



**edap tms**  
Bringing New Horizons to Therapy

Updated March 31, 2017

## **AUDIT COMMITTEE CHARTER EDAP TMS S.A.**

### ***1- Organization***

This charter governs the operations of the Audit Committee.

The Committee shall consist of at least three members selected from among the members of the Board of Directors. One member will be designated as the President of the Committee. The President shall have a working familiarity with finance and accounting practices and some related financial management experience, and shall be an “audit committee financial expert,” as defined by the rules of the U.S. Securities and Exchange Commission (the “SEC”). Each member of the Audit Committee shall be financially literate and shall meet the independence and experience requirements of the Sarbanes-Oxley Act of 2002, the U.S. Securities Exchange Act of 1934, as amended, and the NASDAQ Stock Market, Inc. The members of the Audit Committee shall be appointed by the Board of Directors.

### ***2- Reporting***

The President of the Committee shall meet separately and periodically with management, the personnel responsible for the internal audit function, and the independent auditor. The President of the Committee shall report regularly to the Board of Directors with respect to its activities by means of minutes of such meetings to be presented and discussed at the quarterly audit committee meeting held ahead of the quarterly Board meeting. The Board of Directors shall delegate all authority to the President of the Committee to represent the Audit Committee.

### ***3- Purpose***

The purpose of the Committee shall be to:

- Provide assistance to the Board of Directors in fulfilling their oversight responsibility to the shareholders, potential shareholders, the investment community and others relating to:
  - (i) the integrity of the Company’s financial statements;
  - (ii) the Company’s compliance with legal and regulatory requirements;
  - (iii) the accounting practices and financial reporting processes of the Company;
  - (iv) the effectiveness of the Company’s disclosure controls and procedures and internal control over financial reporting;
  - (v) the independent auditor’s qualifications and independence;
  - (vi) and the performance of the Company’s internal audit function and independent auditors.
- Prepare the Audit Committee report that SEC proxy rules require to be included in the Company’s annual proxy statement. The Audit Committee may request any officer or employee of the Company or the Company’s outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

The Committee shall retain and compensate such outside legal, accounting, or other advisors as it considers necessary in discharging its oversight role.

#### ***4- Meetings***

As described and summarized in *Attachment #1 – “Structure of Audit Committee Meetings”*, the Audit Committee, shall meet on a regular basis as indicated above and shall also meet (or his President on behalf of the Audit Committee) separately and periodically with management, the personnel responsible for the internal audit function and the independent registered public accountants. Such meetings will be scheduled at least once a year on the occasion of the annual prior certification review with the independent auditors at which problems and proposed adjustments are addressed. At such meeting the engagement (scope, plans, staffing) and fees for the following year will also be discussed.

The Audit Committee shall make regular reports to the Board, at least quarterly and annually as defined below in item 5, and on an ad hoc basis based on need.

The Audit Committee will meet at least four times a year: Q1, Q2, Q3 and Q4, ahead of quarterly board meetings. The annual review with the independent auditors is conducted by the Chairman of the Committee prior to the Q4 Annual Audit Committee meeting.

The quarterly report of the Audit Committee to the Board will cover quarterly results, press release, status of internal controls, and any other relevant matters, such as forward considerations related to complex accounting treatments, discussions with management, management expenses reports.

A majority of the Audit Committee shall constitute a quorum. The Audit Committee may act by a majority of the members present at a meeting of the Committee. In the event of a tie vote on an issue, the vote of the President of the Committee shall decide the issue.

In fulfilling its purpose, it is the responsibility of the Committee to maintain free and open communication between the Committee, independent auditors, the internal auditors, and the management of the Company, and to determine that all parties are aware of their responsibilities.

#### ***5- Duties and Responsibilities***

The Committee has the responsibilities and powers set forth in this Charter.

Management is responsible for the preparation, presentation and integrity of the Company’s financial statements, for the appropriateness of the accounting principles and reporting policies that are used by the Company and for implementing and maintaining internal control over financial reporting. The independent auditors are responsible for auditing the Company’s financial statements and the effectiveness of the internal control over financial reporting, and for reviewing the Company’s unaudited interim financial statements.

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee will take appropriate actions to set and monitor the overall corporate “tone” for quality financial reporting, sound business risk practices and ethical behavior.

The following shall be the principal duties and responsibilities of the Committee. These are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

- The Committee shall be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditors (including resolution of disagreements between management and the auditor regarding financial reporting and internal control matters) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, and the independent auditors shall report directly to the Committee. The Audit Committee should also recommend the appointment or removal of the independent auditors for consideration and approval by the Company's shareholders in accordance with French law.

- At least annually, the Committee shall obtain and review a report by the independent auditors describing:

- (i) the firm's internal quality control procedures;
- (ii) any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and
- (iii) all relationships between the independent auditors and the Company (consistent with Independence Standards Board Standard 1) to assess the auditors' independence.

- After reviewing the foregoing report and the independent auditors' work throughout the year, the Committee shall evaluate the auditors' qualifications, performance and independence. Such evaluation should include the review and evaluation of the lead audit partner of the independent auditors and take into account the opinions of management and the Company's personnel responsible for the internal audit function. The Committee shall discuss such reports with the auditor, and if so determined by the Audit Committee, take or recommend that the full Board take appropriate action to oversee the independence of the auditor.

- The Committee shall determine that the independent audit firm has a process in place to address the rotation of the lead audit partner and other audit partners serving the account as required under the SEC independence rules.

- The Committee shall pre-approve all audit, review and attest engagements and all engagements for permitted non-audit services, provided by the independent auditors (including the fees and other terms thereof), either by (a) providing express approval before an independent auditor is engaged to render audit or permitted non-audit services or (b) by establishing specific pre-approval policies that are detailed as to the particular service to be followed in engaging an independent auditor. The Audit Committee may delegate the authority to pre-approve such engagements to one or more members of the Committee and delegate such responsibility to the Company's management for engagements of less than €10,000. The decisions of any Committee member or management member to whom pre-approval authority is delegated must be presented to the full Committee at its next scheduled meeting. The Audit Committee must be informed of all pre-approved engagements. The Audit Committee shall not engage the independent auditors to perform non-audit services proscribed by law or regulation.

- The Committee shall discuss with the internal auditors and the independent auditors the overall scope and plans for their respective audits, including the adequacy of staffing and budget or compensation.

- The Committee shall regularly review with the independent auditors any audit problems or difficulties encountered during the course of the audit work, including any restrictions on the scope of the independent auditors' activities or access to requested information, and management's response. The Committee should review any accounting adjustments that were noted or proposed by the auditors but were "passed" (as immaterial or otherwise); any communications between the audit team and the audit firm's national office relating to problems or difficulties encountered with respect to

significant auditing or accounting or internal control issues; and any “management” or “internal control” letter issued, or proposed to be issued, by the audit firm to the Company.

- The Committee shall review and discuss the quarterly financial statements, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, with management and the independent auditors prior to the filing of the Company’s Quarterly Report on Form 6-K. Also, the Committee shall discuss the results of the quarterly review and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards.

- The Committee shall review and discuss the annual audited financial statements, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, with management and the independent auditors prior to the filing of the Company’s Annual Report on Form 20-F (or the annual report to shareholders if distributed prior to the filing of Form 20-F). The Committee’s review of the financial statements shall include:

- (i) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company’s selection or application of accounting principles, and major issues as to the adequacy of the Company’s internal controls and any specific remedial actions adopted in light of material control deficiencies;
- (ii) discussions with management and the independent auditors regarding significant financial reporting issues and judgments made in connection with the preparation of the financial statements and the reasonableness of those judgments;
- (iii) consideration of the effect of regulatory accounting initiatives, as well as off-balance sheet structures on the financial statements;
- (iv) consideration of the judgment of both management and the independent auditors about the quality, not just the acceptability, of accounting principles; and
- (v) the clarity of the disclosures in the financial statements. Also, the Committee shall discuss the results of the annual audit and any other matters required to be communicated to the Committee by the independent auditors under professional standards.

- The Committee shall receive and review a report from the independent auditors, prior to the filing of the Company’s Annual Report on Form 20-F (or the annual report to shareholders if distributed prior to the filing of Form 20-F), on all critical accounting policies and practices of the Company; all material alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the independent auditor; and other material written communications between the independent auditors and management.

- The Committee shall review and approve all related party transactions required to be disclosed pursuant to SEC Regulation S-K, Item 404, and discuss with management the business rationale for the transactions and whether appropriate disclosures have been made.

- The Committee shall review and discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.

- The Committee shall review management’s assessment of the effectiveness of internal control over financial reporting as of the end of the most recent fiscal year and the independent auditors’ report on management’s assessment.

- The Committee shall discuss with management, the internal auditors, and the independent auditors the adequacy and effectiveness of internal control over financial reporting, including any significant deficiencies or material weaknesses identified by management of the Company in connection with its required quarterly certifications under Section 302 of the Sarbanes-Oxley Act. In addition, the Committee shall discuss with management, the internal auditors, and the independent auditors any

significant changes in internal control over financial reporting that are disclosed, or considered for disclosures, in the Company's periodic filings with the SEC.

- The Committee shall review the Company's compliance systems with respect to legal and regulatory requirements and review the Company's Code of Ethics and programs to monitor compliance with such programs. The Committee shall receive corporate attorneys' reports of evidence of a material violation of securities laws or breaches of fiduciary duty.
- The Committee shall discuss the Company's policies with respect to risk assessment and risk management, including the risk of fraud. The Committee also shall discuss the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
- In compliance with Section 10A(m)(3) of the U.S. Securities Exchange Act of 1934, as amended, and Rule 10A-3 thereunder, and in accordance with the listing rules of the NASDAQ Stock Market, Inc., the Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters, and oversee implementation of such procedures. Such procedures shall also contain disciplinary provisions for the submission of complaints otherwise than in good faith under these procedures.
- The Committee shall meet with the independent auditor prior to the audit to review the scope and staffing of the audit.
- The Committee shall advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations.
- The Committee shall review the appointment and replacement of any senior internal auditing executive. The Committee shall obtain reports from management, the Company's senior internal auditing executive and the independent auditor that the Company's subsidiaries are in conformity with applicable legal requirements.
- The Committee shall review with the Company's legal counsel legal matters that may have a material impact on the financial statements, the Company's compliance policies and any material reports or inquiries received from regulators or governmental agencies.
- The Committee shall meet at least annually with those officers of the Company with responsibility for financial affairs and the independent auditor in separate executive sessions.
- The Committee shall set clear hiring policies for employees or former employees of the independent auditors that meet the SEC regulations and stock exchange listing standards.
- The Committee shall determine the appropriate funding needed by the Committee for payment of:
  - (i) compensation to the independent audit firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services for the Company;
  - (ii) compensation to any advisers employed by the Committee; and
  - (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
- The Committee shall perform an evaluation of its performance at least annually to determine whether it is functioning effectively.
- The Committee shall review and reassess this Charter at least annually and obtain the approval of the Board of Directors.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty or responsibility of the Audit Committee to plan or conduct audits or to determine that the Company's annual, quarterly and other financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. It is also not the duty or responsibility of the Audit Committee to conduct investigations, to resolve disagreements not related to financial reporting, if any, between management and the independent auditors, or to assure compliance with laws and regulations and the Company's Code of Ethics.