

Name	Position	founders' warrants exercised in 2001	stock option or founders' warrant
Philippe Faurie	CEO, Arguin Communications	12,480	€2.29
		3,553	€4.57
Christophe Seveau	Director of Engineering, Wavecom Asia-Pacific Ltd.	9,500	€2.29
		2,500	€4.57
Philippe Calvez	Director of UMTS Program, Wavecom S.A.	5,001	€2.29
		3,591	€4.57
Michelle C��lie	Vice President, Software, Arguin Communications	5,836	€2.29
		1,970	€4.57
Antoine Bassompierre	Research and Development Manager, Wavecom S.A.	6,000	€2.29
Antoine Dambre	Vice President Engineering, Arguin Communications	4,369	€2.29
		1,159	€4.57
Herv�� Gagnard*	Director of Corporate Development and Communications	2,479	€2.29
		2,967	€4.57
Philippe Bech��	Director of Baseband Research & Development, Wavecom S.A.	3,750	€2.29
		1,220	€4.57
Philippe Thomasse	Research and Development Engineer, Wavecom S.A.	2,968	€2.29
		1,032	€4.57
Philippe Guillemette*	Director of Research and Development	3,123	€2.29
		468	€4.57

* Included in the group "executive officers and senior employees".

The exercise prices of options and founders' warrants are based upon the fair market value of the underlying shares on the date of the grant. Prior to our initial public offering, the fair market value was determined based upon a number of factors, including the price to earnings ratio for comparable publicly traded companies, our business prospects for the particular year and cash constraints. Based upon our increased value implied by the initial public offering price of our shares, we recorded a compensation charge relating to our stock options and founders' warrants granted in September 1998 and in February and April 1999.

Options expire ten years after the grant date. Founders' warrants, which were issued to our French tax resident employees expire after five years, as is required by French law. Any founders' warrants remaining unexercised at the expiration date automatically convert to stock options with a five-year term remaining. Founders' warrants were issued to French employees to take advantage of favorable tax treatment for both employees and Wavecom. These tax benefits are not available for stock options in France. Other than the expiration dates, the terms of the founders' warrants are identical to the stock options.

The following table sets forth information concerning outstanding options, founders' warrants and warrants at March 31, 2002.

Number of shares	Exercise price per share	Expiration date
379,856	€ 2.29	September 20, 2008
29,634	€ 4.57	February 8, 2009
414,659	€ 4.57	February 24, 2009
1,500	€ 4.57	April 26, 2009
149,900	€ 139.52	March 29, 2010
15,000	€ 150.00	March 14, 2005
172,970	€ 103.23	June 26, 2010
15,000	€ 103.23	June 26, 2005
38,500	€ 136.62	July 23, 2010
487,090	€ 69.86	December 19, 2010
61,000	€ 26.68	March 13, 2011
594,546	€ 34.66	June 29, 2011
427,000	€ 41.09	December 19, 2011

Employees and independent contractors

The number of employees and independent contractors as of the end of each of the past three years is as follows:

Year ended	Employees	Independent contractors and temporary employees
December 31, 2001	422	163
December 31, 2000	225	97
December 31, 1999	132	85

The majority of our employees are located in France, while 42 were located in Asia at December 31, 2001 (2000: 11; 1999: 4) and 51 were located in the United States at December 31, 2001 (2000: 3; 1999: 2).

As of December 31, 2001, of our 585 employees and independent contractors, 47 were engaged in sales and marketing (2000: 33; 1999: 22), 108 in production, assembly and quality control (2000: 51; 1999: 35), 354 in research and development (2000: 188; 1999: 130) and 76 in general and administrative services (2000: 52; 1999: 30).

We believe that the level of competency of our personnel and the spirit of team work and cooperation that exists among them are our principle resources and this allows us to have a stable environment and to attract the best talent. For this reason, we strive for employee retention through different methods, including competitive compensation and option and warrant programs. The options and warrants granted to our employees represent potentially 14.4% of our fully-diluted share capital. We believe that we have good relations with our employees and their representatives and that, for this reason, we have a low rate of employee turnover (5% in 2001 and 6.2% in 2000).

Employment contracts with all of our employees in France are subject to the provisions of the *convention collective SYNTEC*, the collective bargaining agreement applicable to employees in our industry. In addition, as is required by French law, our management holds periodic meetings with employee representatives of the Workers Committee (*comité d'entreprise*).

French employers are subject to a law limiting the workweek to 35 hours. This law is implemented on the basis of two employee categories. In this respect, we established an implementation plan with respect to both categories, in 2000, for which we received final validation in 2001 by the collective bargaining organization with which we negotiated.

Item 7. Major Shareholders and Related Party Transactions

Major Shareholders

The following table sets forth certain information regarding beneficial ownership of our shares (including ADSs) as for each person known by us to own beneficially more than 5% of our outstanding shares (none of whom has voting rights which are different from our other shareholders) of June 14, 2002, based on our legal share capital of 14,810,614 shares as of that date. To our knowledge, we are not directly or indirectly owned or controlled by any corporation or by any foreign government.

Name of beneficial owner	Shares beneficially owned	
	Number	Percent
Michel Alard(1)	2,198,737	14.8
Aram Hékimian(2)	2,332,373	15.7
Delphis	1,061,962	7.2
Lansdowne Partners(3)	752,653	5.1
J.P. Morgan(4)	851,607	5.7

(1) Michel Alard's share total includes 42,358 shares owned by a personal investment company owned and controlled jointly by Mr Alard and his wife; 234,198 shares held of record by Mr. Alard's wife; 779,790 shares held of record by his son; and 780,000 shares held of record by his daughter. Mr. Alard has the right to vote 696,000 of the shares held by his daughter and 696,000 of the shares held by his son. Mr. Alard disclaims beneficial ownership of the 234,198 shares owned by his wife, 84,000 shares owned by his daughter and 83,790 shares owned by his son.

(2) Aram Hékimian's share total includes 184,491 shares held of record by Mr. Hékimian's wife and 1,400,000 shares held by his minor children. Mr. Hékimian has the right to vote or sell the shares owned by his minor children. Mr. Hékimian disclaims beneficial ownership of all shares owned by his wife.

- (3) Number of shares or ADRs held as of January 31, 2002, the date at which Lansdowne Partners declared to Wavecom to have crossed the 5% shareholding threshold, as required by our by-laws.
- (4) Number of shares or ADRs held as of May 1, 2002, the date at which J.P. Morgan declared to Wavecom to have crossed the 5% shareholding threshold, as required by our by-laws.

Major changes in ownership

Several of our directors and executive officers sold shares in our initial public offering in June 1999, in our follow-on public offering in June 2000 and during the course of 2001. The following table sets forth the related changes in these holdings as a percentage of our outstanding shares:

Name	Percentage at January 1, 1999	Percentage at December 31, 1999	Percentage at December 31, 2000	Percentage at December 31, 2001
Michel Alard	27.3	19.4	16.4	16.3
Aram Hékimian	27.5	19.5	16.6	16.6
Delphis	13.7	10.0	8.6	9.1
André Jolivet	27.4	19.5	14.7	<5.0

Distribution of Shareholdings

The approximate number of record holders of our ADSs and shares in the U.S. on June 14, 2002 was 3 registered holders of ADSs and no registered holders of shares. Our ADSs held in the U.S. represented approximately 6.2% of our issued and outstanding shares as of such date. Our ADSs are issued by The Bank of New York, as depository. Each ADS evidences one share.

Related Party Transactions

In December 2000, we entered into a consulting agreement with Delphis. Delphis, represented by Marc Fourrier, is a major shareholder and member of our board of directors. The agreement calls for Mr. Fourrier to provide consulting services in the areas of corporate organization, information systems and general management from time to time, but for a maximum of two days per week. Such services are compensated at the rate of €1,448 per day. During the year ended December 31, 2001, Delphis was paid €17,303 (€8,826 in 2000).

In November 2001, we loaned \$200,000 to a senior employee. The loan bears a market rate of interest, is repayable in three years and is secured by a lien on the employee's residence. As of June 14, 2002, the outstanding principal balance of this loan was \$200,000.

We were not a party to any other related-party transactions during 2001.

Item 8. Financial Information

Financial Statements

See Item 18 and the financial statements beginning on page F-1 of this annual report.

Legal Proceedings

We are not currently a party to any material legal proceedings or aware of any threatened or potential material legal proceedings.

Dividends

Wavecom did not declare any dividends in 1999, 2000 or in 2001. We intend to retain any future earnings for investment in the development and expansion of our business and do not expect to pay any cash dividends on our shares in the foreseeable future.

Item 9. The Offer and Listing**Price Range of Shares and ADSs**

Our shares have been listed on the *Euronext Nouveau Marché* of the Paris Bourse since June 14, 1999 and our ADSs have been quoted on the Nasdaq National Market under the symbol "WVCM" since June 9, 1999. The following table sets forth the range of high and low closing sale prices of our shares and ADSs for the periods indicated:

	Per Share		Per ADS	
	High	Low	High	Low
Year ended December 31, 2000				
First Quarter	€ 166.90	€ 66.00	\$ 168.87	\$ 64.50
Second Quarter	€ 127.00	€ 76.10	\$ 110.00	\$ 70.00
Third Quarter	€ 161.50	€ 113.50	\$ 149.75	\$ 104.00
Fourth Quarter	€ 138.00	€ 53.00	\$ 119.50	\$ 44.00
Year ended December 31, 2001				
First Quarter	€ 67.00	€ 17.17	\$ 67.13	\$ 15.00
Second Quarter	€ 44.20	€ 16.70	\$ 36.60	\$ 15.25
Third Quarter	€ 34.00	€ 16.06	\$ 30.00	\$ 15.75
Fourth Quarter	€ 45.06	€ 37.51	\$ 39.99	\$ 16.96
November 2001	€ 42.65	€ 31.75	\$ 28.75	\$ 39.60
December 2001	€ 45.06	€ 39.00	\$ 35.75	\$ 39.99
Year ending December 31, 2002				
January 2002	€ 46.50	€ 35.60	\$ 41.56	\$ 30.50
February 2002	€ 38.07	€ 34.00	\$ 33.75	\$ 29.60
March 2002	€ 37.73	€ 28.75	\$ 32.89	\$ 24.81
April 2002	€ 40.20	€ 27.90	\$ 36.50	\$ 24.10
May 2002	€ 48.28	€ 37.30	\$ 44.85	\$ 33.76
June 2002 (through June 24, 2002)	€ 43.70	€ 37.20	\$ 41.65	\$ 36.00

On June 24, 2002, the last reported sale price for our ADSs on the Nasdaq National Market was \$36.00 per ADS and the last reported sale price for our shares on the *Nouveau Marché* was €37.20 per share.

Item 10. Additional Information**Memorandum and articles of association****General**

This section summarizes the material rights of holders of our shares under French law and the material provisions of our by-laws or *statuts*. The description of our share capital is only a summary and does not describe everything that our by-laws contain. Copies of our by-laws are publicly available from the *registre du commerce et des sociétés* in Nanterre, France, and an English translation of our by-laws is attached as exhibit 1 to this annual report. A description of certain limitations affecting shareholders of a French company and the material rights of holders of our ADSs may be found in Amendment No. 1 to our registration statement on Form F-1, registration number 333-11764, dated and filed with the Securities and Exchange Commission on June 6, 2000, under the headings "Limitations Affecting Shareholders of a French Company" and "Descriptions of American Depositary Receipts," respectively.

Objects and purposes

Our objects and purposes, as specified in Article 3 of our by-laws, are, in France and abroad: fundamental and applied research; and the development of systems and products in the areas of radio-transmission, radio-communication, telecommunications, electronics and data processing markets; and, within these sectors: the design, manufacturing and commercialization of components, products and software; any provision of services; the registration and exploitation of patterns, patents, trademarks, and manufacturing processes; the establishment, organization, and delivery of lectures, seminars, debates, conferences and more

generally of any activity relating to training schemes; the publishing of books, newspapers, information bulletins, articles and the distribution of any audio-visual aids; the direct or indirect holding of shares within any existing companies or companies to be set up, the business purposes of which is linked, related or similar to that of the company; and more generally, any industrial, commercial, financial, civil, personal property or real estate operations directly or indirectly linked to the business purposes hereabove stated or related or similar to business purposes or likely to facilitate the performance or development thereof.

Directors

For additional information regarding our board of directors, please see "Item 6—Directors, Senior Management and Employees—Board of Directors." and "—Compensation of Directors and Officers."

Composition of share capital

We have only one class of shares. As of June 24, 2002, this class consisted of 14,810,614 authorized ordinary shares, nominal value €1 per share, resulting in a share capital of €14,810,614 in nominal value, all of which shares were outstanding as of such date. All of our outstanding shares are fully paid. Each share is entitled to one vote on all matters submitted to our shareholders.

Dividend and liquidation rights

We may make dividend distributions to our shareholders from net income in each fiscal year (after deductions for depreciation and reserves), as increased or reduced by any profit or loss carried forward from prior years, and less any contributions to reserves. These distributions are also subject to the requirements of French law and our by-laws.

Under French law, we must allocate 5% of our net profits in each fiscal year to a legal reserve fund until the amount in that fund is equal to 10% of the nominal amount of our share capital. The legal reserve is distributable only upon our liquidation.

Upon recommendation of our board of directors, our shareholders may decide to allocate all or a part of any distributable profits among special or general reserves, to carry them forward to the next fiscal year as retained earnings, or to allocate them to the shareholders as dividends. Shareholders holding a certain percentage (1.83% of a share capital of €14.8 million) of our shares may require our board of directors to propose the declaration of a dividend at an ordinary general meeting of shareholders. If shareholders at this meeting approve the proposal, dividends are declared.

Our by-laws provide that reserves that are available for distribution under French law and our by-laws may be distributed as dividends, subject to shareholder approval and other limitations. We may distribute dividends in shares instead of paying cash dividends.

If our interim income statement certified by our auditors shows that we have made distributable profits since the end of the preceding fiscal year, our board of directors may, subject to French law and regulations, distribute interim dividends without the approval of shareholders. An interim dividend may not exceed distributed profits.

Under French law, we must distribute dividends to our shareholders pro rata according to their share holdings. Dividends are payable to holders of shares outstanding on the date of the shareholders' meeting approving the distribution of dividends or, in the case of interim dividends, on the date our board of directors meets and approves the distribution of interim dividends. The actual dividend payment date is decided by our shareholders at an ordinary general meeting, or by our board of directors, if no decision is taken by our shareholders. The payment of the dividends must occur within nine months of the end of our fiscal year. Under French law, dividends not claimed within five years of the date of payment revert to the French State.

In the event that Wavecom is liquidated, our assets remaining after payment of our debts, liquidation expenses and all of our other remaining obligations will be distributed first to repay the nominal value of our shares. After these payments have been made, any surplus will be distributed pro rata among the holders of shares based on the nominal value of their shareholdings.

Changes in share capital

We may increase our share capital only with approval of our shareholders at an extraordinary general meeting. There are two methods to increase share capital: the issuance of additional shares (including the creation of a new class of shares) and the increase in the nominal value of existing shares. We may issue additional shares for cash or for assets contributed in kind, upon the conversion of debt securities that we may have issued, by capitalization of our reserves or, subject to certain conditions, in satisfaction of our indebtedness. Although currently we have only one class of shares, French law permits different classes of shares to have different liquidation, voting and dividend rights.

We may decrease our share capital only with the approval of our shareholders at an extraordinary general meeting. There are two methods to reduce our share capital: the reduction of the number of shares outstanding and the decrease in the nominal value of our shares. The conditions under which the share capital may be reduced will vary depending upon whether the reduction is attributable to losses. We may reduce the number of outstanding shares either by an exchange of shares or by the repurchase and cancellation of our shares. Any decrease must meet the requirements of French company law, which states that all the holders of shares in each class of shares must be treated equally unless the affected shareholders otherwise agree.

Attendance and voting at shareholders' meetings

French companies may hold either ordinary or extraordinary general meetings of shareholders. Ordinary general meetings are required for matters that are not specifically reserved by law to the extraordinary general meetings: the election of the members of the board of directors, the appointment of statutory auditors, the approval of a management report prepared by the board of directors, the approval of the annual accounts, the declaration of dividends and the issuance of bonds. Extraordinary general meetings are required for approval of amendments to our by-laws, modification of shareholders' rights, mergers, increases or decreases in share capital (including a waiver of preferential subscription rights), the creation of a new class of shares, the authorization of the issuance of investment certificates or securities convertible or exchangeable into shares and for the sale or transfer of substantially all of our assets.

Our board of directors is required to convene an annual general meeting of shareholders for approval of the annual accounts. This meeting must be held within six months of the end of our fiscal year. However, the president of the *tribunal de commerce*, the French commercial court, may order an extension of this six-month period. We may convene other ordinary and extraordinary meetings at any time during the year. Meetings of shareholders may be convened by our board of directors or, if it fails to call a meeting, by our statutory auditors or by a court-appointed agent. A shareholder or shareholders holding at least 5% of our share capital, a duly authorized association of shareholders holding their shares in registered form for at least two years and holding a certain percentage of our voting rights, or the Employee Committee or another interested party under certain circumstances, may request that the court appoint an agent. The notice of a meeting must state the agenda for the meeting.

French law requires that a preliminary notice of a listed company's general shareholders' meeting be published in the *Bulletin des Annonces Légales Obligatoires* ("BALO") at least 30 days prior to the meeting. The preliminary notice must first be sent to the French securities authority, the *Commission des Opérations de Bourse* ("COB") with an indication of the date it is to be published in the BALO. The COB also recommends that such preliminary notice be published in a newspaper of national circulation in France. The preliminary notice must include the agenda of the meeting and a draft of the resolutions that will be submitted to a shareholders' vote. Within 10 days of publication, one or more shareholders holding a certain percentage (1.83% of a share capital of €14.8 million) of our share capital, or a duly authorized association of shareholders holding their shares in registered form for at least two years and holding a certain percentage of our voting rights (as of today 1.83%) may propose additional resolutions.

Notice of a general shareholders' meeting must be sent by mail at least 15 days before the meeting to all holders of registered shares who have held their shares for more than one month. However, in the case where quorum was not met and the original meeting was adjourned, this time period is reduced to six days. Notice of the meeting must also be published in BALO, after having first been sent to the COB. The notice must include the agenda of the meeting and a draft of the resolutions that will be submitted to a shareholders' vote.

Attendance and the exercise of voting rights at both ordinary and extraordinary general meetings of shareholders are subject to certain conditions. Under our by-laws, in order to participate in any general meeting, a holder of registered shares must have the shares registered in its name in a shareholder account maintained by or on behalf of Wavecom at least one day prior to the meeting. Similarly, a holder of bearer shares must obtain a certificate (*certificat d'immobilisation*) from the accredited financial intermediary (*intermédiaire financier habilité*) with whom the holder has deposited its shares. This certificate must indicate the number of bearer shares held and evidence the holding of such shares in its account until the date of the meeting. The certificate must be deposited at a place specified in the notice of the meeting at least one day before the meeting.

Subject to the above restrictions, all of our shareholders have the right to participate in our general meetings, either in person or by proxy. Shareholders may vote, either in person, by proxy or by mail, and their votes are counted in proportion to the number of shares they hold. A shareholder may grant a proxy to his or her spouse, to another shareholder or, if the shareholder is a corporation, to a legal representative. A shareholder may grant a proxy to us by returning a blank proxy form. In this last case, the chairman of the shareholders' meeting will vote the shares in favor of all resolutions proposed by the board of directors and against all others. Proxy forms will be sent to shareholders upon request. In order to be counted, proxies must be received prior to the general shareholders' meeting at our registered office or at another address indicated in the notice convening the meeting. We must send our shareholders forms to vote by mail and these forms must be received by us at least three days prior to the date of a meeting in order to be valid. Under French law, our shares held by entities controlled directly or indirectly by Wavecom are not entitled to voting rights. There is no requirement that a shareholder have a minimum number of shares in order to be able to attend or be

represented at an extraordinary general meeting.

Under French law, a quorum requires the presence, in person or by proxy (including those voting by mail) of shareholders having at least (1) 25% of the shares entitled to vote in the case of an ordinary general shareholders' meeting or at an extraordinary general meeting where shareholders are voting on a capital increase by capitalization of reserves, profits or share premium, or (2) 33.3% of the shares entitled to vote in the case of any other extraordinary general shareholders' meeting. If a quorum is not present at any meeting, the meeting is adjourned. There is no quorum requirement when an ordinary general meeting is reconvened, but the reconvened meeting may consider only questions which were on the agenda of the adjourned meeting. When an extraordinary general meeting is reconvened, the quorum required is 25% of the shares entitled to vote, except where the reconvened meeting is considering capital increases through capitalization of reserves, profits or share premium. For these matters, no quorum is required at the reconvened meeting. If a quorum is not present at a reconvened meeting requiring a quorum, then the meeting may be adjourned for a maximum of two months.

At an ordinary general meeting, approval of any resolution requires the affirmative vote of a simple majority of the votes of the shareholders present or represented by proxy. The approval of any resolution at an extraordinary general meeting requires the affirmative vote of a two-thirds majority of the votes cast, except that any resolution to approve a capital increase by capitalization of reserves only requires the affirmative vote of a simple majority of the votes cast. Notwithstanding these rules, a unanimous vote is required to increase shareholders' liabilities. Abstention from voting by those present or represented by proxy is counted as a vote against any resolution submitted to a vote.

In addition to the right to obtain certain information regarding Wavecom, any shareholder may, during the two-week period preceding a shareholders' meeting, submit written questions relating to the agenda for the meeting to our board of directors. Our board of directors is required to respond to these questions during the meeting.

As set forth in our by-laws, shareholders' meetings are held at our registered office or at any other location specified in the written notice.

Preferential subscription rights

Holders of our shares have preferential rights to subscribe on a pro rata basis for an additional number of our shares or any of our other equity securities or other securities giving a right, directly or indirectly, to equity securities issued by us for cash. Shareholders may waive their preferential rights, either individually or, under certain circumstances, as a group at an extraordinary general meeting. During the subscription period relating to a particular offering of shares, shareholders may transfer their preferential subscription rights that they have not previously waived. To the extent permitted under French law, we intend to seek shareholder approval to waive preferential subscription rights at each annual general meeting of shareholders.

Form and holding of shares

Form of shares

Our by-laws provide that our shares may be held in either registered or bearer form at the option of the shareholder. Shares traded on the *Nouveau Marché* are cleared and settled through Sicovam, a continuous net settlement system. We may use the procedure known as *titres au porteur identifiable* according to which Sicovam will, upon our request, disclose to us the name, nationality, address and number of shares held by each shareholder. This information may be requested only by us and may not be communicated to third parties.

Holding of shares

In accordance with French law concerning the "dematerialization" of securities, the ownership rights of shareholders are represented by book entries instead of share certificates. Registered shares are entered into an account maintained by us or by a representative that we have nominated, while shares in bearer form must be held in an account maintained by an accredited financial intermediary on the shareholder's behalf.

With respect to all shares in registered form we maintain a share account with Sicovam which is administered by BNP Paribas Group, acting through Paribas. In addition, we maintain accounts in the name of each shareholder either directly or, at a shareholder's request, through such shareholder's accredited intermediary, in separate accounts maintained by BNP Paribas Group, acting through Paribas on our behalf. Each shareholder's account shows the name and number of shares held and, in the case of shares registered through an accredited financial intermediary, the fact that they are so held. BNP Paribas Group, acting through Paribas, as a matter of course, issues confirmations to each registered shareholder as to shares registered in a shareholder's account, but these confirmations do not constitute documents of title.

Shares held in bearer form are held and registered on the shareholder's behalf in an account maintained by an accredited financial intermediary and are credited to an account at Sicovam maintained by the intermediary. Each accredited financial intermediary maintains a record of shares held through it and will issue certificates of inscription for the shares that it holds. Transfers of shares held in bearer form only may be made through accredited financial intermediaries and Sicovam.

Repurchase and redemption of shares

Under French law, we may not acquire our shares except:

- (1) to reduce our share capital under certain circumstances with the approval of our shareholders at an extraordinary general meeting,
- (2) to provide shares for distribution to employees under a profit-sharing or share option plan, and
- (3) for a specific purpose (including stabilization of quotations on a French regulated stock exchange) approved by our shareholders at an ordinary general meeting, such shareholders' authorization being given for a period to be decided by the shareholders' resolution and which may not exceed 18 months.

The amounts repurchased under (2) and (3) may not, in either case, result in us holding more than 10% of our issued shares. In the event that such repurchases result in us holding more than 10% of our issued shares, we are required to transfer any shares in excess of the 10% threshold within one year. French law requires that we cancel any shares in excess of this 10% limit that have not been transferred within the one-year period. Shares repurchased under (3) may be cancelled by an extraordinary general shareholders' meeting, although no more than 10% of our registered capital may be cancelled in any 24-month period.

With respect to (3) above, at a general meeting of shareholders held on April 29, 1999, our shareholders authorized us to purchase our shares representing up to 10% of our share capital until October 29, 2000. At a general meeting of shareholders held on December 20, 2000, our shareholders renewed this authorization for an additional 18-month period until June 20, 2002. In the event this authorization is used, we will have to notify the COB in advance and on a monthly basis of our trading program in our own shares. We are also required to report all other trades we make in our shares to the COB and, on a monthly basis, to the *Conseil des Marchés Financiers* ("CMF"), the self-regulatory organization that has general regulatory authority over the French stock exchanges and whose members include representatives of French stockbrokers.

When we purchase our own shares, they must be held in registered form and be fully paid. These shares are deemed to be outstanding under French law, but are not entitled to any dividends or voting rights, and we may not exercise preferential subscription rights. Our shareholders, at an extraordinary general meeting, may decide not to take such shares into account in determining the preferential subscription rights attached to the other shares. In the absence of such a decision, the rights attached to any shares held by us must either be sold on the market before the end of the subscription period or distributed to other shareholders on a pro rata basis.

Cross shareholdings and holding of our shares by our subsidiaries

French law prohibits a company from holding our shares if we hold more than 10% of that company's share capital and we may not own any interest in a French company holding more than 10% of our share capital. In the event of a cross shareholding that violates this rule, the company owning the smaller percentage of shares in the other company must sell its interest. Until sold, these shares are deprived of their voting rights. Failure by the officers and directors of a company to sell these shares is a criminal offense.

In the event that one of our subsidiaries holds our shares, these shares are deprived of their voting rights. However, French law does not require the subsidiary to sell the shares.

Requirement for holdings exceeding certain percentages

French law provides that any individual or entity, acting alone or in concert with others, that holds, directly or indirectly, more than 5%, 10%, 20%, 33²/₃%, 50% or 66²/₃% of our outstanding voting shares or the voting rights attached to our shares, or that increases or decreases its shareholding or voting rights thereof by any such percentage, must notify us by registered letter (with return receipt) within 15 calendar days of crossing such threshold, of the number of shares and voting rights it holds. Such individual or entity must also notify the CMF by registered letter (with return receipt) within five trading days of crossing such threshold. Any shareholder who fails to comply with these requirements may have all or part of its voting rights suspended for up to five years by the Commercial Court at the request of our Chairman, any of our shareholders or the COB, and may be subject to a

fine.

In addition, Article 7.2 of our by-laws provide that every shareholder (including a holder of ADSs) who, directly or indirectly, acting alone or in concert with others, acquires ownership or control of shares representing 5%, or any multiple of 5%, of our share capital or voting rights, or whose holding falls below any such limit, shall be required to notify us of such fact by registered letter (with return receipt) within 15 days of such acquisition or disposition. Failure to comply with such notification provisions will result in the suspension of the voting rights attached to the shares exceeding such 5% threshold held by such shareholder for all shareholders' meetings until the end of a two-year period following the date on which their owner complies with the notification requirements if requested by one or more shareholders holding shares representing at least 5% of our share capital or voting rights.

French law and COB regulations impose additional reporting requirements on persons who acquire more than 10% or 20% of the outstanding shares or voting rights of a listed company. These persons must file a report with the company, the COB and the CMF within fifteen days of the date they cross the threshold. In the report, the acquiror must specify its intentions for the following 12-month period, including whether or not it intends to continue its purchases, to acquire control of the company in question or to nominate candidates for the board of directors. The CMF makes the notice public. The acquiror must also publish a press release stating its intentions in a financial newspaper of national circulation in France. The acquiror may amend its stated intentions, provided that it does so on the basis of significant changes in its own situation or that of its shareholders. Upon any change of intention, it must file a new report.

Under CMF regulations, and subject to limited exemptions granted by the CMF, any person or persons acting in concert that own in excess of one third of the share capital or voting rights of a French listed company must initiate a public tender offer for the balance of the share capital of such company.

To permit holders to give the required notice, we are required to publish in the BALO no later than 15 calendar days after the annual ordinary general meeting of shareholders information with respect to the total number of voting rights outstanding as of the date of such meeting. In addition, if the number of outstanding voting rights changes by 5% or more between two annual ordinary general meetings, we are required to publish in the BALO, within 15 calendar days of such change, the number of voting rights outstanding and provide the CMF with written notice of such information. The CMF publishes the total number of voting rights so notified by all listed companies in a weekly notice (*avis*), noting the date each such number was last updated.

Material Contracts

This section provides a summary of all material contracts to which we are a party and that are to be performed in whole or in part after the date hereof or that have otherwise been entered into during the two immediately preceding financial years. The full text of the agreements discussed below is available as exhibits to our registration statements on Form F-1, registration numbers 333-10372 and 333-11764, filed with the SEC on June 2, 1999 and March 31, 2000, respectively, as amended.

In July 1999 we entered into an agreement relating to the development and manufacture of GSM modules with Amtal International Limited. Amtal, acting as agent for TCL Industrial Holdings Limited, agreed to purchase an initial order of 200,000 WISMO modules. The WISMO modules provided pursuant to this agreement are for use in mobile telephones. We commenced shipment under the agreement in July 2000 and completed the initial shipment in early 2001. We are continuing to ship WISMO modules to Amtal under the agreement. Changes in the WISMO module price may be made by Wavecom with 90 days prior notice. The agreement may be terminated with written notice at least 180 days prior to the date of termination.

In February 2000, we entered into an agreement relating to the development and manufacture of a GSM hand held portable with NEC Corporation. The contract called for an initial order by NEC of 600,000 WISMO modules to be delivered within the first 12 months of production. The WISMO modules to be provided pursuant to this agreement are based on the WISMO 2C dual-band GSM modules and are for use in mobile telephones. The agreement provides for us paying NEC liquidated damages in the event that certain development schedule milestones are not met. The price to be paid per WISMO module shall be reviewed each quarter and may be amended with the written agreement of both parties. The agreement may be terminated with 90 days prior written notice if either party fails to perform a material obligation of the Agreement and such failure is not remedied within 30 days. We began delivering product to NEC Corporation in 2001 and the agreement is still in force.

In June 1999, we entered into a contract for manufacturing and related services with Solectron-France S.A. Pursuant to this agreement, Solectron manufactures, assembles and tests our WISMO module lines. We are required to provide Solectron with certain specified components necessary for the manufacturing of WISMO modules and Solectron provides other specified components. The price to be paid by us per product is to be reviewed every three months, with a new price mutually agreed by the parties to be effective for the upcoming three-month period. The term of the agreement expires on June 30, 2002. We are currently in the process of renegotiating to extend the agreement and to amend the pricing procedure so that prices will be reviewed every month.

In February 2000 we entered into an agreement with Funkanlagen. This agreement calls for an initial order of 100,000 WISMO modules to be delivered over a 14-month period. The WISMO modules provided pursuant to this agreement are for use in telemetry applications. We commenced shipment under the agreement in March 2000 and completed the initial shipment by the end of 2001. We are continuing to ship WISMO modules to Funkanlagen under the agreement. We are required to give Funkanlagen 60 days prior notice of any price modifications for our products. The agreement may be terminated by either party by providing written notice of termination 180 days prior to the effective date of termination.

In January 1999, October 2001, January 2002 and May 2002, we entered into cross license agreements with Motorola Inc., Philips N.V. Siemens A.G. and Qualcomm Inc. respectively. For a summary of each of these agreements, please see "Item 4—Information on the Company—Intellectual Property."

Exchange Controls

See "Limitations Affecting Shareholders of a French Company" in Amendment No. 1 to our registration statement on Form F-1, registration number 333-11764, dated and filed with the Securities and Exchange Commission on June 6, 2000.

Taxation

French Taxation

The following discussion generally summarizes the material French tax consequences of purchasing, owning and disposing of shares and ADSs. This discussion is based on the laws in force on the date of this annual report, and is subject to any changes in applicable French laws or in any applicable double taxation conventions or treaties with France and another country or territory occurring after this date.

There are currently no procedures available for non-U.S. residents who are holders of ADSs or shares to claim or receive from the French tax authorities any tax treaty benefits with respect to dividends. These benefits include payment of the *avoir fiscal* and potential reduced withholding tax rates, that a holder may be entitled to receive under a treaty between France and the holder's country of residence. Those considering the purchase of shares or of ADSs, including non-U.S. residents, are urged to consult their own tax advisors concerning the consequences of purchase, ownership and disposition of ADSs.

Taxation on sale or disposition of shares or ADSs

Non-residents of France are generally not subject to any French income tax or capital gains tax on the sale or disposition of shares or ADSs, unless they have held, either individually or jointly with family members, directly or indirectly, more than 25% of the dividend rights (*bénéfices sociaux*) of the company at any time during the five preceding years. This rule may be modified by more favorable provisions of a tax treaty. Foreign states, international organizations and certain public bodies are generally not French residents for French tax purposes.

If a transfer of a listed company's shares is evidenced by a written agreement, that agreement is, in principle, subject to registration formalities, including a 1% registration duty assessed on the greater of the purchase price or the market value of the shares (subject to a maximum assessment of €3,049 per transfer). Generally, no such duty is due if the agreement providing the transfer of a listed company's shares is effected by means of a written agreement that is executed outside France. In general, no stock exchange stamp tax is payable on the sale of shares by non-French residents. Prospective investors in shares or ADSs should consult their own advisors concerning the applicability of French transfer tax to any agreement evidencing the transfer of their shares or ADSs.

Taxation of dividends on shares

Under French law, our dividends are paid out of after-tax income. French residents are entitled to a tax credit, known as the *avoir fiscal*, equal to 50% of any dividend we pay. However, Article 9-IV of the 2001 Finance Law provides that, subject to certain limited exceptions, the rate of the *avoir fiscal* is reduced to 25% in 2001 and 15% in 2002 of the dividend paid when used or received by persons other than individuals. Dividends paid to non-French residents normally are subject to a 25% French withholding tax and non-residents are not eligible for the benefit of the *avoir fiscal*. Non-resident holders that are entitled to and comply with the procedures for claiming benefits under an applicable tax treaty may benefit from a reduced rate of withholding tax and may be entitled to a tax credit in their country of residence equal to the amount of the tax withheld in France. They also may be entitled to receive a refund of the *avoir fiscal*, as described below.

France has entered into treaties with the following countries, territories and *Territoires d'Outre-Mer* under which qualifying

residents are entitled to obtain, from the French tax authorities, a reduction (generally to 15%) of all or part of the French withholding tax and a refund of the *avoir fiscal* (net of applicable withholding tax). In the case of German tax residents, a tax credit in an amount equal to, and in lieu of the applicable *avoir fiscal* is available. Treaties with some of the countries or territories listed below contain specific limitations applicable to corporate entities' eligibility to the benefit of the *avoir fiscal* or limit the right to such a refund strictly to individual residents as opposed to corporate entities.

Countries

Australia	Mexico
Austria	Netherlands
Belgium	New Zealand
Bolivia	Niger
Brazil	Norway
Burkina Faso	Pakistan
Cameroon	Senegal
Canada	Singapore
Finland	South Korea
Gabon	Spain
Ghana	Sweden
Germany	Switzerland
Iceland	Togo
India	Turkey
Israel	United Kingdom
Italy	United States of America
Ivory Coast	Venezuela
Japan	
Luxembourg	<i>Territoires d'Outre Mer and Others</i>
Malaysia	
Mali	Mayotte
Malta	New Caledonia
Mauritius	Saint-Pierre et Miquelon

Dividends paid to non-residents of France benefiting from the *avoir fiscal* in accordance with a tax treaty (other than German residents) will be subject at the time of payment to withholding tax at the reduced rate, as provided in the applicable treaty rather than to the 25% French withholding tax, provided that they establish their entitlement to the reduced rate before the payment of the dividend.

French companies that distribute dividends out of profits which were not taxed at the ordinary corporate rate, or which have been earned and taxed more than five years before the distribution of the dividend must pay an equalization tax called *précompte* equal to 50% of the net dividend before withholding tax. When a tax treaty does not provide for a refund of the *avoir fiscal* or when the non-resident investor is not entitled to such refund but otherwise is entitled to the benefits of a tax treaty, that investor may obtain from the French tax authorities a refund, net of applicable withholding tax, of the *précompte* paid in cash by the company, if any.

Estate and gift tax

France imposes estate and gift tax on the shares of a French company acquired by inheritance or gift from a non-resident of France. France has entered into estate and gift tax treaties with a number of countries under which, assuming certain conditions are met, residents of the treaty countries may be exempted from estate and gift taxes or may obtain a tax credit. Prospective investors in shares or ADSs should consult their own advisors concerning the applicability of French estate and gift tax to their investment in Wavecom and the availability of, and the conditions for claiming exemption under an applicable treaty.

Wealth tax

In the absence of a more favorable tax treaty, the French wealth tax (*impôt de solidarité sur la fortune*) does not apply to non-French resident individual investors owning directly or indirectly less than 10% of the company's share capital.

Taxation of U.S. Investors

The following discussion generally summarizes the material U.S. federal tax consequences and the material French tax

consequences of the purchase, ownership and disposition of shares or ADSs by holders who are for United States federal income tax purposes:

- citizens or residents of the United States,
- corporations or other entities treated as such, organized in or under the laws of the United States or of any political subdivision thereof,
- estates, the income of which is subject to U.S. federal income taxation regardless of the source of such income, or
- trusts, the administration of which are subject to the primary supervision of U.S. courts and one or more persons just described have the authority to control all substantial decisions of the trusts,

and, solely for purposes of the discussion of French tax consequences below, only the above-described holders:

- whose ownership of shares or ADSs is not effectively connected with a permanent establishment or fixed base in France,
- who, in the case of individuals or other non-corporate holders, other than partnerships or trusts, are residents of the United States,
- that, in the case of United States corporations other than regulated investment companies, do not own, directly or indirectly, 10% or more of our outstanding voting share capital,
- that, in the case of United States corporations that are regulated investment companies, do not own, directly or indirectly, 10% or more of our outstanding voting share capital if less than 20% of such corporation's shares are owned by persons who are not citizens or residents of the United States,
- that in the case of partnerships or trusts that are treated as residents of the United States as defined by the convention between the United States of America and France for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital dated August 31, 1994, to the extent that its partners, beneficiaries or grantors are themselves individuals or other non-corporate entities that are residents of the United States, or

United States corporations, other than regulated investment companies, that do not own, directly or indirectly, 10% or more of our outstanding voting share capital.

This discussion may not describe all of the tax considerations related to the purchase, ownership and disposition of shares or ADSs that may be relevant to an investor in light of that investor's particular tax situation. In particular, this discussion deals with holders that hold shares or ADSs as capital assets, as that term is defined in the Internal Revenue Code, and does not address the tax considerations relevant to investors that are subject to special tax rules, such as financial institutions, insurance companies, tax-exempt organizations, securities dealers, persons subject to the alternative minimum tax, persons that will hold shares or ADSs as part of an integrated investment, including a straddle, hedging or conversion transaction, comprised of shares or ADSs and one or more other positions for tax purposes and persons that have a functional currency other than the U.S. dollar. For a discussion of French tax matters relating to the holdings of shares or ADSs generally, see "French Taxation."

The statements on United States tax law are based on the tax laws and practice of the United States, and the statements on French tax law are based upon the tax laws and practice of France, in effect on the date of this annual report as well as on the U.S.-French income tax convention, all of which are subject to change. In addition, the statements are based in part upon the representations of the Bank of New York and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms. Owners and prospective purchasers of shares or ADSs should consult their own advisors as to the tax consequences of the purchase, ownership and disposition of shares or ADSs in light of their particular circumstances, including the effect of any state or local and other foreign tax laws.

French Taxation

The following discussion generally summarizes the material French tax consequences to holders of the acquisition, ownership and disposition of the shares or ADSs.

Holders of ADSs deemed to be owners of shares. For purposes of the convention, owners of ADSs will be treated as the owners of the shares represented by such ADSs. Exchanges, deposits and withdrawals of shares for ADSs or ADSs for shares by a holder will not result in the imposition of French tax.

Dividends. Dividends paid to non-residents of France generally are subject to French withholding tax at a 25% rate and are not eligible for the benefit of the *avoir fiscal*. The *avoir fiscal* is a tax credit available to French residents equal to 50% of the amount of dividends received from French companies such as ours. However, subject to certain limited exceptions, article 9-IV of the 2001 Finance Law provides that the rate of the *avoir fiscal* is reduced to 25% in 2001 and 15% in 2002 of the dividend paid when used or received by persons other than individuals. Such person may also be entitled to an additional tax credit equal to (i) 50% of the *précompte*, paid in cash if the *avoir fiscal* is calculated at a 25% rate or to (ii) 70% of the *précompte* paid in cash if the *avoir fiscal* is calculated at a 15% rate. Under the convention, the rate of French withholding tax on dividends paid to eligible holders is reduced to 15%. Such holders are also entitled to a payment equal to the *avoir fiscal* at the rate of 25% (for 2001), 15% (for 2002), or 50%, if the holder is an individual, less a 15% withholding tax. Subject to certain conditions, such holders may also benefit from the additional tax credit equal to 50% or 70% of the *précompte* as previously mentioned. Dividends paid to a holder will be immediately subject to the reduced rate of withholding of 15% at the time of payment, provided that such holder establishes before the date of payment that it is a resident of the United States under the convention and, if it is not an individual, that it is the owner of all the rights relating to the full ownership of the shares or ADSs, including, but not limited to, dividend rights. A holder generally will be entitled to receive a payment of the *avoir fiscal* only if such holder, or its partners, beneficiaries or grantors, if the holder is a partnership, estate or trust, is subject to U.S. federal income tax on the *avoir fiscal* payment and the dividend to which it relates.

Some entities are not entitled to the full *avoir fiscal*. Tax-exempt U.S. pension funds, various other tax-exempt entities, not-for-profit organizations and individuals (with respect to dividends beneficially owned by such individuals and derived from an investment retirement account) that own, directly and indirectly, less than 10% of our capital, and that satisfy certain filing formalities:

- (1) are entitled to a payment, subject to French withholding tax, equal to 30/85 of the gross *avoir fiscal*, and
- (2) are eligible for the imposition of the reduced withholding tax rate of 15% on dividends.

Currently, to benefit from the reduced rate of French withholding tax immediately upon payment of a dividend and to receive the payment of the *avoir fiscal* or the partial payment of the *avoir fiscal*, a holder must complete and file French Treasury Form RF 1A EU-No. 5052, Application for Refund, before the date of payment of the relevant dividend together with, if such holder is not an individual, an affidavit attesting that it is the beneficial owner of all the rights attached to the full ownership of such shares or ADSs including but not limited to dividend rights, or, if such holder is not the owner of all such rights, certain information concerning the holder of the rights other than the dividend rights. If completion of the French Treasury Form and the attached affidavit is not possible prior to the payment of dividends, the holder may, however, be eligible for the reduced rate of 15% at the time the dividends are paid if he duly and timely completes and provides to the French tax authorities prior to the payment of dividends a simplified certificate, stating that:

- the holder is a U.S. resident within the meaning of the convention,
- the holder has no permanent establishment or fixed based in France with which the holding giving rise to the dividend is effectively connected,
- the holder owns all the rights attached to the full ownership of the securities or shares, including but not limited to dividend rights, and
- the holder meets all the requirements of the convention for obtaining the benefit of the reduced rate of withholding tax and the refund of the French *avoir fiscal*. Finally, tax-exempt pension funds with a right to obtain a refund or a partial refund of *avoir fiscal* must also establish that they qualify as pension funds under the Internal Revenue Code.

The French Treasury Form RF 1A EU-No. 5052, Application for Refund, together with instructions, will be provided by the depositary to any ADR holder upon request. Copies are also available from the U.S. Internal Revenue Service. The depositary will arrange for the filing with the French tax authorities of all forms or certificates completed by holders and returned to the depositary in time for prompt filing with the French tax authorities. If the French Treasury Form is not timely filed, the holder may claim a refund of the excess withholding tax and may claim the *avoir fiscal* by filing the French Treasury Form before December 31 of the year following the year in which the related dividend is paid.

The *avoir fiscal* or partial *avoir fiscal* is generally expected to be paid to holders within 12 months of filing the French Treasury Form RF 1A EU-No. 5052, Application for Refund, but not before January 15 following the end of the calendar year in which the dividend is paid.

Amounts distributed as dividends by French companies out of profits which have not been taxed at the ordinary corporate income tax rate or which have been earned and taxed more than five years before the distribution are subject to a payment of an equalization tax called *précompte* by such companies equal to 50% of the net amount distributed. A holder not entitled to the full or partial *avoir fiscal* generally may obtain from the French tax authorities a refund of any *précompte*, at the rate of 50%, paid in cash, as opposed to any *précompte* paid by offsetting French and/or foreign tax credit, in respect of the dividends less the French withholding tax at the rate of 5 or 15%. Holders entitled to the refund of the *précompte* must apply for such refund by filing a French Treasury Form RF 1B EU-No. 5053 before the end of the year following the year in which the dividend was paid. The form, together with instructions, is available from the U.S. Internal Revenue Service or at the *Centre des Impôts des Non-Résidents* at 9, rue d'Uzès, 75094 Paris Cedex 2.

Sales of shares or ADSs. Under the convention, no French tax is levied on any capital gain derived from the sale of shares or ADSs by a holder.

Estate and gift tax. Under the estate and gift tax convention between the United States and France dated November 24, 1978, a transfer of shares or ADSs by gift or by reason of the death of a holder entitled to benefits under that convention will not be subject to French gift or inheritance tax, unless the donor or the decedent was domiciled in France at the time of making the gift, or of his or her death, or the shares or ADSs were used or held for use in the conduct of a business or profession through a permanent establishment or fixed base in France.

Wealth tax. The French Wealth Tax (*impôt de solidarité sur la fortune*) does not apply to a holder, provided that the holder does not own, individually or with related persons, directly or indirectly, shares or ADSs which collectively represent the right to at least 25% of the corporate earnings and the shares or ADSs are not part of the assets of a permanent establishment or a fixed base located in France.

Transfer taxes. Transfers of a listed company's shares will not be subject to French registration or transfer taxes, unless the transfer is effected by means of a written agreement that is executed within France. Should such written agreement be executed within France, it would be subject to transfer taxes at the rate of 1% to a maximum of €3,049 per transaction. A stock exchange stamp tax may be due in some cases.

United States Taxation

The following discussion generally summarizes the material U.S. federal income tax consequences to U.S. holders (as defined above), of the acquisition, ownership and disposition of the ADSs or shares.

Holders of ADSs deemed to be owners of shares. For purposes of the Internal Revenue Code, a U.S. holder of ADSs will be treated as the owner of the underlying shares represented by such ADSs. Exchanges, deposits and withdrawals of shares for ADSs or ADSs for shares by a U.S. holder will not result in recognition of gain or loss for U.S. Federal income tax purposes.

Dividends. Distributions, other than a mere pro rata distribution of shares, made by us with respect to our shares, including shares represented by ADSs, including the amount of any French taxes withheld therefrom, will be includable in the gross income of a U.S. holder as dividend income from a source outside the United States to the extent of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. *Avoir fiscal* and *précompte* payments will be considered dividends to the same extent. Such dividends will not be eligible for the dividends received deduction generally allowed to corporations. To the extent, if any, that the amount of any such distribution exceeds our current and accumulated earnings and profits as determined for U.S. federal income tax purposes, it will be treated first as a tax-free return of the U.S. holder's tax basis in its shares or ADSs to the extent thereof, and then, to the extent in excess of such tax basis, as capital gain. Dividends paid in euro will be includable in income in a U.S. dollar amount based on the prevailing U.S. dollar-euro exchange rate on the date of receipt by the depository or the date of receipt by the U.S. holder of shares, whether or not the payment is converted into U.S. dollars at that time. Any gain or loss recognized upon a subsequent sale or conversion of the euro will be U.S. source ordinary income or loss. A U.S. holder may also recognize foreign currency gain or loss, which will be U.S. source ordinary income or loss, on a subsequent conversion or other disposition of the refund of the excess withholding tax initially withheld from a dividend payment if the refund is converted into U.S. dollars at an exchange rate different than the rate used to translate the U.S. holder's dividend income. Any French tax withheld from a dividend will be treated as a foreign tax creditable, subject to the limitations discussed below, against the U.S. federal income tax liability of a U.S. holder. Amounts creditable against U.S. tax are permitted, at the election of the U.S. holder, to be deducted. Under the Internal Revenue Code, the amount of foreign tax eligible for credit against the U.S. federal income tax liability of a U.S. holder is limited to the amount of U.S. tax attributable to the U.S. holder's taxable income from sources outside

the United States. For purposes of computing this limitation, the amount of foreign tax eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends paid by us will be "passive income" or in the case of certain U.S. holders, "financial services income". Prospective investors should consult their own tax advisors regarding the availability of such a credit.

Sale of ADSs or shares. Upon a sale or exchange of ADSs or shares, a U.S. holder will recognize gain or loss for U.S. federal income tax purposes equal to the difference between the amount realized upon the disposition and such U.S. holder's adjusted tax basis in the ADSs or shares. Subject to the discussion below under the heading "Passive Foreign Investment Company", such gain or loss will generally be a capital gain or loss. Capital gains recognized on the sale or exchange by individuals of capital assets are subject to a 20% maximum tax rate if the capital assets have been held for more than one year or 18% for capital assets acquired after 2000 and held for more than five years. Gains on the sale of ADSs or shares held for less than one year will be treated as short-term capital gain and taxed as ordinary income at the U.S. holder's marginal income tax rate. Capital losses may only be used to offset capital gains, except that U.S. individuals may deduct up to \$3,000 of net capital losses against ordinary income. Prospective U.S. investors should consult their own tax advisors regarding the availability of such an offset.

No French tax is imposed on the capital gains of a U.S. holder arising from the sale or exchange of ADSs or shares provided that certain requirements of the U.S.-French income tax convention are satisfied. See "French Taxation—Sales of Shares or ADSs." In the event that French tax is imposed on capital gains of a holder from the sale or exchange of ADSs or shares, U.S. holders should consult their own tax advisors with respect to their ability based on their particular circumstances to credit such tax against their U.S. federal income.

Passive Foreign Investment Company. For U.S. federal income tax purposes, a non-U.S. corporation is considered a Passive Foreign Investment Company (a "PFIC") if either:

- 75% or more of its gross income for the taxable year is passive income; or
- at least 50% of the average percentage of its assets, by value, produce or are held for the production of passive income. The U.S. Internal Revenue Service has indicated that cash balances even if held for working capital, are considered to be assets that produce passive income.

We believe that we are not a PFIC for the taxable year 2001 nor do we expect to be a PFIC in future taxable years. However, because the determination of PFIC status is based upon annual determinations of the composition of our income and assets, there can be no assurance that we will not become a PFIC in the future. We will monitor our status and will notify U.S. shareholders if we believe that we are properly classified as a PFIC for any taxable year. This discussion does not address the material U.S. federal income tax consequences to U.S. holders that would result if we were to become a PFIC. If we become a PFIC, the U.S. federal income tax consequences to U.S. holders of the purchase, ownership, disposition or deemed disposition of ADSs or shares will change significantly from the consequences presented in this discussion.

Information reporting and backup withholding

Dividend payments with respect to ADSs or shares and proceeds from the sale, exchange or redemption of ADSs or shares may be subject to information reporting to the IRS and possible U.S. backup withholding at a 31% rate. Backup withholding will not apply to you, however, if you furnish a correct taxpayer identification number or certificate of foreign status and make any other required certification or if you are otherwise exempt from backup withholding. If you are required to establish your exempt status, you generally must provide such certification on IRS Form W-9 in the case of U.S. persons and on IRS Form W-8BEN (or suitable substitute form) in the case of non-U.S. persons.

Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

Documents on Display

We are subject to the reporting requirements of the U.S. Securities Exchange Act of 1934 applicable to foreign private issuers. In connection with the Exchange Act, we file reports, including this annual report on Form 20-F, and other information with the Securities and Exchange Commission. Such reports and other information may be obtained, upon written request, from The Bank of New York, as depository, at its office located at 101 Barclay Street, New York, NY 10286. Such reports and other information may

also be inspected and copied at prescribed rates at the public reference facilities maintained by the SEC at its Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the SEC's regional offices located at Citicorp Center, 500 West Madison, Street, Suite 1400, Chicago, Illinois 60661, upon payment of prescribed fees.

Item 11. Quantitative and Qualitative Disclosure About Market Risk

Our exposure to market risk through our minimal use of derivative financial instruments and other financial instruments, including investments in marketable securities, is not material.

Item 12. Description of Securities other than Equity Securities

Not applicable

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not applicable

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

We successfully completed our initial public offering in June 1999, with net proceeds to Wavcom of €36.1 million, and a follow-on public offering in June 2000, with net proceeds to Wavcom of €96.5 million. The effective dates of the Securities Act registration statements for which the use of proceeds information is being disclosed are June 7, 1999 and June 8, 2000 (registration numbers 333-10372 and 333-11764, respectively).

In 1999, we used approximately €4.4 million of the amount of net offering proceeds to repay short-term debt and approximately €9.6 million to fund operations.

In 2000, we used approximately €1.2 million to fund the acquisition of a less than 1% equity interest in Cambridge Silicon Radio Ltd., a developer of Bluetooth radio technology; approximately €3.5 million to acquire a 61.88% interest in Arguin Communications, a San Diego-based software development company; approximately €8.3 million to purchase property and equipment and approximately €8.6 million to fund operations.

In 2001, we used approximately €4.7 million to acquire the assets of Iconn Wireless, a San Diego-based CDMA technology company and approximately €10.3 million to purchase property and equipment.

Item 18. Financial Statements

See the financial statements beginning on page F-1.

Item 19. Exhibits

- 1 *Statuts* (by-laws) of the Registrant, updated as of February 18, 2002 (English Translation). *
- 2.1 Form of Deposit Agreement among the Registrant, The Bank of New York, as Depositary, and the Holders of American Depositary Shares issued thereunder (filed as Exhibit 4.1 to the Registrant's Registration Statement on Form F-1, File No. 333-10372).
- 2.2 Form of American Depositary Receipt (filed as Exhibit 4.2 to the Registrant's Registration Statement on Form F-1, File No. 333-10372).

- 4.1 GSM Essential Properties Cross License Agreement, dated January 6, 1999, between the Registrant and Motorola, Inc. (filed as Exhibit 10.3 to the Registrant's Registration Statement on Form F-1, File No. 333-10372).**
- 4.2 Agreement relating to the sale of GSM modules, dated July 7, 1999 between Amtal International Limited and Wavecom Asia Pacific Limited (filed as Exhibit 10.3 to the Registrant's Registration Statement on Form F-1, File No. 333-10372).**
- 4.3 Agreement relating to the development and manufacture of a GSM hand held portable, dated February 11, 2000 between NEC Corporation and Wavecom S.A (filed as Exhibit 10.2 to the Registrant's Annual Report on Form 20-F, filed with the Commission on May 24, 2000).**
- 4.4 Contract for Manufacturing and Related Services, dated June 17, 1999 between Wavecom S.A. and Solectron-France S.A. (filed as Exhibit 10.3 to the Registrant's Annual Report on Form 20-F, filed with the Commission on May 24, 2000).**
- 4.5 Agreement between Funkanlagen and Wavecom S.A. dated February 25, 2000 (filed as Exhibit 10.4 to the Registrant's Annual Report on Form 20-F, filed with the Commission on May 24, 2000).**
- 4.6 GSM/DCS 1800/1900 Patent License Agreement between Wavecom S.A. and Koninklijke Philips Electronics N.V., dated October 9, 2001.*&
- 4.7 Agreement relating to a cross-license of essential GSM patents between Wavecom S.A. and Siemens Aktiengesellschaft, effective as of October 31 2001.*&
- 8 List of subsidiaries of the Registrant.
- 10 Consent of Ernst & Young Audit.

* Filed herewith.

** The registrant has received confidential treatment of portions of this agreement.

& The registrant has requested confidential treatment of portions of this agreement.

SIGNATURES

Wavecom S.A. hereby confirms that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

WAVECOM S.A.

By: /s/ DEBORAH CHOATE

Deborah Choate
Chief Financial Officer

Date: June 28, 2002.

WAVECOM S.A.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

[Report of Independent Auditors](#)

[Consolidated Statements of Operations for the years ended December 31, 1999, 2000 and 2001](#)

[Consolidated Balance Sheets at December 31, 1999, 2000 and 2001](#)

[Consolidated Statement of Changes in Shareholders' Equity \(Deficit\) for the years ended December 31, 1999, 2000 and 2001](#)

[Consolidated Statements of Cash Flows for the years ended December 31, 1999, 2000 and 2001](#)

[Notes to Consolidated Financial Statements](#)

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Wavecom S.A.

We have audited the accompanying consolidated balance sheets of Wavecom S.A. as of December 31, 1999, 2000 and 2001, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of Wavecom's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wavecom S.A. at December 31, 1999, 2000 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG Audit

represented by
John Mackey

Paris, France
February 18, 2002

WAVECOM S.A.

CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands, except share and per share data)

	Years ended December 31,			
	1999	2000	2001	2001
Revenues:				
Product sales	€ 34,563	€ 63,055	€ 317,571	\$ 282,670
Technology development and other services	1,853	2,518	5,093	4,533
License fees and royalties	144	—	—	—
Total revenues	36,560	65,573	322,664	287,203
Cost of revenues:				
Cost of goods sold	26,236	51,457	254,658	226,671
Cost of services	2,148	4,522	4,718	4,199
Total cost of revenues	28,384	55,979	259,376	230,870

Gross profit	8,176	9,594	63,288	56,333
Operating expenses:				
Research and development	11,913	16,133	32,634	29,048
Sales and marketing	3,412	5,836	12,416	11,051
General and administrative	3,070	5,598	13,297	11,836
Deferred compensation amortization	1,608	1,758	1,711	1,523
Amortization of goodwill	—	47	278	247
Provision for loss on ICO development contracts	2,607	—	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
Total operating expenses	22,610	29,372	60,336	53,705
	<hr/>	<hr/>	<hr/>	<hr/>
Operating income (loss)	(14,434)	(19,778)	2,952	2,628
Interest expense relating to beneficial conversion feature of convertible debt	(1,072)	—	—	—
Interest expense	(519)	(255)	(523)	(466)
Interest income	392	3,000	4,350	3,872
Foreign exchange gain (loss)	(80)	989	142	126
Provision for loss on long-term investments	—	—	(716)	(637)
	<hr/>	<hr/>	<hr/>	<hr/>
Income (loss) before minority interest and income taxes	(15,713)	(16,044)	6,205	5,523
Minority interests	—	(6)	(804)	(716)
	<hr/>	<hr/>	<hr/>	<hr/>
Income (loss) before income taxes	(15,713)	(16,038)	7,009	6,239
Income tax expense (benefit)	(736)	(1,534)	(2,299)	(2,046)
	<hr/>	<hr/>	<hr/>	<hr/>
Net income (loss)	€ (14,977)	€ (14,504)	€ 9,308	\$ 8,285
	<hr/>	<hr/>	<hr/>	<hr/>
Basic net income (loss) per share	€ (1.26)	€ (1.03)	€ 0.63	\$ 0.56
	<hr/>	<hr/>	<hr/>	<hr/>
Diluted net income (loss) per share	€ (1.26)	€ (1.03)	€ 0.61	\$ 0.54
	<hr/>	<hr/>	<hr/>	<hr/>
Number of shares used for computing:				
—basic net income (loss) per share	11,922,770	14,081,178	14,726,647	14,726,647
—diluted net income (loss) per share	11,922,770	14,081,178	15,359,226	15,359,226

See notes to financial statements

WAVECOM S.A.

CONSOLIDATED BALANCE SHEETS (in thousands, except share data)

	December 31,			
	1999	2000	2001	2001
	<hr/>	<hr/>	<hr/>	<hr/>
ASSETS				
Current assets:				
Cash and cash equivalents	€ 22,080	€ 69,224	€ 128,972	\$ 114,798
Short-term investments	—	26,807	3,008	2,677
Accounts receivable (less allowance for doubtful accounts of €708, €477 and €328 at December 31, 1999, 2000 and 2001,				

respectively)	6,241	26,774	46,219	41,140
Inventory	4,967	11,330	13,858	12,335
Value added tax recoverable	774	1,733	22,251	19,806
Prepaid expenses and other current assets	895	2,847	12,720	11,322
Total current assets	34,957	138,715	227,028	202,078
Property and equipment, net	4,710	10,067	15,666	13,944
Goodwill, net of accumulated amortization of €47 and €326 at December 31, 2000 and 2001, respectively	—	1,279	5,716	5,088
Long-term investments, net of provision for loss of €716 at December 31, 2001	—	4,078	3,476	3,094
Other assets	1,795	4,159	8,061	7,175
Total assets	€ 41,462	€ 158,298	€ 259,947	\$ 231,379

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

Current liabilities:

Overdraft facility	€ —	€ 529	€ —	\$ —
Accounts payable	9,216	32,627	111,926	99,625
Accrued compensation	1,732	3,302	5,755	5,123
Other accrued expenses	2,310	6,201	15,525	13,819
Current portion of loans	370	634	488	434
Current portion of capitalized lease obligations	1,042	794	201	179
Deferred revenue and advances received from customers	1,018	4,200	2,648	2,357
Other liabilities	239	670	521	464
Total current liabilities	15,927	48,957	137,064	122,001
Long-term portion of capitalized lease obligations	879	166	228	203
Other long-term liabilities	—	—	410	365
Total long-term liabilities	879	166	638	568
Minority interests	—	1,165	361	321
Commitments and contingencies				
Shareholders' equity:				
Shares, €1 nominal value; 13,423,469 shares issued and outstanding at December 31, 1999; 14,682,281 shares issued and outstanding at December 31, 2000; 14,810,614 shares issued and outstanding at December 31, 2001	13,423	14,682	14,811	13,183
Additional paid in capital	37,297	132,993	135,013	120,175
Deferred compensation	(5,632)	(3,606)	(2,991)	(2,661)
Retained earnings (deficit)	(20,475)	(34,979)	(25,671)	(22,852)
Accumulated other comprehensive income (loss)	43	(1,080)	722	644
Total shareholders' equity	24,656	108,010	121,884	108,489
Total liabilities and shareholders' equity	€ 41,462	€ 158,298	€ 259,947	\$ 231,379

See notes to financial statements

WAVECOM S.A**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)**

(in thousands of euro, except share data)

	Shares		Additional paid in capital	Deferred Compensation	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (loss)	Total Shareholders' Equity (Deficit)
	Number	Amount					
Balance at December 31, 1998	10,000,000	€ 1,524	€ 2,022	€ (1,896)	€ (5,498)	3	€ (3,845)
Deferred compensation arising from grant of stock options and founder's warrants			5,344	(5,344)			—
Amortization of deferred compensation				1,608			1,608
Issuance of shares in connection with the initial public offering on Nasdaq and the <i>Nouveau Marché</i> at €13.50 per share (net of offering costs)	3,000,000	457	35,675				36,132
Issuance of shares upon conversion of convertible notes at €10.80 per share (including beneficial conversion feature €1,072,000)	423,469	65	5,633				5,698
Conversion of nominal value from FF1 to €1		11,377	(11,377)				—
Comprehensive loss:							
Net loss					(14,977)		(14,977)
Foreign currency translation						40	40
Total comprehensive loss					(14,977)	40	(14,937)
Balance at December 31, 1999	13,423,469	13,423	37,297	(5,632)	(20,475)	43	24,656
Forfeiture of options and founders' warrants			(268)	268			
Amortization of deferred compensation				1,758			1,758
Issuance of shares in connection with the public offering on Nasdaq and the <i>Nouveau Marché</i> at €98.50 per share (net of offering costs)	1,050,000	1,050	95,497				96,547
Issuance of shares in connection with the exercise of 109,842 founders' warrants and 12,494 options at an exercise price of €2.29	122,336	122	158				280
Issuance of shares in connection with the exercise of 79,171 founders' warrants and 7,305 options at an exercise price of €4.57	86,476	87	309				396
Comprehensive loss:							
Net loss					(14,504)		(14,504)
Foreign currency translation						(1,123)	(1,123)
Total comprehensive loss					(14,504)	(1,123)	(15,627)
Balance at December 31, 2000	14,682,281	14,682	132,993	(3,606)	(34,979)	(1,080)	108,010
Forfeiture of options and founders' warrants			(99)	99			
Deferred compensation arising from shares of Arguin Communications issued to minority shareholders			1,862	(1,862)			
Amortization of deferred compensation				2,378			2,378
Issuance of shares in connection with the exercise of 75,557 founders' warrants and 12,480 options at an exercise price of €2.29	88,037	88	113				201
Issuance of shares in connection with the exercise of 36,743 founders' warrants and 3,553 options at an exercise price of €4.57	40,296	41	144				185
Comprehensive income:							
Net income					9,308		9,308
Foreign currency translation						1,802	1,802
Total comprehensive income					9,308	1,802	11,110

Balance at December 31, 2001	14,810,614 €	14,811 €	135,013 €	(2,991) €	(25,671) €	722 €	121,884
Balance at December 31, 2001 (in thousands of US dollars)	14,810,614 \$	13,183 \$	120,175 \$	(2,661) \$	(22,852) \$	644 \$	108,489

See notes to financial statements

WAVECOM S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands, except share data)

	Years ended December 31,			
	1999	2000	2001	2001
Cash flows from operating activities:				
Net income (loss)	€(14,977)	€(14,504)	€ 9,308	\$ 8,285
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization of property and equipment	2,275	3,113	5,042	4,488
Provision for loss on long-term investments	—	—	716	637
Amortization of goodwill	—	47	278	247
Amortization of deferred stock compensation	1,608	1,758	1,711	1,523
Beneficial conversion feature of convertible debt	1,072	—	—	—
Accrued interest on convertible debt converted into capital	53	—	—	—
Minority interests	—	(6)	(804)	(716)
Research tax credit reimbursed	(736)	—	—	—
Increase (decrease) in cash from:				
Accounts receivable	(2,138)	(20,415)	(15,685)	(13,961)
Work in progress	1,281	—	—	—
Inventory	(1,789)	(6,329)	(2,431)	(2,164)
Value added tax recoverable	1,206	(960)	(20,518)	(18,263)
Prepaid expenses and other current assets	(55)	(1,893)	(9,951)	(8,857)
Accounts payable and other accrued expenses	1,180	27,077	85,409	76,022
Accrued compensation	741	1,571	2,105	1,874
Deferred revenue and advances received from customers	(1,445)	2,983	(1,668)	(1,485)
Other payables	—	(802)	70	62
Other	(25)	(219)	(3,584)	(3,190)
Net cash provided (used) by operating activities	(11,749)	(8,579)	49,998	44,502
Cash flows from investing activities:				
Acquisition of equity interest in Arguin Communications for \$229 cash paid net of \$270 cash acquired	—	41	—	—
Capital contribution by minority shareholders of Arguin Communications	—	346	—	—
Acquisition of equity interest in Cambridge Silicon Radio	—	(1,197)	—	—
Acquisition of Iconn Wireless	—	—	(4,719)	(4,200)
Arguin acquisition, net of cash acquired	—	—	462	411
Disposal (acquisition) of short-term investments	—	(26,807)	23,799	21,183

Acquisition of long-term investments	—	(4,078)	(113)	(101)
Purchases of property and equipment	(2,692)	(8,333)	(10,330)	(9,195)
Net cash provided (used) by investing activities	(2,692)	(40,028)	9,099	8,099
Cash flows from financing activities:				
Net increase (decrease) in overdrafts and lines of credit	(2,763)	529	(529)	(471)
Proceeds from loans	122	340	—	—
Repayment of loans	(597)	(76)	(146)	(130)
Principal payments on capital lease obligations	(1,080)	(1,049)	(815)	(725)
Proceeds from public offerings, net	36,132	97,223	—	—
Proceeds from issuance of convertible debt	4,573	—	—	—
Exercise of stock options and founders' warrants	—	—	386	344
Net cash provided (used) by financing activities	36,387	96,967	(1,104)	(982)
Effect of exchange rate changes on cash and cash equivalents				
Net increase in cash and cash equivalents	22,007	47,144	59,748	53,182
Cash and cash equivalents, beginning of period	73	22,080	69,224	61,616
Cash and cash equivalents, end of period	€ 22,080	€ 69,224	€ 128,972	\$ 114,798

See notes to financial statements

WAVECOM S.A

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of business and summary of significant accounting policies

Nature of business

Wavecom is organized as a *société anonyme*, or limited liability company, under the laws of the Republic of France. Wavecom was founded in 1993 and is publicly traded on Euronext Paris (Nouveau Marché) in France and on the Nasdaq National Market exchange in the U.S. Wavecom develops, markets and sells a line of digital wireless standard modules, known as Wismo modules, for use in mobile telephones and other wireless applications based on GSM and GPRS mobile communications standards. A Wismo module is a compact standardized device that contains substantially all of the software, hardware and other technology needed to enable wireless communications. Wavecom also develops, markets and sells a line of wireless modems. Wismo modules are distributed through Wavecom's direct sales force; wireless modems are sold by the direct sales force as well as by distributors.

Basis of presentation

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ from those estimates. The consolidated financial statements include the accounts of Wavecom S.A., its wholly-owned subsidiaries Wavecom, Inc., a Delaware corporation, and Wavecom Asia Pacific Ltd., a Hong Kong corporation, both of which commenced operations in 1998, and Arguin Communications Inc (61,88% controlling interest purchased in October 2000). Inter-company accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current year presentation.

Foreign currency

The reporting currency of Wavecom, for all years presented, is the euro (€), while its functional currency was the French franc for the years ended December 1999 and 2000. The consolidated financial statements for these years have been translated from

French francs into euro using the fixed legal rate of FF 6.55957 per euro. Beginning January 1, 2001, the functional currency of Wavecom is the euro.

The functional currency of each subsidiary is the local currency. In accordance with Statement of Financial Accounting Standards No. 52, all accounts in the financial statements are translated into euro from the functional currency at exchange rates as follows: (1) asset and liability accounts at year-end rates, (2) income statement accounts at weighted average exchange rates for the year, and (3) shareholders' equity accounts at historical exchange rates. Translation differences are recorded in shareholders' equity.

Realized and unrealized foreign currency transaction gains and losses are reflected in net income.

Wavecom has not undertaken significant hedging transactions to cover its currency exposure.

Revenue recognition

Revenue is recognized when all of the following circumstances are satisfied: persuasive evidence of an agreement exists, the price is fixed or determinable, collection is reasonably assured and delivery has occurred.

Revenue from product sales is recognized at the time the units are shipped.

Revenue from technical support and product development services and other service revenue is recognized when the service is performed, there is no material continuing performance obligation and collection is probable. Under certain technology development agreements, where significant technological risk factors exist, costs are expensed as incurred and revenues are recognized when all obligations under the agreement have been met.

Revenue from long-term technology development agreements is recognized using the percentage of completion method in accordance with Statement of Position 81-1 *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. Wavecom measures progress towards completion based on the achievement of contract milestones. In order to properly match milestone revenue with its related cost, the cost of each milestone is deferred until revenue is recognized for the specific milestone. These costs are recorded in "work in progress." Provisions for estimated contract losses are recognized when determined.

Royalty revenue is recorded as earned in accordance with the specific terms of each license agreement.

Research and development

Wavecom charges all research and development costs to expense as incurred.

Net income (loss) per share

Net income (loss) per share amounts are computed using the weighted average number of shares outstanding.

In accordance with SFAS 128 *Earnings per Share*, basic and diluted earnings per share are presented. Basic earnings per share excludes the dilutive effects of options and warrants, and reflects only the actual ordinary shares outstanding. The effect of options and warrants granted outstanding 1999 and 2000 have been excluded as Wavecom reported a net loss in each of the years ended December 31, 1999 and 2000, and their effect is anti-dilutive. In 2001, diluted earnings per share includes the dilutive effects of options and warrants as if they had been exercised.

Concentration of risk

Financial instruments that potentially subject Wavecom to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables.

Wavecom has cash investment policies that limit investments to short-term low-risk instruments. Wavecom's cash is held principally in euros and United States dollars and concentrated primarily in three major banks in Paris.

As of December 31, 2001, Wavecom sub-contracts the manufacturing and assembly of its products to two suppliers located in France and Romania. Wavecom believes that alternate sub-contractors can be identified if the current manufacturers were unable to meet Wavecom's requirements.

Wavecom sells its products to customers in a variety of industries principally in Asia/Pacific, Europe, North America and Africa. Wavecom performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. To

date, such losses have been within management's expectations. Wavecom generally requires no collateral, but does request advance payments or letters of credit as collateral in certain circumstances.

Accounts receivable (before allowance for doubtful accounts) at December 1999, 2000 and 2001 totaled €6,949,000, €27,251,000 and €46,547,000, respectively.

A summary of the activity in the allowance for doubtful accounts is as follows (amounts in thousands):

Year ended December 31,	Beginning balance	Additions charged to expenses	Recovered receivables	Ending balance
1999	€ 42	€666	€ —	€708
2000	708	64	295	477
2001	477	164	313	328

For the years ended December 31, 1999, 2000 and 2001, certain customers represented revenues in excess of 10% of Wavecom's total consolidated revenues. The amounts of annual revenues, and corresponding year-end amounts receivable, from these customers were as follows (in thousands):

	1999		2000		2001	
	Revenues	Receivable	Revenues	Receivable	Revenues	Receivable
Customer A	—	—	€9,716	€6,277	€114,130	€12,780
Customer B	—	—	4,798	1,598	106,162	15,817
Customer C	€12,186	€1	—	—	—	—

Sales to customers by geographic region are summarized as follows (in thousands):

	Years ended December 31,		
	1999	2000	2001
China	€2,141	€6,901	€126,860
Korea	—	9,716	114,180
Rest of Asia	—	4,703	28,662
Germany	2,515	9,235	16,135
Italy	1,423	7,832	8,791
France	3,544	2,113	6,028
United Kingdom	17,218	8,054	3,976
Spain	3,660	4,919	2,657
Rest of Europe	3,458	3,927	6,234
Americas	353	1,950	3,509
Rest of world	2,248	6,223	5,632
	€36,560	€65,573	€322,664

Geographic region is determined by the customer's invoice address and may not indicate the final destination of product usage. Substantially all of the Company's long-lived assets are located in France.

Cash and cash equivalents

Wavecom considers all highly liquid investments with insignificant interest risk, and purchased with an original maturity of three months or less, to be cash equivalents. At December 31, 1999, 2000 and 2001, Wavecom had amounts of €22,080,000 (of which €447,000 was denominated in U.S. dollars), €66,459,000 and €83,680,000 (of which €12,794,000 was denominated in U.S. dollars) respectively, invested in money market accounts with no fixed maturity, earning interest at short-term variable rates. At December 31, 1999, 2000 and 2001, the book value of these cash equivalents approximated their market value.

At December 31, 2000, securities had been pledged for a total amount of €2,371,000 representing guaranties of a multi

currency overdraft (€1,531,000) and an import documentary credit (€840,000).

Short-term investments

As of December 31, 2000 and 2001, the Company held deposit certificates of €2,881,000 and €2,994,000 respectively. As of December 31, 2000, the Company held commercial paper for an amount of €23,723,000 which matured in January 2001, earning interest at fixed rates ranging from 4.82% to 5.19%. These investments were classified as available-for-sale and were carried at cost which approximated market value at December 31, 2000 and 2001.

Inventory

Inventories are valued at the lower of cost or market.

Value added tax recoverable

Value added tax recoverable consists of value added tax paid by Wavecom to vendors and suppliers located in the European Union and recoverable from the tax authorities. Value added tax recoverable is collected on a monthly basis. As of December 1999, 2000 and 2001, the Company had value added tax credits of €244,000, €1,159,000 and €20,600,000, respectively.

Property and equipment

Property and equipment is stated at cost. Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

Laboratory equipment	3 years
Computer equipment and purchased software	3 - 5 years
Furniture and office equipment	5 years
Leasehold improvements	10 years, or lease term if less

Amortization of capitalized leased equipment is included in depreciation expense.

In accordance with Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of*, Wavecom reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS 121 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. No such impairment losses have been identified by Wavecom.

Goodwill

For acquisitions made prior to July 1, 2001, goodwill is amortized on a straight-line basis over its estimated useful life up to a maximum 20 years. As required by SFAS No. 142, goodwill arising from acquisitions made after July, 2001 is not amortized, but is periodically reviewed for impairment of value. No impairment losses have been identified by Wavecom at December 31, 2001.

Long-term investments

In October 2000, the Company purchased convertible preferred shares representing less than 1% of the capital of Cambridge Silicon Radio (C.S.R.), a British company, for €1,197,000. The cost method has been used to account for this investment because the Company does not have the ability to exercise significant influence over the investee's operating and financial policies. As December 31, 2001, the Company recorded a provision for €716,000 to reflect the estimated decline in value of the investment. The estimated loss was determined, based on a valuation used in recent financing rounds for C.S.R.

A bank guarantee of €2,868,000 was issued in December 2000 in favor of the owner of newly-leased office space, in order to secure annual lease payments. At December 2000 and 2001, investments in commercial paper have been pledged as security for €2,881,000 and €2,994,000 respectively, for the duration of the 7-year lease and therefore have been classified as long-term assets in the balance sheet.

Deferred revenue and advances received from customers

Deferred revenue includes amounts invoiced to customers in accordance with the terms of technology development contracts,

but deferred by the Company as the corresponding work has not yet been completed. Advances include cash received in advance of product shipments.

Fair value of financial instruments

At December 31, 1999, 2000 and 2001, the carrying values of current financial instruments such as cash equivalents, accounts receivable, accounts payable, other receivables and accrued liabilities approximated their market values, based on the short-term maturities of these instruments. There was no long-term debt at December 31, 1999, 2000 or 2001. Other long-term liabilities at December 31, 2001 are not material.

Income taxes

In accordance with Statement of Financial Accounting Standards No. 109, the liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Employee stock options and warrants

Wavecom accounts for stock options and warrants granted to employees in accordance with the provisions of Accounting Principles Board Statement No. 25, *Accounting for Stock Issued to Employees*. Under APB 25, no compensation expense is recognized for stock options and warrants issued to employees with an exercise price equal to the deemed fair value of the underlying shares. Options and warrants issued with an exercise price less than the deemed fair value result in deferred compensation which is amortized to expense over the vesting period. See Note 8.

Statement of Financial Accounting Standards No. 123, *Accounting for Stock Based Compensation*, provides an alternative to APB 25 in accounting for stock-based compensation issued to employees. SFAS 123 provides for a fair-value-based method of accounting for employee stock options and similar equity instruments. Companies that elect to continue to account for stock-based compensation arrangements under APB 25 are required by SFAS 123 to disclose the pro forma effect on net income and net income per share as if the fair-value-based method proposed by SFAS 123 had been adopted.

Because Wavecom has elected to continue to account for stock options and warrants granted to its employees in accordance with the provisions of APB 25, the pro forma disclosures required by SFAS 123 are presented in Note 8.

Comprehensive income

Wavecom reports comprehensive income and its components in accordance with Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income*. SFAS 130 requires foreign currency translation adjustments, to be included in other comprehensive income.

Segment reporting

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, *Disclosures About Segments of an Enterprise and Related Information*, which established standards for the way public companies report information about operating segments in annual financial statements and required that those companies report selected information about operating segments in interim financial reports issued to shareholders. It also established standards for related disclosures about products and services, geographic areas and major customers. Management has determined that Wavecom operates as a single segment, as management internally evaluates the performance of the enterprise as a whole and not on the basis of separate business units.

Recent accounting principles

In June 2001, the FASB issued statement N^o 141, "Business Combinations" ("SFAS 141") and statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. Under SFAS 142, goodwill will no longer be amortized on a straight line basis over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. Under SFAS 142, intangible assets with indefinite lives will not be amortized. Instead, they will be carried at the lower of cost or market value and tested for

impairment at least annually. All other recognized intangible assets will continue to be amortized over their estimated useful lives.

SFAS 142 is effective for fiscal years beginning after December 15, 2001 although goodwill on business combinations consummated after July 1, 2001 will not be amortized. In addition, goodwill on prior business combinations will cease to be amortized. The Company will apply SFAS 142 beginning in the first quarter of 2002. Application of the non amortization provisions of SFAS 142 is expected to result in an increase in net income of €249,000 in 2002. The Company will test goodwill for impairment using the two-step process prescribed in SFAS 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company expects to perform the first of the required impairment tests of goodwill as of January 1, 2002 in the second quarter of 2002. Any impairment charge resulting from these transitional impairment tests will be reflected as cumulative effect of a change in accounting principle in the first quarter of 2002. The Company does not believe that the effect of these tests will be material to the earnings and financial position of the Company.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lives Assets". This Statement addresses the financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS 121, and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 also amends ARB No. 51, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company has reviewed the provisions of this statement and does not believe its adoption will have a material impact on its results of operations or its financial position.

Convenience translation

The financial information expressed in U.S. dollars is presented solely for the convenience of the reader and is translated from euro at the Noon Buying Rate in New York on December 31, 2001, which was \$0.8901 for each euro.

2. Acquisitions

Iconn Wireless

In December 2001, the subsidiary Wavecom Inc acquired certain assets of Iconn Wireless, a company based in San Diego, California, enabling Wavecom to acquire technology and know-how for Code Division Multiple Access (CDMA) technology. Wavecom purchased Iconn Wireless for €5,270,000 including €625,000 in tangible and intangible assets. The difference between the purchase price and the amount of identifiable assets (€4,645,000) was allocated to goodwill but is not amortized, in accordance with SFAS No. 142. In connection with the acquisition, €1,339,000 in cash was placed in escrow by Wavecom. The cash will be released to the employees as certain technology milestones are met in 2002. This amount has been recorded as a prepaid expense and will be recognized as research and development expense as the milestones are met.

Arguin Communications Inc

In October 2000, Wavecom purchased a majority interest of 51% of the voting rights in Arguin Communications Inc, headquartered in San Diego, California, increased to 61,88% in January 2001, which enabled Wavecom to have strategic control over the future technology to be developed by Arguin Communications Inc.

The Company purchased Arguin Communications Inc for €3,454,000 in cash including €691,000 for the purchase of existing shares (€229,000 paid in October 2000 and €462,000 paid in January 2001) and €2,763,000 to subscribe to a share capital increase. The total amount of this share capital increase, including minority interests, was €3,109,000. The net assets purchased included €270,000 in cash. The purchase price exceeded the fair value of the net tangible assets by €1,323,000, which was allocated to goodwill and was being amortized over 5 years. In accordance with the provisions of SFAS 142, amortization of goodwill ceased as of December 31, 2001. Deferred compensation of €1,862,000 was recognized in connection with the issuance of shares of Arguin Communications to the majority shareholders. Amortization related to these shares amounted to €667,000 in the year ended December 31, 2001.

Results of operations of Arguin Communications Inc and Iconn Wireless are included in Wavecom's operating results from their respective dates of acquisition. Pro Forma results of operations reflecting these acquisitions have not been presented because the results of operations of the acquired companies, either individually or collectively, are not material to Wavecom's results of operations.

3. Inventory

Components of inventory are:

	December 31,		
	1999	2000	2001
	(in thousands)		
Purchased components and raw materials	€ 1,340	€ 8,902	€ 70
Work in process	70	—	—
Finished goods	3,678	2,806	15,785
	5,088	11,708	15,855
Provision for obsolete inventory	121	378	1,997
	€ 4,967	€ 11,330	€ 13,858

Beginning in the second half year of 2001, all components used in the production process are purchased, by Wavecom's contract manufacturers who bear the risk of ownership.

4. Property and equipment

Property and equipment includes:

	December 31,		
	1999	2000	2001
	(in thousands)		
Laboratory equipment	€ 6,210	€ 10,787	€ 15,203
Computer equipment and software	1,853	5,178	7,835
Furniture and office equipment	1,007	1,118	2,288
Leasehold improvements	509	716	2,445
Other	576	650	1,288
	10,155	18,449	29,059
Accumulated depreciation and amortization	5,445	8,382	13,393
	€ 4,710	€ 10,067	€ 15,666

Amortization in the years ended December 1999, 2000 and 2001 totaled €2,229,000, €3,136,000 and €5,068,000, respectively.

Equipment purchased under capital leases in the years ended December 31, 1999, 2000 and 2001 totaled €828,000, €149,000 and €291,000 respectively. The cost of such equipment included in property and equipment at December 31, 1999, 2000 and 2001 totaled €4,551,000, €4,489,000 and €4,755,000 respectively. Accumulated amortization of this equipment totaled €2,683,000, €3,601,000 and €4,343,000 at December 31, 1999, 2000 and 2001, respectively.

5. Prepaid expenses and other current assets

Prepaid expenses and other current assets include:

December 31,		
1999	2000	2001

	(in thousands)		
Research tax credit: current portion	—	—	€813
Suppliers' credit note accruals	€176	€1,193	5,717
Prepaid expenses	483	1,205	4,245
Iconn Wireless amounts held in escrow	—	—	1,339
Other current assets	236	449	606
	<hr/>	<hr/>	<hr/>
Total prepaid expenses and other current assets	€895	€2,847	€12,720
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

As of December 31, 2001 Wavecom has research tax credits receivable of €5,626,000 (included in long-term "other assets") which are recoverable, if not previously used to offset taxes payable, in the fourth year following their generation:

2002: €813,000
 2003: €736,000
 2004: €1,541,000
 2005: €2,535,000

Credit notes from suppliers are accrued at the end of each period, based on rebates which have been negotiated and accepted by Wavecom's contract manufacturers.

6. Debt

The following table presents a summary of Wavecom's debt:

	December 31,		
	1999	2000	2001
	(in thousands)		
Short-term debt:			
Overdraft facility	—	€529	—
Interest-free loan from government agency	€294	634	€488
Current portion of bank loan, interest at TMP+1.75%, repaid in quarterly installments through August 2000	76	—	—
Current portion of capital lease obligation	1,042	794	201
	<hr/>	<hr/>	<hr/>
Total short-term debt and current portion of long-term debt	€1,412	€1,957	€689
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Long-term debt:			
Long-term portion of capital lease obligation	€879	€166	€228
	<hr/>	<hr/>	<hr/>
Total long-term debt, less current portion	€879	€166	€228
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Lines of credit

At December 31, 2000 and 2001, Wavecom had a dedicated credit line of €2,868,000 opened for the issuance of a bank guarantee to secure payment of the rent of new offices. This credit line was secured by the pledge of certificates of deposit with values of €2,881,000 and €2,994,000 at December 31, 2000 and 2001, respectively.

At December 31, 2001, Wavecom had a specific line of credit for the issuance of a bank guarantee of €8,000 without security.

These credit lines do not bear interest and were opened for the issuance of bank guarantees, which are subject to certain bank charges.

At December 31, 2000 Wavecom had a dedicated credit line of €1,043,000 opened for issuance of an import documentary

credit. This credit line was secured for 80% of its amount by pledged securities. At December 31, 1999, Wavecom had lines of credit secured by certain qualifying accounts receivable allowing for a maximum borrowing of €1,715,000 of which none was used at December 31, 1999. Lines of credit allowing for a maximum borrowing of €534,000 expired in July 2000. The remaining lines of credit were cancelled in September 2000. These lines of credit bore interest based on market rates (Eurobor, Paris Interbank Offered Rate, London Interbank Offered Rate or Paris Market Rate—TMP) plus margins ranging from 1% to 2%. The rates on the lines of credit corresponded to effective rates of 5.16% at December 31, 1999 and average rates of 4.64% and 7.60% for the years ended December 31, 1999 and 2000, respectively.

Overdraft facilities

At December 31, 2001, Wavecom had multi-currency overdraft facilities with a French bank for maximum borrowings of €2,287,000. The overdraft facilities bore interest at market rate plus a margin of 1.5%. The average effective rate at December 31, 2001 was 3.02%. Wavecom had not used these overdraft facilities at December 31, 2001,

A multi-currency overdraft facility of €2,286,000 bearing interest at market rate plus a margin of 0.5%, and the attached pledge of securities relating to this facility, were terminated before December 31, 2001.

The average effective rate for the year ended December 31, 2001 relating to these two credit lines was 7.01%.

At December 31, 2000 Wavecom had multi-currency overdraft facilities with two French banks allowing for maximum borrowings of €4,573,000. The overdraft facilities bore interest at market rate plus margins ranging from 0.5% to 1.5% which corresponded to an effective rate of 7.8% at December 31, 2000 and an average effective rate of 6.88% for the year then ended. One of the facilities (€2,286,000) was secured for 67% of its total amount by pledged securities. At December 31, 2000, €529,000 was drawn on this facility.

At December 31, 1999, the overdraft facilities bore interest at TMP plus 2% which corresponded to effective rates of 5.76% at December 31, 1999, and average rates of 6.39% for the year end. Wavecom had no overdraft facilities in place at December 31, 1999.

Other debts

Wavecom has received an interest-free loan from Coface (€294,000 at December 31, 2000, increased by €340,000 in 2001), an export credit agency of the French government. Timing of the repayment of the loan is based upon the actual future sales generated by Wavecom's United States subsidiary.

In April 1999, Wavecom issued €4.57 million aggregate principal amount of convertible notes with an interest rate of 10% per annum. The notes were converted into shares at the time of the initial public offering in June 1999, at a conversion price equal to the initial public offering price per share minus a discount of at least 20%. In connection with this issuance, Wavecom has recognized a beneficial conversion feature of €1,072,000. This amount was amortized as interest expense over the term of the convertible notes.

The only significant debt covenants relate to short-term financing arrangements and require repayment in the event of default or liquidation of Wavecom.

Leasing

Future minimum lease payments under capitalized lease obligations due for the years ending December 31 are as follows (in thousands):

2002	€218
2003	132
2004	77
2005	30
	<hr/>
Total minimum lease payments	457
Less amount representing interest	28
	<hr/>
Present value of net minimum lease payments	429
Less current portion	201

Long-term portion

€228

Interest

Interest paid in the years ended December 31, 1999, 2000 and 2001 totaled approximately €485,000, €240,000 and €447,000, respectively.

7. Other accrued expenses

Other accrued expenses consist principally of accruals for royalties, warranty costs and various other tax and general expenses.

Accrued royalties

Accrued royalties amount to €2,090,000, €5,078,000 and €9,375,000 as at December 31, 1999, 2000 and 2001, respectively.

Wavecom's products are designed to conform to certain wireless industry standards. Certain essential technologies are patented and Wavecom uses these essential technologies under licensing agreements for which Wavecom pays royalties. Wavecom concluded licensing agreements with three patent holders for technologies deemed to be essential for Wavecom's products. Two contracts were signed in the year ended December 31, 2001 and Wavecom is in the process of negotiating with other patent holders. Wavecom's management considers that it is probable that other patent holders may claim that the technology covered by their patents is essential to Wavecom's products.

The estimated cost of royalties, which may be due to other patent holders in connection with their technologies as well as yet unasserted claims has been accrued in the financial statements, based on a percentage of the consolidated revenue. The ultimate royalty paid by the company might differ from the amounts accrued.

Warranty accrual

The warranty accruals amount to €20,000, €114,000 and €2,392,000 as at December 31, 1999, 2000 and 2001, respectively.

Wavecom accrues for the costs of providing warranty service at the time the product is shipped and the sale recorded. The Company's policy with respect to sales returns generally provides that a customer may not return inventory except at Wavecom's option.

8. Shareholders' equity

At December 31, 2001, 14,810,614 shares were issued and outstanding with a nominal value of €1 per share.

General

In June 1999, Wavecom issued 3,000,000 shares in an initial public offering simultaneously on the Nasdaq National Market and French *Nouveau Marché* stock markets. The shares were issued at €13.50 per share for a cash contribution, net of offering costs, of €36,131,000.

As described in Note 6, €4.57 million aggregate principal amount of convertible notes were converted into shares at the time of the initial public offering in June 1999, at a conversion price equal to the initial public offering price per share minus a discount of at least 20%, resulting in the issuance of 423,469 shares.

In July 1999, Wavecom converted its share capital into euros, as required by law. Consequently, the nominal value was converted from FF 1 to €1.

In June 2000, Wavecom issued 1,050,000 shares in an secondary public offering simultaneously on the Nasdaq National Market and French *Nouveau Marché* stock markets. The shares were issued at €98.50 per share for a net cash contribution of €96,547,000.

Preemptive subscription rights

Shareholders have preemptive rights to subscribe on a pro rata basis for additional shares issued by Wavecom for cash. Shareholders may waive such preemptive subscription rights at an extraordinary general meeting under certain circumstances. Preemptive subscription rights, if not previously waived, are transferable during the subscription period relating to a particular offering of shares.

Dividend rights

Dividends may be distributed from the statutory retained earnings and additional paid in capital, subject to the requirements of French law and Wavecom's by-laws. There were no distributable retained earnings at December 31, 2001; the retained deficit for statutory purposes totaled approximately €14,610,000. Dividend distributions by Wavecom, if any, will be made in euro.

Stock option and warrant plans

The shareholders of Wavecom authorize the board of directors to grant founders' warrants to employees of the French parent company, stock options to employees of subsidiaries and warrants to members of the board of directors. Under the terms of the plans, the options and warrants give the right to purchase one share per option or warrant at an exercise price to be based on the stock market price of Wavecom shares on the grant date.

Options and founders' warrants granted in 2000 vest 25% per year over 4 years. Options and founders' warrants granted in 1998 and 1999 vest 25% by the two-year anniversary, another 25% by the third year anniversary and the final 50% by the fourth year anniversary. The rights to exercise the warrants granted to Board members vest 33¹/₃% per year over 3 years.

Options expire 10 years after the grant date. Founders' warrants, which were issued to employees of the French parent company, expire after five years, as required by law. Any founders' warrants remaining unexercised at the expiration date automatically convert to stock options with a five-year term remaining. Founders' warrants were issued to French employees due to the existence of certain tax advantages (for both the employee and Wavecom) available in connection with the issuance of founders' warrants which are not available for stock option holders in France. Other than the expiration dates, the terms of the founders' warrants are identical to the stock options. Warrants granted to Board members expire after five years.

A summary of the founders' warrants and warrants to Board members is as follows:

	Founders' warrants to employees of the French parent company							Warrants to members of the board of directors		
	09/21/98	02/25/99	03/15/00	06/27/00	12/20/00	06/29/01	12/19/01	03/15/00	06/27/00	06/29/01
Shareholders' meeting date	09/21/98	02/25/99	03/15/00	06/27/00	12/20/00	06/29/01	12/19/01	03/15/00	06/27/00	06/29/01
Total of warrants authorized	495 000	530 800	300 000	100 000	400 000	600 000	250 000	15 000	15 000	30 000
Board of directors date	N/A	N/A	03/30/00	06/27/00	06/27/00	07/24/00	12/20/00	06/29/01	12/19/01	N/A
Total of warrants granted	495 000	530 800	157 200	101 300	50 860	41 000	400 000	467 151	233 500	15 000
Exercise price	€2.29	€4.57	€139.52	€103.23	€103.23	€13.62	€69.86	€34.66	€41.09	€150.72
Total of warrants exercised	185 399	115 914	—	—	—	—	—	—	—	—
Total of warrants cancelled at December 31, 2001	29 159	37 324	21 100	2 500	6 330	13 500	57 640	4 095	—	—
Total of warrants cancelled during the year ended	2 250	3 527	14 600	2 500	4 380	11 000	57 640	4 095	—	—
Total of warrants granted and not exercised at December 31, 2001	280 442	377 562	136 100	98 800	44 530	27 500	342 360	463 056	233 500	15 000
Total of warrants exercisable at December 31, 2001	106 921	111 677	59 351	37 006	16 559	9 700	84 869	—	—	10 000
Expiration date(1)	09/20/03	02/24/04	03/14/05	06/26/05	12/19/05	06/28/06	12/18/06	03/14/05	06/26/05	06/28/06

(1) Founders' warrants not exercised at the expiration date will be converted into stock options

A summary of the stock options is as follows:

STOCK OPTIONS

	09/21/98	02/25/99	03/15/00	06/27/00	12/20/00	06/29/01	12/19/01
Shareholders' meeting date	09/21/98	02/25/99	03/15/00	06/27/00	12/20/00	06/29/01	12/19/01
Total of stock options	650 000	600 000	300 000	100 000	800 000	1 200 000	450 000

authorized Board of directors date	09/21/98	02/09/99	04/27/99	03/30/00	06/27/00	06/27/00	07/24/00	12/20/00	03/14/01	06/29/01	12/19/01					
Total of stock options granted	495(1) 000	50 000	530(1) 800	37 500	1 500 157 200(1)	5 700 101 300(1)	24 710 50 860(1)	41 000(1) 400(1)90 590	61 000 000	467(1)97 395 151	233(1) 500	193 500				
Exercise price Total of stock options exercised	€2.29	€2.29	€4.57	€4.57	€139.52	€139.52	€103.23	€103.23	€136.62	€69.86	€69.86	€26.68	€34.66	€34.66	€41.09	€41.09
Total of stock options cancelled at December 31, 2001	214 558	— 24	153 238	1 500 858	— 21 100	1 200 2 500	360 6 330	6 330 13 500	57 640 940	10 000 4 095	820	—	1 000			
Total of stock options granted and not exercised at December 31, 2001	280 442	25 026	377 562	25 142	1 500 136 100	4 500 98 800	24 350 44 530	27 500 342 360	89 650 51 000	463 056	96 575	233 500	192 500			
Total of stock options exercisable at December 31, 2001	—	6 275	—	5 642	—	—	1 962	—	9 124	—	—	—	—	—	—	
Expiration date(1)	09/20/08		02/24/09			03/14/10			06/26/10		12/19/10		06/28/11		12/18/11	

(1) Options which will become exercisable after 5 years to the extent which the related founders' warrants expire unexercisable

In connection with the issuance of the founders' warrants and options granted in September 1998 and February 1999, Wavecom recorded deferred compensation of €2,022,000 and €5,344,000, respectively. Deferred compensation is being amortized over the respective vesting periods of the warrants and options. For the years ended December 31, 1999, 2000 and 2001, Wavecom recorded compensation expense of €1,608,000, €1,758,000 and €1,711,000 respectively, resulting from amortization of deferred compensation.

A summary of the activity in the warrants and stock options is as follows:

	Number of shares	Weighted average exercise price per share €	Price range €
Balance at December 31, 1998	545,000	2.29	2.29
Granted	569,800	4.57	4.57
Cancelled	(42,800)	3.45	2.29 – 4.57
Balance at December 31, 1999	1,072,000	3.46	2.29 – 4.57
Granted	901,360	93.93	69.86 – 150.72
Exercised	(208,812)	3.23	2.29 – 4.57
Cancelled	(28,856)	52.61	2.29 – 139.52
Balance at December 31, 2000	1,735,692	49.65	2.29 – 150.72
Granted	1,082,546	36.75	26.68 – 41.09
Exercised	(128,333)	3.00	2.29 – 4.57
Cancelled	(115,812)	78.17	2.29 – 139.52
Balance at December 31, 2001	2,574,093	45.27	2.29 – 150.72

At December 31, 2001, 486,497 founders' warrants, stock options and warrants were exercisable. The weighted-average remaining contractual life of the warrants and stock options outstanding at December 31, 2001 was approximately 8.6 years.

Pro forma information regarding net loss and net loss per share is required by SFAS 123, and has been determined as if Wavecom accounted for its stock options and warrants under the fair value method of SFAS 123. The fair value for these options and founders' warrants was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions for the years ended December 31, 1999, 2000 and 2001: risk-free interest rates of 4% for 1999, 5.10% for 2000 and 4.94% for 2001, no expected dividends, volatility factors of 0.75 for 1999, 0.92 for 2000 and 1.17 for 2001, and a weighted

average expected life of the options and founders' warrants of 5 years.

For purposes of pro forma disclosures, the estimated fair value of the options and founders' warrants is amortized to expense over the options' and warrants' vesting period. Wavecom's pro forma financial information follows (in thousands except for income (loss) per share information):

	Years ended December 31		
	1999	2000	2001
Pro forma net income (loss)	€ (15,521)	€ (21,537)	€ (15,914)
Pro forma net income (loss) per share	€ (1.30)	€ (1.53)	€ (1.08)

The weighted-average fair value of options and warrants granted during 1999, 2000 and 2001 was as follows:

	1999	2000	2001
Options whose price equaled market price of the underlying shares on the grant date	—	—	—
Options whose price was less than the market price of the underlying shares on the grant date	—	€103.12	€34.99
Options whose price was greater than the market price of the underlying shares on the grant date	€12.51	€ 64.04	€26.16

9. Income taxes

Income tax expense comprises:

	Years ended December 31,		
	1999	2000	2001
	(in thousands)		
Current tax expense (benefit)	€ (736)	€ (1,534)	€ (2,299)
Deferred tax expense (benefit)	—	—	—
Total	€ (736)	€ (1,534)	€ (2,299)

The income tax benefit in 1999 and 2000 is due to research tax credits earned by the French parent company. There was no current or deferred tax expense or benefit in the United States or Hong Kong due to the losses of Wavecom's subsidiaries since their opening in 1998. Taxes paid in the years ended December 31, 1999, 2000 and 2001 totaled approximately €19,000 each year.

The income tax benefit in 2001 is the net of research tax credit (€2,535,000), French current tax expense (€19,000) and Wavecom's Asian subsidiary income tax expense (€217,000).

A reconciliation of income taxes computed at the French statutory rate (40.3% in 1999, 36.7% in 2000 and 35.3% in 2001) to the income tax expense (benefit) is as follows:

	Years ended December 31,		
	1999	2000	2001

	(in thousands)		
Income tax expense computed at the French statutory rate	€ (6,332)	€ (5,886)	2,474
Research tax credit	(736)	(1,541)	(2,535)
Impact of valuation allowance on deferred tax assets	5,375	4,912	(3,174)
Other individually immaterial permanent differences	34	35	33
Non-deductible deferred compensation amortization	648	645	839
Non-deductible beneficial conversion feature of convertible debt	432	—	—
Other	(157)	301	64
Total income tax expense (benefit)	€ (736)	€ (1,534)	€ (2,299)

Significant components of Wavecom's deferred tax assets and liabilities consist of the following:

	Years ended December 31,		
	1999	2000	2001
	(in thousands)		
Deferred tax assets:			
Provisions and accruals not currently deductible	€ 324	€ 948	€ 3,695
Capitalized leases	21	26	6
Net operating loss carry forwards	8,266	12,549	6,648
	8,611	13,523	10,349
Valuation allowance	(8,611)	(13,523)	(10,349)
Net deferred tax asset (liability)	€ —	€ —	€ —

Valuation allowances against the net deferred tax assets were established in all years as Wavecom's management considers that there is not yet sufficient evidence available to determine that recovery of the asset is more likely than not. Because of the significant losses in 1999 and 2000, Wavecom increased the valuation allowance to €8,611,000 in 1999 and to €13,523,000 in 2000. This allowance decreased in 2001 due to the use of operating loss carryforwards to offset taxable income in France and in Hong Kong.

As of December 31, 2001, Wavecom has French net operating loss carryforwards of approximately, €14,610,000 of which €12,209,000 have no expiration date. The remaining €2,401,000 in net operating loss carryforwards expires in 2005 if not utilized. Net operating loss carryforwards in the United States totaled approximately €2,067,000.

10. Provision for loss on ICO related assets

In the second half of 1999, Wavecom recorded a loss provision totaling €2,607,000 related to its contracts with ICO Global Communications (Operations) Ltd. (a Cayman Islands company) to develop technology for ICO's satellite-based mobile communications network. ICO Global Communications (Holdings) Ltd. announced on August 27, 1999 that it and certain of its subsidiaries, including ICO Global Communications (Operations) Ltd., had filed for reorganization under Chapter 11 of the United States Bankruptcy Code and for liquidation under the laws of the Cayman Islands and Bermuda. As a result of the liquidation and reorganization proceedings filed by ICO and its affiliates, Wavecom's management determined that the recoverability of assets related to the ICO development contracts (principally accounts receivable and uninvoiced work in process) was uncertain and recorded a provision for loss for the net book value of all assets related to ICO.

In May 2000, ICO emerged from bankruptcy. Pursuant to the reorganization plan, settlement of the Company's claims against ICO arising prior to the ICO bankruptcy filing was made in New ICO shares, which Wavecom recorded at the same book value as the settled receivables. Given that New ICO was not publicly traded and management believed New ICO was still in the development stage, the Company was not in a position to determine the value of these shares and thus maintained a full provision against their book value.

11. Commitments and contingencies

Operating leases

Wavecom leases its facilities under operating leases that expire through August 2008. Future minimum lease payments under operating leases, excluding common area maintenance charges and inflation escalation, due for the fiscal years ending December 31, are as follows (in thousands):

2002	€	8,306
2003		7,724
2004		7,693
2005		6,941
2006		6,711
Thereafter		8,679

Rental expense, excluding common area maintenance charges, for the years ended December 31, 1999, 2000 and 2001 was approximately €633,000, €1,086,000 and €3,913,000, respectively.

Retirement accrual

Wavecom contributes to pensions for personnel in France in accordance with French law by contributing amounts based on salaries to the relevant government agencies. There exists no actuarial liability in connection with these plans. French law also requires payment of a lump sum retirement indemnity to employees based upon years of service and compensation at retirement. Benefits do not vest prior to retirement. Wavecom's obligation amounted to €86,000 as at December 31, 2001 and is calculated as the present value of estimated future benefits to be paid.

There are no retirement plans in Hong Kong and the United States.

12. Employees

Information related to Wavecom's employees are as follows :

	1999	2000	2001
	(in thousands, except for employee data)		
Salaries	€ 5,695	€ 9,677	€ 17,694
Benefits	€ 2,787	€ 4,619	€ 7,558
Employees at year end	132	175	421

13. Compensation of executive officers and senior employees

Wavecom paid €948,000, €1,658,000 and €1,664,000, in compensation to executive officers and senior employees for the year ended December 31, 1999, 2000 and 2001, respectively.

14. Related parties transaction

In December 2000, Wavecom S.A. entered into a consulting agreement with Delphis. Delphis, represented by Marc Fourier, who is a major shareholder and member of the board of directors. The agreement calls for Mr. Fourier to provide consulting services in the areas of corporate organization information systems and general management from time to time, up to a maximum of two days per week. Such services are compensated at the rate of €1,448 per day. During the year ended December 31, 2001, Delphis was paid €17,303 (€8,826 in 2000).

In November 2001, Wavecom S.A. loaned \$200,000 to a senior employee of the group. The loan bears a market rate of interest, is repayable in three years and is secured by a lien on the employee's residence. As of June 14, 2002, the outstanding principal balance of this loan was \$200,000.

EXHIBIT INDEX

Number	Name	Page Number
1	<i>Statuts</i> (by-laws) of the Registrant dated February 18, 2002 (English Translation).*	1
2.1	Form of Deposit Agreement among the Registrant, The Bank of New York, as Depositary, and the Holders of American Depositary Shares issued thereunder (filed as Exhibit 4.1 to the Registrant's Registration Statement on Form F-1, File No. 333-10372).	—
2.2	Form of American Depositary Receipt (filed as Exhibit 4.2 to the Registrant's Registration Statement on Form F-1, File No. 333-10372).	—
4.1	GSM Essential Properties Cross License Agreement, dated January 6, 1999, between the Registrant and Motorola, Inc. (filed as Exhibit 10.3 to the Registrant's Registration Statement on Form F-1, File No. 333-10372).**	—
4.2	Agreement relating to the sale of GSM modules, dated July 7, 1999 between Amtal International Limited and Wavecom Asia Pacific Limited (filed as Exhibit 10.3 to the Registrant's Registration Statement on Form F-1, File No. 333-10372).**	—
4.3	Agreement relating to the development and manufacture of a GSM hand held portable, dated February 11, 2000 between NEC Corporation and Wavecom S.A (filed as Exhibit 10.2 to the Registrant's Annual Report on Form 20-F, filed with the Commission on May 24, 2000).**	—
4.4	Contract for Manufacturing and Related Services, dated June 17, 1999 between Wavecom S.A. and Solectron-France S.A. (filed as Exhibit 10.3 to the Registrant's Annual Report on Form 20-F, filed with the Commission on May 24, 2000).**	—
4.5	Agreement between Funkanlagen and Wavecom S.A. dated February 25, 2000 (filed as Exhibit 10.4 to the Registrant's Annual Report on Form 20-F, filed with the Commission on May 24, 2000).**	—
4.6	GSM/DCS 1800/1900 Patent License Agreement between Wavecom S.A. and Koninklijke Philips Electronics N.V., dated October 9, 2001.*&	—
4.7	Agreement relating to a cross-license of essential GSM patents between Wavecom S.A. and Siemens Aktiengesellschaft, effective as of October 31 2001.*&	—
8	List of subsidiaries of the Registrant	13
10	Consent of Ernst & Young Audit.	14

* Filed herewith.

** The registrant has received confidential treatment of portions of this agreement.

& The registrant has requested confidential treatment of portions of this agreement.

QuickLinks

[TABLE OF CONTENTS PART I](#) [PART I](#)

[Item 1. Identity of Directors, Senior Management and Advisers](#)

[Item 2. Offer Statistics and Expected Timetable](#)

[Item 3. Key Information](#)

[Item 4. Information on the Company](#)

[Item 5. Operating and Financial Review and Prospects](#)

[Item 6. Directors, Senior Management and Employees](#)

[Item 7. Major Shareholders and Related Party Transactions](#)

[Item 8. Financial Information](#)

[Item 9. The Offer and Listing](#)

[Item 10. Additional Information](#)

[Item 11. Quantitative and Qualitative Disclosure About Market Risk](#)

[Item 12. Description of Securities other than Equity Securities](#)

PART II

[Item 13. Defaults, Dividend Arrearages and Delinquencies](#)

[Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds](#)

[Item 18. Financial Statements](#)

[Item 19. Exhibits](#)

SIGNATURES

[WAVECOM S.A. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS](#)

[REPORT OF INDEPENDENT AUDITORS](#)

[WAVECOM S.A. CONSOLIDATED STATEMENTS OF OPERATIONS \(in thousands, except share and per share data\)](#)

[WAVECOM S.A. CONSOLIDATED BALANCE SHEETS \(in thousands, except share data\)](#)

[WAVECOM S.A. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY \(DEFICIT\) \(in thousands of euro, except share data\)](#)

[WAVECOM S.A. CONSOLIDATED STATEMENTS OF CASH FLOWS \(in thousands, except share data\)](#)

[WAVECOM S.A. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS](#)

[EXHIBIT INDEX](#)