OFFICER FROM THE COMPANY AND CONTROLLED COMPANIES DURING THE PAST FINANCIAL YEAR**

For year 2004, Mr. Soula, President Directeur General received a total compensation of 687,232 Euros.

For year 2004, Mr. Willard, Director and CFO received a total compensation of 583,564.77 Euros.

**XVIII. LIST OF OFFICES AND POSITIONS IN OTHER COMPANIES, OF EACH DIRECTOR DURING THE FINANCIAL YEAR**

1. Mr. Gérard Soula, Président Directeur General (Chairman and CEO)  
None
2. Mr. Raul Cesan, Director  
Mr. Cesan is also Director of The New York Times Company (USA)
3. Mr. William Dearstyne, Director.  
Mr Dearstyne is also a Lead Director and Vice Chairman of Phonak AG (Switzerland), Director of EarlyBird GmbH (Germany) and Director of Bioness Inc. (USA).
4. Mr. Michel Greco, Director  
Mr. Greco is also Director of Vaxgen Inc (USA), I.D. Biomedical (Canada), Intercell A.G. (Austria), Argos Therapeutics (USA) and DAS (France).
5. Mr. Jean-Noël Treilles, Director  
Mr. Treilles is also CEO and Director of Biopartners SA.
6. Mr. Stephen Willard, Director, CFO  
Mr. Willard is also Director of Etrade Bank and of Etrade Holdings, Inc.

**XIX. SIGNIFICANT ACQUISITIONS OF EQUITY INTERESTS IN COMPANIES HAVING THEIR REGISTERED OFFICE IN FRANCE OR ACQUISITION OF THE CONTROL OF SUCH COMPANIES**

None.

**XX. PERCENTAGE OF THE SHARE CAPITAL HELD BY EMPLOYEES, EITHER DIRECTLY OR VIA AN INVESTMENT FUND OR A COMPANY SAVINGS PLAN**

Percentage of the share capital held directly by employees amounts to 4% of the capital at the end of 2004.

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The Board invites you, after the reading of the reports by the Statutory Auditor, to proceed with the examination and the vote on the resolution submitted to your vote.

With regard to the resolutions to be approved in accordance with the quorum and majority requirements of ordinary general meetings (resolutions one through twelve, resolution seventeen and resolutions eighteen through twenty-one), we recommend that stockholders vote in favor of resolutions one through twelve and resolution seventeen and against resolutions eighteen through twenty one.

Finally, we urge shareholders to review the Letter to the Shareholder's from the Chairman.

Gérard SOULA  
Chairman and CEO

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**APPENDIX A****James C. SMITH  
(Biography)**

James C. Smith served as chairman of the board of directors of First Health Group Corporation, a national health benefits company. Prior to that time, Mr. Smith served as Chief Executive Office of First Health Group Corporation from January 1984 through December 2001. Mr. Smith serves as chairman of Gartner, Inc., a technology research and advisory firm, and is a member of its audit committee.

Smith also serves on the board of directors of Reliant Pharmaceuticals, Inc. and is a member of its audit and compensation committees. Mr. Smith is an advisory director to CIC Investments, a private equity investment firm.

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**David H. Deming  
(Biography)**

David H. Deming served at J P Morgan Chase & Co. and its predecessors for 27 years, most recently as Global Head of the Investment Banking Healthcare Group. He managed professionals in three countries, following more than 300 pharmaceutical, biotech, medical device and service companies. Since 2003, when he left J P Morgan, he founded Integrated Finance Limited, an investment bank which focuses on providing financial advice and investments for large multinationals.

Mr. Deming also serves on the Board of ArgiNOx Pharmaceuticals and is a trustee of Hobart College. He served as a trustee of the Cold Spring Harbor Laboratory from 1992 through early 2003.

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## APPENDIX B

**STATUS OF DELEGATIONS TO THE BOARD**

<b>AUTHORIZATION GIVEN BY THE EGM TO THE BOARD</b>		<b>UTILIZATION BY THE BOARD</b>			
<b>Date</b>	<b>Nature</b>	<b>Date</b>	<b>Nature</b>	<b>Increase of capital</b>	<b>Board's approbation</b>
June 22, 2004	Issuance of 80 000 warrants Increase of Capital of 9,800€	—	—	—	—
May 10, 1996	Stock options “plan 96” 1,000,000 shares Increase of Capital of 121,959€	May 2004 June 2004	15,000 options exercised 5,000 options exercised	1,829 € 610 €	March 10, 2005 March 10, 2005
November 20, 2000	Stock option plan “plan 2000” 1,000,000 shares Increase of capital of 121,959€	February-04 September 2004 June 2004 October 2004	10,000 options exercised 15,000 options exercised 200,000 options exercised 10,000 options exercised 100,000 options exercised	1,220 € 1,829 € 24,392 € 1,220 € 12,196 €	March 10, 2005 March 10, 2005 March 10, 2005 March 10, 2005 March 10, 2005
December 19, 2001	Stock option “plan 2001” 750,000 shares Increase of Capital of 91,469€	Jul-04	5,000 options exercised	610 €	March 10, 2005

**FLAMEL TECHNOLOGIES**

*Société Anonyme* with a stated capital of 2,652,688.41 euros

Registered Office:

Parc Club du Moulin à Vent  
33, avenue du Docteur Georges Lévy  
69693 VENISSIEUX – France

379 001 530 R.C.S. LYON

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**CHAIRMAN'S REPORT ON THE CONDITIONS OF PREPARATION AND  
ORGANIZATION OF THE BOARD OF DIRECTORS AND ON THE INTERNAL  
CONTROL PROCEDURES IMPLEMENTED BY THE COMPANY**

**PRESENTED TO  
THE ORDINARY GENERAL SHAREHOLDERS' MEETING  
TO BE HELD ON JUNE 22, 2005**

Dear Sirs:

In accordance with Section L. 225-37 of the Commercial Code, please find below a description of the conditions of preparation and organization of the Board of Directors (the "Board") (I) and internal control procedures implemented by the Company (II).

**I. Conditions of preparation and organization of the Board of Directors**

As of December 31, 2004, 96 % of the share capital of the Company was deposited with the Bank of New York and the corresponding ADRs are held by the public on the US market. 3 % of the share capital is held by various individuals.

The Board is composed of 6 members, each appointed for a duration of 1 year.

The main qualities expected from a Board member is his/her (i) willingness to develop an active understanding of the business and strategy of the Company and to participate in its development, (ii) understanding of the business environment of the Company, (iii) ability to work with others, (iv) the courage to express dissenting opinions (v) the sense of responsibilities, (vi) integrity.

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### **A. Conditions of preparation of the works of the Board of Directors**

The activities of the Board are conducted by the Chairman of the Board.

The Chairman of the Board:

- approves the documents prepared by the Company's internal departments;
- organizes and directs the works of the Board;
- ascertains that the directors can fulfill their duties;
- ascertains that they receive the information and documents necessary for the fulfillment of their duties; and
- ascertains that the representative of the Works Council are convened and provided with all the information and documents necessary for the fulfillment of their duties.

### **B. Conditions of organization of the work of the Board of Directors**

The Chairman organizes the activities of the Board. The Board is convened at least once a year for the approval of the accounts and as many times as necessary in consideration of the development of the Company's business.

In 2004, the Board met 5 times, upon call by the Chairman.

The attendance rate was 100% in 2004. The meetings of the Board of Directors were all chaired by the Chairman of the Board.

Representatives of the Works Council have attended all Board meetings.

The minutes of each Board meeting are presented by the Chairman to the Board members for approval. The minutes are inserted in the Company's ledgers after signature by the Chairman and one director.

With respect to each Board meeting, the Directors are provided with all documents necessary for the fulfillment of their duties. In between Board meetings, the directors are regularly provided with all significant information regarding the Company.

## **II. Internal control procedures**

The Company organized committees and implemented procedures allowing control of compensation, the preparation and certification of the financial statements, public disclosure and the ethics of the Company's executives and financial officers.

### **A. Compensation Committee**

A Compensation Committee is appointed by the Board to consider, recommend and oversee the Company's incentive-compensation plans and equity-based plans determined by the Board and to assist the Board in the discharge of the Board's responsibilities relating to compensation of (i) the Company's Chief Executive Officer (*Directeur Général*) ("CEO"), (ii) the Company's Chairman of the Board (*Président du Conseil d'Administration*), in the event that the office of *Directeur Général* is not held by the Chairman of the Board, (iii) the Delegated Managing Directors (*Directeurs Généraux Délégués*), if any, and (iv) other

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executive officers. The responsibilities granted or delegated to the Compensation Committee in this Charter are subject always to the powers reserved by French law to the CEO (*Directeur Général*), the Board and the shareholders' meetings and the Compensation Committee is authorized to seek any necessary waivers from applicable U.S. securities laws and regulations and NASD rules and regulations, as it deems appropriate with respect to the foregoing. To the extent required under applicable U.S. securities laws and regulations and NASD rules and regulations, any such waivers or non-compliance shall be disclosed annually in the Company's annual report on Form 20-F.

#### **B. Audit Committee**

The Audit Committee is appointed by the Board to be directly responsible, by delegation of the CEO, for the appointment, compensation and oversight of the work of any registered public accounting firm employed by the Company, with the exception of statutory auditors, and to assist in Board oversight of: (1) the integrity of the financial statements of the Company; (2) the adequacy of the Company's system of internal controls; (3) the compliance by the Company with legal and regulatory requirements; (4) the qualifications and independence of the Company's independent auditors; and (5) the performance of the Company's independent and internal auditors. The Audit Committee shall have, upon special delegation of the CEO, the authority to engage, and obtain advice and assistance from, outside legal, accounting and other advisers, and the Company shall provide appropriate funding therefor as determined by the Audit Committee. The responsibilities granted or delegated to the Audit Committee in this Charter are subject always to the powers reserved by French law to the CEO, the Chairman of the Board (*Président du Conseil d'Administration*), the Board and the shareholders' meetings and the Audit Committee is authorized to seek any necessary waivers from applicable U.S. securities laws and regulations and Nasdaq rules and regulations, as it deems appropriate with respect to the foregoing. To the extent required under applicable U.S. securities law and regulations and Nasdaq rules and regulations, any such waivers or non-compliance shall be disclosed annually in the Company's annual report on Form 20-F.

#### **C. Procedure for Pre-Approval of Independent Auditor Services**

The Audit Committee has established guidelines regarding the engagement of the Company's independent auditor to perform services for the Company. These guidelines are valid for audit and non-audit services.

For audit services (including statutory audit engagements as required under local country laws), the independent auditor must provide the Audit Committee with an engagement letter during the first fiscal quarter of each year outlining the scope of the audit services proposed to be performed during the fiscal year. This letter must be agreed to by the Audit Committee.

For non-audit services, Company's senior management must submit to the Audit Committee for approval the list of non-audit services that it recommends the Audit Committee engage the independent auditor to provide for the fiscal year. Company's senior management and the independent auditor must each confirm to the Audit Committee that each non-audit service on the list is permissible under all applicable legal requirements.

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#### D. Procedure for reporting questionable accounting and auditing matters

The Audit Committee of the Company's Board of Directors established procedures in order to facilitate the reporting by employees of any information pertaining to questionable accounting or audit practices.

These procedures include how employees may report questionable accounting practices, the review of any such reports and the inquiry, which may be conducted in this regard.

#### E. Disclosure Committee

The Disclosure Committee assists the Chief Executive Officer (*Président Directeur Général*) and Chief Financial Officer or persons performing similar functions (the "**Senior Officers**") in fulfilling their responsibility for oversight of the accuracy and timeliness of the disclosures made by the Company by being responsible for the following tasks:

- Design and establish controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified by the rules and forms and such information is accumulated and communicated to management, including the Senior Officers, as appropriate to allow timely decisions regarding such required disclosure ("**Disclosure Controls**").
  - Monitor the integrity and effectiveness of the Company's Disclosure Controls.
  - Review and supervise the preparation of the Company's annual report on Form 20-F, quarterly reports on Form 6-K, any amendments to the foregoing, and any other reports or public disclosures that the Board of Directors or the Audit Committee requests that the Committee review and supervise.
  - Evaluate the effectiveness of the Company's Disclosure Controls as of the end of the period covered by the Company's Annual Report on Form 20-F and each Quarterly Report on Form 6-K (collectively, the "**periodic reports**").
  - Discuss with the Senior Officers all relevant information with respect to the Committee's proceedings, the preparation of the disclosure statements and the Committee's evaluation of the effectiveness of the Company's Disclosure Controls.
  - Provide a certification to the Senior Officers prior to the filing with the SEC of each periodic report as to (i) the Committee's compliance with its policies and procedures and proper performance of the responsibilities that have been assigned to it and (ii) the Committee's conclusions resulting from its evaluation of the effectiveness of the Disclosure Controls.
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**F. Code of Ethics for CEO (*directeur général*), executive managing directors (*directeurs généraux délégués*) and senior financial officers**

The Company has Standards of Business Conduct applicable to all directors, employees and officers of the Company. The principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions (collectively the “senior financial officers”), are bound by the provisions set forth therein relating to ethical conduct, conflicts of interest and compliance with law.

Gérard SOULA  
Chairman and CEO

**FLAMEL TECHNOLOGIES**

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Registered Office :

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**BOARD REPORT TO BE SUBMITTED TO THE  
EXTRAORDINARY SHAREHOLDERS' MEETING  
TO BE HELD ON JUNE 22<sup>nd</sup>, 2005**

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Ladies and Gentlemen,

We have called you in an Extraordinary General Shareholders' Meeting in order to submit to your approval the proposed issuances of a total number of 200,000 warrants (BSA) reserved to certain Board members of the Company and to authorize the Board of Directors to proceed with an increase of share capital by issuing shares whose subscription is reserved to the Company's employees members of a corporate saving plan (*plan d'épargne d'entreprise*).

For a description of the Company's financial performance since the beginning of the year, please refer to the disclosures set forth in our press releases and our filings with the Securities and Exchange Commission.

**Proposed issuances of 120,000 warrants (BSA) reserved to certain board members of the Company and would be board members of the Company (resolution thirteenth).**

Last year, during the Annual General Shareholders' Meeting, the entire Board members have been renewed and is composed of: Gérard Soula, Chairman of the Board (CEO) – Steve Willard (CFO) – Jean-Noël Treilles – Raul Cesan – William Dearstyne – Michel Greco.

In connection with their contribution to the management of the Company, we propose that you decide upon the issuance of 120,000 warrants (BSA) in favor of Messrs. Raul Cesan, William Dearstyne, Michel Greco and Jean Noel Treilles, all four of whom are board members of the Company, and in favor of Mr. James C. Smith and Mr. David Deming, whose appointment as member of the Board is also proposed to your approval.

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This decision to issue warrants (BSA) reserved to Messrs. Raul Cesan, William Dearstyne, Michel Greco, Jean Noel Treilles, James C. Smith and David Deming, if you decide to adopt it, requires the cancellation of the preferential subscription rights of the shareholders in respect of the subscription of these warrants (BSAs), for the benefit of Messrs. Cesan, Dearstyne, Greco, Treilles, Smith and Deming.

We inform you that you will have to cancel the preferential right of subscription attributed to the shareholders by article L. 225-132 of the Commercial Code and to reserve the subscription of these 120,000 warrants (BSA), to the following beneficiaries and in the following proportion:

- 20,000 warrants (BSA) to Mr. Raul Cesan,
- 20,000 warrants (BSA) to Mr. Michel Greco,
- 20,000 warrants (BSA) to Mr. William Dearstyne,
- 20,000 warrants (BSA) to Mr. Jean-Noël Treilles,
- 20,000 warrants (BSA) to Mr. James C. Smith,
- 20,000 warrants (BSA) to Mr. David Deming.

We propose that you decide that each warrant (BSA) will give its holder, subject to the terms and conditions set forth hereafter, the right to subscribe to one share of the Company for a subscription price which shall be the market price for the share, in the form of ADS, on the NASDAQ, on the closing of the trades on June 21<sup>st</sup> 2005, provided that such price shall not be less than 80% of the average of the market price for the share on the NASDAQ, in the form of ADS, during the last twenty trading days preceding such meeting. In this case, the price for the share shall be equal to 80% of the average of the market price for the share on the NASDAQ, in the form of ADS, during the last twenty trading days preceding such meeting.

We propose that you resolve that the shares thus subscribed upon exercise of the warrants (BSA) shall be fully paid up on the date of their subscription, either in cash or by offset of debt in the conditions laid down by law.

We propose that you decide to set the dates of opening and closing of the subscription period for these warrants (BSA) as commencing on the day of this General Shareholders' Meeting and closing on July 31<sup>st</sup> 2005.

We propose that you decide that each warrant (BSA) may be exercised by its holder as from the date of the annual General Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005 and within five years from its issuance date, and only if its holder is still a member of the Board of Directors of the Company on the day of such exercise.

We propose that you decide that, as of, at the issuance date of the warrants (BSA), the Company will be entitled to:

- conduct any change in its corporate organization;
  - conduct any change in its corporate purpose,
  - change the allocation rule of its profits and to redeem its share capital, subject to the Company taking all the necessary measures to protect the warrants holders pursuant to article L.228-99 of the Commercial Code,
-

- issue preferred shares subject to the Company taking all the necessary measures to protect the warrants holders pursuant to article L. 228-99 of the Commercial Code.

We propose that you decide that, in the event the Company issues, under any circumstances, new shares with a preferential right to subscribe reserved to its shareholders, or if the Company conducts a distribution of its reserves, in cash or in kind, and of its share premiums or if the Company changes the allocation of its profits through the issuance of preferred shares, the Company will take all the necessary measures to protect the interests of the warrants' holders pursuant to the provisions of article L.228-99 of the Commercial Code.

We propose that you decide that, in the case of a capital reduction, motivated or not by losses, and conducted through either a decrease of the par value of the shares or a decrease of the number of shares, the warrants holders' rights will be decreased accordingly as if they had been exercised, before the date when the capital decrease has become final.

We propose that you acknowledge that, pursuant to the provisions of article L. 228-103 *et seq.* of the Commercial Code, the warrants' holders will all be grouped together in order to defend their common interests, in an assembly (a "*masse*") with a civil personality. General warrants holders meetings will be convened to authorize any changes in the issuance terms and conditions and to decide on any decision regarding the conditions of subscription or allocation of the shares as set forth at the time issuance took place. Each warrant will give access to one voting right. The conditions regarding the quorum and the majority will be those determined in the second and third paragraph of article L. 225-98 of the Commercial Code. The expenses incurred in connection with such meetings, as well as, generally, any expenses in connection with the assembly ("*masse*") will be borne by the Company.

We propose that you decide the issue of a maximum of 120,000 new ordinary shares of an approximate nominal value of 0.12 euro each to which exercise of warrants (BSA) will give rise, that is, a capital increase of an approximate maximum nominal amount of 14,400 euros, without taking into account, as the case may be, any additional shares that may be issued to protect the interests of the warrants' holders pursuant to the provisions of article L. 228-99 of the Commercial Code.

We propose that you decide that the new shares remitted to the subscriber on exercise of the warrant will be subject to all the provisions of the bylaws of the Company and will carry distribution rights from the date of their creation,

In accordance with Article L. 225-132 paragraph 6 of the Commercial Code, such a decision automatically entails the waiver by the shareholders of their preferential rights of subscription in respect of the shares which may be issued upon exercise of the warrants (BSA), for the benefit of the holders of the above-mentioned 12,000 warrants, namely Messrs. Cesan, Dearstyne, Greco, Treilles, Smith and Deming.

Finally, we propose that you decide to grant the Board of Directors with all necessary powers to implement this decision under the terms and conditions set by the resolution and by law.

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**Proposed issuances of 80,000 warrants (BSA) reserved to Mr. James C. Smith and Mr. David Deming (resolution fourteenth).**

In connection with their appointment to the Board of Directors, we propose that you decide to proceed with the issuance of 80,000 warrants (BSA) in favour Mr. James C. Smith and Mr. David Deming, for a subscription price of 0.01 euro each, to be paid up in cash, representing a maximum subscription amount of 800 euros which will be registered in a special reserve account labeled "issue premium" which will carry rights for all shareholders.

The decision to issue the warrant (BSA) reserved to Mr. James C. Smith and Mr. David Deming, if you decide to adopt it, requires the cancellation of the preferential subscription rights of the shareholders in respect of the subscription of these warrants (BSAs), for the benefit of Mr. Smith and Mr. Deming.

We inform you that you will have to cancel the preferential right of subscription attributed to the shareholders by article L. 225-132 of the Commercial Code and to reserve the subscription of these 80,000 warrants (BSA), to the following beneficiaries and in the following proportion:

- 40,000 warrants (BSA) to Mr. James C. Smith,
- 40,000 warrants (BSA) to Mr. David Deming.

We propose that you decide that each warrant (BSA) will give its holder, subject to the terms and conditions set forth hereafter, the right to subscribe to one share of the Company for a subscription price which shall be the market price for the share, in the form of ADS, on the NASDAQ, on the closing of the trades on June 21<sup>st</sup> 2005, provided that such price shall not be less than 80% of the average of the market price for the share on the NASDAQ, in the form of ADS, during the last twenty trading days preceding such meeting. In this case, the price for the share shall be equal to 80% of the average of the market price for the share on the NASDAQ, in the form of ADS, during the last twenty trading days preceding such meeting.

We propose that you resolve that the shares thus subscribed upon exercise of the warrants (BSA) shall be fully paid up on the date of their subscription, either in cash or by offset of debt in the conditions laid down by law.

We propose that you decide to set the dates of opening and closing of the subscription period for these warrants (BSA) as commencing on the day of this General Shareholders' Meeting and closing on July 31<sup>st</sup> 2005.

We propose that you decide that each warrant (BSA) may be exercised by its holder as from the date of the annual General Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005 and only if its holder is still a member of the Board of Directors of the Company on the day of such exercise, and that the warrants (BSA) may be exercised, in whole or in part, in accordance with the following schedule:

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- up to 25% as from the date of the annual General Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2005,
- then, the balance, up to additional 25 % per year for each year expired as from the starting date mentioned above, and
- within 5 years from the issuance date.

If its holder fails to exercise the warrant in whole or in part at the expiry of the above mentioned period, the warrant (BSA) and the attached right to subscribe will lapse automatically.

We propose that you decide that, as of, at the issuance date of the warrants (BSA), the Company will be entitled to:

- conduct any change in its corporate organization,
- conduct any change in its corporate purpose,
- change the allocation rule of its profits and to redeem its share capital, subject to the Company taking all the necessary measures to protect the warrants holders pursuant to article L.228-99 of the Commercial Code,
- issue preferred shares subject to the Company taking all the necessary measures to protect the warrants holders pursuant to article L. 228-99 of the Commercial Code.

We propose that you decide that, in the event the Company issues, under any circumstances, new shares with a preferential right to subscribe reserved to its shareholders, or if the Company conducts a distribution of its reserves, in cash or in kind, and of its share premiums or if the Company changes the allocation of its profits through the issuance of preferred shares, the Company will take all the necessary measures to protect the interests of the warrants' holders pursuant to the provisions of article L.228-99 of the Commercial Code.

We propose that you decide that, in the case of a capital reduction, motivated or not by losses, and conducted through either a decrease of the par value of the shares or a decrease of the number of shares, the warrants holders' rights will be decreased accordingly as if they had been exercised, before the date when the capital decrease has become final.

We propose that you acknowledge that, pursuant to the provisions of article L. 228-103 *et seq.* of the Commercial Code, the warrants' holders will all be grouped together in order to defend their common interests, in an assembly (a "*masse*") with a civil personality. General warrants holders meetings will be convened to authorize any changes in the issuance terms and conditions and to decide on any decision regarding the conditions of subscription or allocation of the shares as set forth at the time issuance took place. Each warrant will give access to one voting right. The conditions regarding

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the quorum and the majority will be those determined in the second and third paragraph of article L. 225-98 of the Commercial Code. The expenses incurred in connection with such meetings, as well as, generally, any expenses in connection with the assembly (“*masse*”) will be borne by the Company.

We propose that you decide the issue of a maximum of 80,000 new ordinary shares of an approximate nominal value of 0.12 euro each to which exercise of warrants (BSA) will give rise, that is, a capital increase of an approximate maximum nominal amount of 9,600 euros, without taking into account, as the case may be, any additional shares that may be issued to protect the interests of the warrants’ holders pursuant to the provisions of article L.228-99 of the Commercial Code.

We propose that you decide that the new shares remitted to the subscriber on exercise of the warrant will be subject to all the provisions of the bylaws of the Company and will carry distribution rights from the date of their creation,

In accordance with Article L. 225-132 paragraph 6 of the Commercial Code, such a decision automatically entails the waiver by the shareholders of their preferential rights in respect of the shares which may be issued upon exercise of the warrants (BSA), for the benefit of the holders of the above-mentioned 80,000 warrants (BSA), namely Mr. Smith and Mr. Deming.

Finally, we propose that you decide to grant the Board of Directors with all necessary powers to implement this decision under the terms and conditions set by the resolution and by law.

**Proposed issuances of shares reserved to the Company’s employees (resolutions fifteenth and sixteenth).**

In compliance with the provisions of article L. 225-129-6 of the Commercial Code and of Article L. 443-5 of the Labor Code, we remind you that the shareholders must, for every proposed capital increase in cash submitted to them, be also invited to vote on a contemplated capital increase to be effected pursuant to the provisions of Article L. 443-5 of the Labor Code, *i.e.* by reserving the said increase to employees having subscribed to and any person authorized to subscribe to a company savings plan, even though the company concerned has not implemented such a plan.

In consideration of the above-mentioned operations, we therefore invite you to vote on a proposed capital increase reserved to employees of the Company (resolution fifteenth).

This capital increase would imply the cancellation of the preferential subscription rights of the shareholders, the holders of warrants and holders of any other securities giving access to the share capital in under the terms and conditions provided by applicable laws and regulations.

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In order to comply with this legal provisions, we submit to your approval a draft resolution authorizing the Board of Directors and grant it all powers, for a term not to exceed 26 months in order to:

- increase the share capital in a maximum nominal amount of 1% of the share capital as of December 31, 2004, i.e. 26,526.88 euros, at its sole discretion and in one or several times, by way of the issuance of new shares ,
- set the amount of the subscription price, in accordance with the terms and conditions set forth at Article L. 443-5 of the French Labor Code, under the supervision of the statutory auditor, and the number of shares granted to each beneficiary, pursuant to Article L. 225-138 of the Commercial Code,
- set the dates of commencement and close of subscriptions,
- inform the Company's employees, close the subscriptions in advance once all of the new shares have been subscribed,
- receive the payments, deposit the funds in accordance with the law, and
- amend the bylaws accordingly, take all necessary steps, proceed with formalities required by law.

As from their issuance, shares issued in this manner would be *pari passu* to existing shares, would benefit from the same rights and would be governed by the same provisions of the by-laws and by the decisions of the General Shareholders' Meeting. The shares shall be fully paid in cash upon subscription.

If the subscription did not absorb the entirety of the contemplated capital increase, we propose that you authorize the Board of directors to limit the capital increase to the amounts received, provided that such amount be at least equal to three quarters of the initial amount of the capital increase.

We draw your attention to the fact that the Company does not have a company savings plan. In addition, the board considers this authorization unnecessary considering the Company's current situation. Therefore, we suggest to you to vote against such resolution.

Furthermore, we would like to draw your attention to the fact that when 80.000 warrants (BSA) were issued on June 22, 2004, a resolution to increase the share capital of the company reserved to the employees was not submitted to the General Shareholders' Meeting in accordance with Article L. 225-129-6 of the Commercial Code. As a result, we submit to your vote a resolution to approve and acknowledge such issue in accordance with Articles L. 235-3 and L. 235-4 of the Commercial Code (resolution sixteenth).

With regard to the resolutions to be approved in accordance with the quorum and majority requirements of extraordinary general meetings, we recommend that stockholders vote in favor of resolutions thirteen, fourteen and sixteen and against resolution fifteen.

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In addition, and with regard to the resolutions to be approved in accordance with the quorum and majority requirements of ordinary general meetings (resolutions one through twelve, resolution seventeen and resolutions eighteen through twenty-one), we recommend that stockholders vote in favor of resolutions one through twelve and resolution seventeen and against resolutions eighteen through twenty one.

Finally, we urge shareholders to review the Letter to the Shareholder's from the Chairman.

The Board of Directors

**FLAMEL TECHNOLOGIES**  
 Société Anonyme with a share capital of 2,652,688.418 euros  
*Registered Office:*  
 Parc Club du Moulin à Vent  
 33, avenue du Docteur Georges Lévy  
 69693 VENISSIEUX – France  
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**SPECIAL REPORT ON STOCK OPTIONS**

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**YEAR ENDED DECEMBER 31, 2004**

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In accordance with article L. 225-184 of the Commercial Code, we give you in this report the informations concerning stock options granted or exercised during year 2004.

**1- OPTIONS GRANTED DURING THE YEAR**

**- Concerning directors**

Beneficiaries	Function	Number	Price (Euros)	Maturity
SOULA Gérard	Président Directeur Général	300 000	14,81	dec 2014
WILLARD Stephen	Director – CFO	150 000	14,81	dec 2014

**- Concerning employees**

Beneficiaries	Function	Number	Price (Euros)	Maturity
FANGET Bernard	Senior VP Pharmaceutical Development	100 000	19,20	march 2014
LEHUU Bertrand	VP Business Development	100 000	20,43	june 2014
JORDA Rafael	VP Director of Manufacturing & Development	60 000	14,81	Dec 2014
MARLIO Charles	Associate General Counsel	50 000	19,20	march 2014
WEBER David	Purchase Director	50 000	12,02	sept 2014
MEYRUEIX Rémi	Scientific Director	40 000	14,81	dec 2014
SOULA Olivier	Nanotechnology Director	40 000	14,81	Dec 2014

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**1. OPTIONS GRANTED DURING THE YEAR (continued).**

Beneficiaries	Function	Number	Price (Euros)	Maturity
BONNET GONNET Céline	Senior Scientist	20 000	20,43	June 2014

**2- OPTIONS EXERCICED DURING THE YEAR**

**- Concerning directors**

Beneficiaries	Function	Number	Price (Euros)	Exercice Date
SOULA Gérard	Président Directeur Général	200 000	1,09	sept 2004
		100 000	1,09	oct 2004
WILLARD Stephen	Director – CFO	15 000	7,58	may 2004
		5 000	7,58	june 2004
		10 000	1,09	june 2004
		5 000	2,33	july 2004

**- Concerning employees**

Beneficiaries	Function	Number	Price (Euros)	Exercice Date
JORDA Rafael	VP Director of Manufacturing & Development	10 000	4,75	Feb 2004
CHEONG CHAN You Ping	Director of Chemistry	15 000	4,75	Feb 2004
	The Board of Directors			

## FLAMEL TECHNOLOGIES — As of December 31, 2004

## FINANCIAL RESULTS OF THE PAST FIVE YEARS

(Solely for Public limited companies)

Amount in euros

	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04
a) Capital share	1,975,445.35	1,975,445.35	1,975,445.34	2,608,783.07	2,652,688.41
b) Number of Ordinary shares	16,197,590	16,197,590	16,197,590	21,391,590	21,751,590
c) Number of preference shares					
d) Number of shares to be issued by :					
- bond conversion					
- exercise of stock-options and warrants	1,415,000	2,110,000	2,535,000	4,415,000	4,758,500

## CAPITAL FOR THE YEAR ENDED

a) Revenues	10,187,579.27	14,615,521.74	19,503,640.86	37,680,303.02	27,197,059.79
b) Income before taxes	(6,556,102.30)	(1,872,827.33)	4,070,438.96	13,826,400.73	(6,845,679.55)
c) Income tax	54,544.07	15,244.90	(585,075.87)	(444,583.00)	(3,444,473.62)
d) Employee's profit-sharing					
e) Income after taxes, depreciation and provisions	(7,028,717.47)	(2,850,032.26)	3,429,405.22	12,800,853.77	(6,365,947.95)
f) amount of distributions					

## OPERATIONS AND EARNINGS OF THE YEAR

a) Income after taxes and employee's profit-sharing before depreciation and provisions	(0.41)	(0.12)	0.29	0.67	(0.16)
b) Income after taxes, employee's profit-sharing, depreciation and provision	(0.43)	(0.18)	0.21	0.60	(0.29)
c) Share dividends					

## EARNINGS PER SHARE

a) Average staff of the year	137	140	139	166	221
b) Amount of the payroll	4,731,279.60	4,883,341.03	5,441,633.23	6,449,859.79	8,202,298.68
c) Amount of social taxes	2,092,038.30	2,037,944.41	2,323,893.56	2,872,888.98	3,636,093.62

## STAFF

Flamel Technologies S.A. (the "Issuer") informed the Depositary on May 18, 2005 that it believes that "substantial opposition" exists with respect to the resolutions proposed by management of the Issuer calling for the re-election of the incumbent directors and the election of Mr. James C. Smith and Mr. David Deming. Accordingly, under the terms of the Deposit Agreement, if no instructions are received with respect to proposals three through ten by the Depositary from any Owner with respect to any of the Deposited Securities represented by the American Depositary Shares evidenced by such Owner's Receipts on or before June 15, 2005, the Depositary shall abstain from voting such Deposited Securities in favor of the resolutions proposed by the Issuer (Resolutions 3 through 10) and against the resolutions proposed by the OSS Group (Resolutions 18 to 21). If the Depositary does not receive voting instructions from any Owner on or before June 15, 2005 with respect to Resolutions 1, 2, 11, 12, 13, 14, 15, 16 and 17, the Depositary intends to vote in accordance with management's instructions in respect of such proposals in accordance with the terms and conditions of the Depositary Agreement (i.e. in favor of Resolutions 1, 2, 11, 12, 13, 14, 16 and 17 and against Resolution 15).

NOTE:

The board of directors has authorized the retention of a proxy solicitation firm to assist in the solicitation of voting instructions in favor of the resolutions supported by the Board of Directors and against the resolutions proposed by the OSS Group and to pay such firm's customary fees.

NOTE:

As registered owners of American Depositary Shares are not registered as holders of Shares on the registry maintained by or on behalf of Flamel Technologies, S.A., in accordance with French company law and the *statuts* of the Flamel Technologies S.A., registered owners of American Depositary Shares have no standing to (i) appear and vote at any meeting of holders of Shares, or (ii) propose any resolution at any shareholders' meeting. If a holder of American Depositary Shares wishes to appear and vote at any meeting of the holders of Shares, or to propose any resolution at such meeting, such holder must surrender its receipts and withdraw the corresponding Deposited Securities pursuant to Section 2.5 of the Deposit Agreement and become registered on the registry maintained by or on behalf of Flamel Technologies S.A. at least one (1) Paris Business Day prior to the date of the relevant shareholders' meeting to appear and vote at such meeting.

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**6 DETACH PROXY CARD HERE 6**

Mark, Sign, Date and Return the Proxy Card Promptly Using the Enclosed Envelope.

Votes must be indicated (x) in Black or Blue ink.

Resolutions approved by the board of directors			
	FOR	AGAINST	ABSTAIN
1	o	o	o
2	o	o	o
3	o	o	o
4	o	o	o
5	o	o	o
6	o	o	o
7	o	o	o
8	o	o	o
9	o	o	o
10	o	o	o
11	o	o	o
12	o	o	o

Resolutions approved by the board of directors			
	FOR	AGAINST	ABSTAIN
13	o	o	o
14	o	o	o
16	o	o	o
17	o	o	o

Resolutions not approved by the board of directors			
	FOR	AGAINST	ABSTAIN
15	o	o	o
18	o	o	o
19	o	o	o
20	o	o	o
21	o	o	o

To change your address, please mark this box. o

**SCAN LINE**

The Voting Instruction must be signed by the person in whose name the relevant Receipt is registered on the books of the Depository. In the case of a Corporation, the Voting Instruction must be executed by a duly authorized Officer or Attorney.

\_\_\_\_\_  
 Date                      Share Owner sign here                      Co-Owner sign here

**Flamel Technologies S.A.**  
**Instructions to The Bank of New York, as Depositary**  
**(Must be received prior to 5:00 p.m. on June 15, 2005)**

The undersigned registered owner of American Depositary Shares hereby requests and instructs The Bank of New York, as Depositary, to endeavor, in so far as practicable, to vote or cause to be voted the amount of Ordinary Shares or other deposited securities represented by such American Depositary Shares registered in the name of the undersigned on the books of the Depositary as of the close of business on May 16, 2005 at the Ordinary General Meeting of Shareholders of Flamel Technologies S.A. to be held on June 22, 2005 in respect of the resolutions specified on the reverse.

NOTE:

**Please direct the Depositary how it is to vote by placing an X in the appropriate box beside each resolution.**

To include any comments, please mark this box.

**Please complete and date this proxy on the reverse side and return it promptly in the accompanying envelope.**

**DOCUMENT AND INFORMATION REQUEST FORM**

I, the undersigned:

\_\_\_\_\_ (first and last names and address) owner of \_\_\_\_\_ (number of shares owned) registered shares of Flamel Technologies, a *Société Anonyme* with a share capital of Euros 2,652,688.41, having its registered office at Parc Club du Moulin à Vent, 33, avenue du Docteur Georges Lévy, 69693 VENISSIEUX (France), identified under number 379 001 530 R.C.S. LYON (the "Company"),

Hereby request that the documents referred to at Section 135 of Decree n°67-236 dated March 23, 1967 and relating to the ordinary and extraordinary meeting of the shareholders of the Company to be held at the registered office on June 22<sup>nd</sup> 2005 at 10:00 a.m., be addressed to me at

\_\_\_\_\_

In my capacity as owner of registered shares, I hereby also request that a proxy form together with the documents and information set forth at Articles 133 and 135 of the above-mentioned Decree be addressed to me on the occasion of each subsequent shareholders' meeting.\*

I hereby declare that these shares are registered in an account held by Euro Emetteurs Finance or Crédit Lyonnais\*\*.

Done in \_\_\_\_\_, on \_\_\_\_\_

*Signature of the shareholder*

\_\_\_\_\_

\* *To be deleted if not requested*

\*\* *To be deleted if unuseful*



## FLAMEL TECHNOLOGIES

Parc Club du Moulin à Vent - 33, Av. du Docteur Georges Lévy  
69693 Vénissieux Cedex - France

Dear Fellow Shareholders,

Flamel is facing, for the first time in its 15 year history, a hostile attack from one of our investors. That investor is Mr. Oscar S. Shafer, who owns today approximately 12 percent of our company.

Mr. Schafer is proposing to remove all of the current members of the Board of Directors of your company and to replace them with three of his own.

This attack is not based on a lack of opportunity at our Company. In fact, Mr. Schafer says in his letter: "Flamel Technologies has the potential to revolutionize drug delivery. Flamel has entered into partnerships with many leading pharmaceutical companies." I agree. But to realize our potential, we must maintain the same strategy and the same team.

As I will explain in greater detail in the attached report, I ask for your support for management's slate of directors for the following reasons:

1. The current directors bring a wealth of expertise to your Company. They are experienced in the pharmaceutical industry. They bring access to large pharmaceutical companies ("opening doors"). They understand the markets for our formulations and the industry generally. And they provide a wealth of experience in the good governance required under both U.S. and French law. We are adding two strong, new directors this year, bringing the total of independent directors to six out of eight members of your Board.
2. The directors proposed by Mr. Schafer do not have similar qualifications. Only one has been involved in the pharmaceutical industry. They do not provide access, knowledge of the industry, or the qualities necessary to enhance shareholder value.
3. I am the founder of your Company. All of the projects and initiatives of the past fifteen years have been mine, with the support of an outstanding team of professionals with whom I have been pleased to work for fifteen years. For the reasons outlined below, I can not accept the election of the type of directors Mr. Schafer proposes. I want to continue to be clear and honest with my shareholders. I will resign my position of CEO of Flamel and I will sell my shares and stock options if the management slate of directors is not approved. I do not make this statement lightly, for the reasons I articulate in the attached report.

I invite you to carefully review the report and I join with your Board and management in asking for your support at the meeting on June 22, 2005.

Sincerely,

Dr. Gerard Soula  
Founder, President and Chief Executive Officer  
Flamel Technologies, S.A.

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Report of the Chairman  
Flamel Technologies, S.A.  
May 19, 2005

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Dear Shareholders:

The challenge by Oscar S. Schafer & Partners I LP, Oscar S. Schafer & Partners II LP and O.S.S. Overseas Fund Ltd (collectively “the OSS Shareholders”) to remove the current Board of Directors and to elect three directors designated by the OSS Shareholders should not divert from what shareholders need to know about the current situation at Flamel Technologies, the work accomplished by its Board of Directors, and the potential of our company.

I am very excited by what we are doing today with our major partners, as well as the progress of our internal projects, and I will discuss these elements later in this report. Flamel has strong potential for continued success in our collaborations with GlaxoSmithKline and TAP, as well as with other partners’ projects, and with our internal projects. However, to achieve our goal and realize “Flamel’s enormous potential” and create “long-term value for shareholders” as Mr. Schafer said, it is necessary to keep the same strategy and the same team.

I am the founder of Flamel Technologies and I have initiated all the projects which create the value of Flamel today. I am completely convinced that we could continue to create long-term value for the shareholders.

In the absence of forward looking guidance, our shareholders may not have had, during the last 18 months, an appreciation of the progress that Flamel has made in terms of development of its strategy, the evolution of its partnerships, and the opportunities for potential new deals. Flamel is modifying its communications policy as of this date in an effort to give investors greater visibility into the potential value of the company, using financial information, clinical results and business opportunities for the future.

**1 Financial Information.**

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- The Company has a strong cash position. Flamel has increased its cash to \$108 million (March 31, 2005), raising \$61 million in the secondary offering in 2003, while limiting the number of total outstanding Flamel shares to 23 million.
- Meanwhile, the company has recently invested \$15M in equipment for research and development and built a strong research and development team to take advantage of the exciting opportunities facing the company.
- We believe we have the potential to obtain several significant milestones this year which could aggregate more than \$20 million on top of research & development current revenues. Given our strong cash position, we do not foresee any need to raise additional funds from the capital markets, despite our active development of the company to meet the extensive opportunities presented to us.



## 2 Update on Partnerships.

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- The level of excitement in Flamel is very high today to achieve on time with the right quality the development of GSK's product which is in Phase III clinical trials.
- The lansoprazole-XL in partnership with TAP Pharmaceuticals is progressing well and the two companies are motivated to move forward actively.

## 3 Update on Flamel's projects.

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### 3-1 – Medusa®.

- **BASULIN™**: We are actively presenting our project to big pharmaceuticals for potential partnership.
- **IFNa-XL**: Our clinical trial on our formulation of long-acting Interferona is well advanced and we expect to give some interim results in the next few weeks. No side effects have been observed to date.
- **IL-2XL**: We are in the process of the Phase I/II trial of our formulation of long-acting Interleukin-2. Results of that trial are likely to lag behind the Interferon alpha trial due to the time necessary to find suitable, treatment naive patients with metastatic renal cancer.

### 3-2 – Micropump®.

- **COMPOUND X**: We believe that opportunities for this drug are significant and we have recently completed a clinical trial to prove the concept that with Micropump® we can improve its safety profile and even its efficacy. We have filed a broad patent application and we are presenting the results to the company selling the product.
- **AUGMENTIN-XL**: We are in discussion with potential partners.
- **GENVIR-XL**: We are in discussion with potential partners.
- **ASACARD™**: Our formulation is designed to safely deliver aspirin for cardiovascular treatment, although we believe it can be combined with other active ingredients. This could be a very substantial application for our technology and we are patenting our results and presenting them to potential pharmaceutical partners.

## 4 Members of the Board.

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### 4-1 – Independent Directors.

The four independent directors nominated by the company have significant expertise designed to enable them to support the business of the Company.

Mr. Raul Cesan is a valuable asset to the Company and the audit committee on which he serves. Mr. Cesan brings significant business expertise to the Company and serves today as the chairman of the audit committee of The New York Times.

Mr. Jean-Noël Treilles is the Chairman of our Audit committee. Mr. Treilles is a French citizen who previously was the CEO of Lipha and has a great expertise with French GAAP and French law.

Our current board members also have a wealth of experience in the pharmaceutical and biotechnological fields, which has permitted us to grow in a proper manner without losing financial control, while developing a level of organization sufficient to engender the trust of companies such as GlaxoSmithKline (“GSK”) and TAP Pharmaceuticals.

We are committed to supply a major product to GSK under FDA regulations in the near future. GSK has agreed to pay for the equipment for the production, allowing us to save cash. It is, however, a very challenging project due to the constraint of time and our Board of Directors has committed the resources necessary for the success of the project.

The complementary input of the Board is its added value to the business of the Company. There is little evidence of their actions today on this subject and I would like to take the opportunity to share with you some examples of their input on the business side.

- Mr. Raul Cesan, who was the chief operating officer of Schering-Plough and managed the hepatitis business when the Interferon and Pegylated Interferon were developed for hepatitis C, has helped us determine our strategy with respect to our formulation of interferon alpha. He has assisted in selecting experts to help us and to determine which companies could be the right partner for our long-acting Interferona based on Medusa®.
- Mr. Jean-Noël Treilles, who was the CEO of Lipha, has developed the lead diabetic drug, Glucophage, licensed to BMS. Mr. Treilles is an expert in diabetic disease and played an important role in the deal we signed with BMS. He is now advising the company for the choice of a new partner for Basulin®.
- Mr. Michel Greco, who was the general Manager of Aventis Pasteur, is helping Flamel with the development of our long-acting Interleukin2, which incorporates our Medusa® technology. The new application of IL-2 is to add this protein to potential vaccines for HIV as an adjuvant to stimulate the immune system. His knowledge of the industry is invaluable with respect to potential partners.
- Mr. William Dearstyne has introduced Flamel to different companies within Johnson & Johnson, which could be an excellent partner for Flamel.

Among the different contributions of the independent board members during the last two years, their help to define the strategy of development for specific medical class of drug and creating connections with key people in the industry and in academia has been very useful.

I am very pleased with their contribution and it is crucial for the success of some of our projects that these board members continue actively to help Flamel in this process.

We are preparing to add two other independent directors Mr. James C. Smith and Mr. David H. Deming to help us to build more value for shareholders and increase our relationship with investors.

- David H. Deming served at J P Morgan Chase & Co. and its predecessors for 27 years, most recently as Global Head of the Investment Banking Healthcare Group. He managed professionals in three countries, following more than 300 pharmaceutical, biotech, medical device and service companies. Since 2003, when he left J P Morgan, he founded Integrated Finance Limited, an investment bank which focuses on providing financial advice and investments for large multinationals.

Mr. Deming also serves on the Board of ArgiNOx Pharmaceuticals and is a trustee of Hobart College. He served as a trustee of the Cole Spring Harbor Laboratory from 1992 through early 2003.

- James C. Smith served as chairman of the board of directors of First Health Group Corporation, a national health benefits company. Prior to that time, Mr. Smith served as Chief Executive Office of First Health Group Corporation from January 1984 through December 2001. Mr. Smith serves as chairman of Gartner, Inc., a technology research and advisory firm, and is a member of its audit committee. Mr. Smith also serves on the board of directors of Reliant Pharmaceuticals, Inc. and is a member of its audit and compensation committees. Mr. Smith is an advisory director to CIC Investments, a private equity investment firm.

It will be a dramatic loss for the company to give up these highly respected and valuable board members.

#### **4-2 – Executive Directors.**

The two executive directors are Stephen Willard (CFO and General Counsel), who has served as a board member for 4 years, and Gérard Soula (President and CEO), the founder of the company 15 years ago.

Together we have, during the last years, built a company with a clear strategy, strong partnerships, products potentially close to market and a solid pipeline. We have carefully managed our cash in order to avoid dilution of our shareholders. The life of the company is as an innovative company facing the daily difficulties with development of our technologies, with our partners and with potential new partners.

There is no guaranty of success in term of developing the manufacturing plan for GSK to be approvable on time and for TAP. There is no guaranty of success in the present negotiations on deals on the Flamel's projects. But, we believe that the only chance to succeed is to keep in place the same team which has proven its capability to manage the growth of the company safely without raising cash and creating dilution for the shareholders.

That is why I urge you to vote to maintain this team which is a great asset for creating shareholder value if we do not want to lose all these years of effort to build partnerships and develop products.

I also urge you to vote for the nominations of Mr. James C. Smith and Mr. David H. Deming to complete the team.

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## **5 Application of Micropump® for Inhibition of Drug Abuse.**

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Flamel is working to develop a formulation of oxycodone twice-a-day and once a day with a unique advantage to inhibit the misuse of the product prescribed as a painkiller (morphine derivative). Misuse is a major social issue, due to the number of deaths in the United States every year from such activity. The drug has current sales of more than \$ 2 billion.

Flamel has developed and filed a patent application for a unique system using Micropump® to avoid the extraction of the drug by crushing or by hot water or alcohol. Flamel has presented the technology under confidentiality agreement to major pharmaceuticals companies involved in pain treatment. The technology has received immediate interest. To our dismay and concern, we believe that Mr. Oscar S. Schafer has been informed by an employee of one of his affiliated companies about our negotiations with one of these companies.

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## **6 Proposed resolutions by the OSS Shareholders**

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I was informed by official letter of the request of Mr. Schafer's affiliated companies on Monday regarding his slate of directors.

Since 2002, Mr. Schafer has been an investor in Flamel and we have met with him from time to time. During the last few months, we discussed how to strengthen Flamel's Board of Directors. Our board authorized me to extend him an offer a position on Flamel's board. He told me that it was an honor to be invited to join the board of Flamel and he promised a response in the following days. I called him three times to have his answer, but every time he delayed his decision. I discovered with our other shareholders his SEC filing describing his proposed resolutions.

What he intends to do seems finally clear:

At least first, we have his answer: he is not a candidate.

Second, he proposed to remove all directors, two critical members of management, Stephen Willard and myself.

Third, he proposes three candidates that I do not know. Last Monday we had a five minute phone call during which I asked him to tell me what is the rationale for the choice of these people. I told him that I have to understand and at least to explain to our shareholders who they are.

His answer was "Tell the truth. Say that you do not know". I told him that we are subject to SEC disclosure obligations and have a market cap of \$350M+ with more than 200 employees and duties and legal obligations with our partners and we cannot be irresponsible. He promised to call me the same day. Today he has yet to call me back.

Based on the information provided in support of the resolutions, it does not appear that the three candidates proposed by affiliates of Mr. Schafer have the depth of skills, business experience or relationships in the pharmaceutical industry that are offered by our eight experienced members which include the new candidates proposed by Flamel.

### **In Conclusion**

While I do not expect that shareholders will vote in favor of the election of the candidates proposed by entities affiliated with Mr. Schafer, I want to be clear and honest with my shareholders, my employees and the pharmaceutical industry generally. I will resign my position of CEO of Flamel and I will sell my shares and my stock-options if these candidates are elected.

In this dramatic case for Flamel, I will regret sincerely for all of you who trusted me to lead this company to the future.

Saying that, I am very confident that the majority of Flamel's shareholders will appreciate the strength of the company and of our present board of directors.

My vision is that Flamel today is on the verge of major success. Flamel is also leading the race to market new formulations of proteins with its Medusa platform. We have high expectations for Basulin, for long-acting interferon alpha for hepatitis C treatment, and for long-acting interleukin 2 for cancer and AIDS treatment. There are more than 10 ongoing projects based on blockbusters well advanced in our pipeline, and there is much more to do with Micropump and Medusa. Flamel's team is well respected in the industry and we are capturing more and more attention from big pharmaceutical and big biotech companies to partner our technologies.

We are perseverant and we are in a strong position to become a premier drug delivery company worldwide, with the potential to enhance shareholder value.

Sincerely,

Dr. Gerard Soula  
Founder, President and Chief Executive Officer  
Flamel Technologies, S.A.