

**WATSCO, INC.**  
**AUDIT COMMITTEE CHARTER**

**Purpose**

The role of the Audit Committee (“Committee”) of the Board of Directors (“Board”) of Watsco, Inc. (“Company”) is to (a) assist the Board in its oversight responsibilities relating to (i) the preparation, presentation and integrity of the Company’s financial statements and internal control over financial reporting, (ii) the independent auditor’s qualifications and independence, (iii) the performance of the Company’s internal audit function and independent auditors and (iv) the Company’s compliance with legal and regulatory requirements; and (b) prepare the Committee’s report required by the Securities and Exchange Commission (“SEC”) to be included in the Company’s annual proxy statement.

**Composition of the Committee**

***Number***

The Committee shall consist of no fewer than three (3) members.

***Qualifications***

Each Committee member shall meet the independence and financial literacy requirements of the New York Stock Exchange (“NYSE”) and the SEC. At least one member of the Committee shall qualify as an audit committee financial expert in accordance with the rules and regulations of the SEC and at least one member (who may also serve as the audit committee financial expert) shall have accounting or related financial management expertise in accordance with NYSE listing standards. The Board shall determine whether a member is financially literate and whether at least one member is an audit committee financial expert and has the requisite accounting or financial management expertise. Committee members may not simultaneously serve on the audit committees of more than two (2) other public companies unless the Board (a) determines that such simultaneous service would not impair the ability of each member to effectively serve on the Committee and (b) discloses such determination either on or through the Company’s website or in the Company’s annual proxy statement.

***Appointment***

The Board will appoint the members and the Chairperson of the Committee.

**Meetings**

The Committee shall meet in person or telephonically at least four (4) times per year and additional meetings shall be scheduled as appropriate. The Committee shall meet periodically with management, the independent auditors and internal audit in separate executive sessions and shall have other direct and independent interaction with such persons from time to time as the members of the Committee deem appropriate.

## **Responsibilities and Duties**

The Committee is responsible for assisting the Board in overseeing the Company's financial reporting function by influencing the overall tone for quality financial reporting, sound internal controls and ethical behavior. Management is responsible for the preparation, presentation and integrity of the Company's financial statements, for the appropriateness of the accounting and reporting policies that are used by the Company, and for the establishment and effectiveness of internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for auditing the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB), expressing an opinion as to the conformity of such financial statements with generally accepted accounting principles, expressing an opinion on the effectiveness of internal control over financial reporting, and for reviewing the Company's interim consolidated financial statements.

The independent auditors report directly to the Committee. The Committee has the sole authority and responsibility to recommend to the Board the nomination of the independent auditors for approval by the shareholders on an annual basis. The Committee is directly responsible for the appointment, termination, compensation, retention, evaluation and oversight of the work of the independent auditors for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company.

The Committee shall make regular reports to the Board on significant matters reviewed or considered by the Committee, including any issues that arise with respect to the quality or integrity of the Company's financial statements, the performance and independence of the independent auditors, the performance of the internal audit function or the Company's compliance with legal or regulatory requirements. The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Committee shall annually review its own performance.

In addition, the Committee shall have the following responsibilities:

### ***Responsibilities Related to Financial Statements and Disclosure Matters***

- 1) Review and discuss with management and the independent auditors the annual audited consolidated financial statements, including review of the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations." The Committee shall also recommend to the Board whether the audited financial statements should be included in the Company's Annual Report on Form 10-K.
- 2) Review and discuss with management and the independent auditors the quarterly unaudited consolidated financial statements prior to the filing of its Quarterly Report on Form 10-Q, including review of the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations." The Committee shall also review and discuss the results of the independent auditor's review of the quarterly financial statements.

- 3) Review and discuss earnings press releases and other financial information including earnings guidance provided to analysts and rating agencies.
- 4) Review and discuss with the independent auditors (a) critical accounting policies used including any significant changes in the Company's selection or application of accounting principles, (b) alternative treatments of significant financial information within generally accepted accounting principles that have been discussed with management, including the effects of alternatives and the preferred method of the independent auditors, and (c) other significant communications between the independent auditors and management, such as management letters or accounting adjustments proposed by the independent auditors that were waived by management as immaterial.
- 5) Review, approve and implement policies for related party transactions.
- 6) Discuss with management and the independent auditors the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's consolidated financial statements, if any.

#### ***Responsibilities Related to the Independent Auditors***

- 7) Pre-approve all auditing services and permitted non-audit services to be performed for the Company by its independent auditors. The Chairperson of the Committee shall inform the Committee of each service granted pre-approval at its next scheduled meeting.
- 8) At least annually, obtain and review a report from the independent auditors describing (a) the independent auditor's internal quality control procedures, (b) any material issues raised by the most recent internal quality control review or peer review 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 (c) any steps taken to deal with any such issues.
- 9) At least annually, obtain and review a formal written statement from the independent auditors setting forth all relationships between the audit firm and the Company, including each non-audit service provided to the Company.
- 10) Review and evaluate the independent auditor's qualifications, performance and independence, including a review and evaluation of the lead partner, taking into account the opinions of management and the internal auditor. Ensure the rotation of the lead audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit. Consider whether it is appropriate to rotate the independent audit firm itself in order to assure continuing audit independence.
- 11) Establish policies for the Company's hiring of employees or former employees of the independent auditors.

- 12) Review and discuss the audit plan, including the scope, with the independent auditors.
- 13) Review and discuss with the independent auditors any problems or difficulties encountered during the audit and management's response.
- 14) Resolve disagreements between management and the independent auditors regarding financial reporting.
- 15) Review and discuss with the independent auditors the matters to be communicated to the Committee by the independent auditors under auditing standards established from time to time by the PCAOB.

***Responsibilities Related to Internal Audit, Internal Controls and Risk Management***

- 16) Review the appointment, performance and replacement of the Vice President of Internal Audit.
- 17) Oversee the activities of the internal audit function. Review with the Board any significant issues that arise with respect to the performance of the internal audit function.
- 18) Review the internal audit plan and the results thereof.
- 19) Review and periodically meet separately with the internal auditor, management and the independent auditors to discuss the adequacy and effectiveness of the Company's internal controls, including any material weaknesses or significant deficiencies in the design or operation of internal controls over financial reporting and additional management procedures and audit steps performed in light of any material control deficiencies.
- 20) Discuss with management the Company's financial, auditing and accounting personnel.
- 21) Discuss with management the Company's major financial risk exposures as well as significant operational, compliance, reputational, strategic and cybersecurity risks and the steps management has taken to monitor and control such exposures to be within the Company's risk tolerance.

### ***Responsibilities Related to Legal and Regulatory Compliance***

- 22) Establish and oversee the Company's Codes of Conduct for Executives and Employees. Obtain periodically reports from management on any significant issues regarding compliance with applicable laws and regulations and with the Company's Codes of Conduct.
- 23) Establish procedures for and oversee the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls or auditing matters, fraud and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- 24) Discuss with management legal matters that may have a material impact on the consolidated financial statements.
- 25) Discuss with management and the independent auditors any correspondence with regulators or governmental agencies and any published reports that raise potentially material issues regarding the Company's financial statements or accounting policies.

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits, to determine that the Company's financial statements are complete and accurate or to determine that such statements are in accordance with generally accepted accounting principles. It is also not the duty of the Committee to conduct investigations or to assure compliance with laws and regulations and the Company's policies and procedures. These are the responsibilities of management, the independent auditors and others retained by the Committee.

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties, and obtain such funding from the Company in the execution of its duties.

### **Process**

The Committee shall carry out its responsibilities by use of both the internal audit department of the Company and the Company's independent auditors to determine both the adequacy of the Company's internal control systems and the internal control environment at the Company including its various subsidiaries. It is recognized that because this is a continuing process, the Committee cannot meet each time a decision must be made in dealing with the internal or independent auditors or management. The authority to make such decisions is, therefore, delegated to the Chairperson of the Committee. It shall be the Chairperson's responsibility to at all times involve the other members of the Committee in any actions he or she deems material. The Chairperson shall either promptly mail (or e-mail) to the other committee members a description of all actions he or she takes between meetings or shall at the meeting following any action he or she has taken independently between meetings, fully bring all other members up to date. The Chairperson shall make no decisions on matters which he or she believes are material matters without the concurrence of the full Committee.

**Document Retention**

The Company shall retain one copy of all documents applicable to activities of the Audit Committee for seven (7) years.

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Approved by the Board March 13, 2017

**Watsco, Inc.**  
**Policy for Related Party Transactions**

Transactions subject to this policy shall include any transaction, arrangement or relationship (including any indebtedness) that the company or any of its subsidiaries has with a Related Person (defined below).

A Related Person includes directors (or nominees) and named executive officers of the Company, and any immediate family member.

The following transactions are exempt from this policy:

- payment of compensation to a Related Person for service to the Company in the capacity that gave rise to the person's status as a "Related Person;"
- purchases of products from the Company in the ordinary course of business at the same prices and terms offered to other employees;

**Approval or Ratification of Related Person Transactions**

The Audit Committee (the "Committee") is to approve any related person transaction subject to this policy before commencement of the transaction; provided, however, that if transaction is identified after it commences, it shall still be brought to the Committee for ratification.

If the Company becomes aware of a transaction that has not previously been approved:

- if it is pending or ongoing, it will be submitted to the Committee promptly and the Committee will consider the transaction in light of the standards of approval listed below. Based on this evaluation, the Committee will consider all options, including approval, ratification, amendment, denial or termination of the Related Person Transaction; and
- if the transaction is completed, the Committee will evaluate the transaction in accordance with the same standards to determine whether rescission of the transaction is appropriate and feasible.

The Committee hereby delegates authority to either Co-Chair to approve any related person transaction or take any other action that the Committee would be authorized to take if a transaction arises, or first becomes known, between Committee meetings. The Co-Chair may take any such action or, in his or her discretion, require that the matter be brought before the full Committee. Any action taken by the Co-Chair shall be reported to the Committee at its next regularly scheduled meeting.

**Standards for Approval of Transactions**

The Committee will analyze the following factors, among others, in determining whether to approve a transaction:

- whether the terms are fair;
- whether the transaction is material and is beneficial to the Company;
- the role the Related Person has played;
- the structure of the transaction; and
- the interests of all Related Persons in the transaction.

**Approval Process**

The Committee may, in its sole discretion, approve, suspend or deny any Related Person Transaction. Approval of a Related Person Transaction may be conditioned upon the Company and the Related Person taking any actions, or any other actions that the Committees deems appropriate.

The Committee may request information about the transactions from time to time and may appoint a Company representative to monitor various aspects of the transaction. The Related Party shall cooperate with the Committee during the course of implementation of this policy.