



Environmental

Social

Governance

Report 2019

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MESSAGE FROM OUR CHAIRMAN AND CEO

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) REPORT

As we release our environmental, social, and governance (ESG) report during the COVID-19 pandemic, I am proud of the efforts we have taken at all levels of our company to keep our employees and communities safe and to minimize disruptions to our business operations.

While our past reports were referred to as sustainability reports, we have renamed this year's report to reflect our holistic approach to ESG best practices in everything we do. During these challenging times, it is important for us to affirm our commitment to sustainable business practices as well as diversity and inclusion. Based on feedback received from our stakeholders, I am also pleased to share that this report includes data and information aligned with the Sustainability Accounting Standard Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD) frameworks.

INNOVATION MEETS RESPONSIBILITY

Lennox International (LII) manufactures some of our industry's most energy efficient products. ESG practices have always been a part of our heritage of innovation. Dating back to 1895, Dave Lennox invented the first riveted steel furnace that burned cleaner than any other furnace of its time. Today, these practices are reflected in the design, production, distribution, and performance of all our products. Our ESG theme, "Innovation Meets Responsibility," embodies our commitment to the environment and our stakeholders, while producing the industry's most innovative products and managing climate-related risks through the development of our low carbon transition plan.

ESG factors impact our factories, distribution centers, sales branches, retail outlets, engineering centers, and our business campuses. We make significant investments to continuously reduce our energy consumption, waste, water use, and greenhouse gas emissions across the company's operations.

BUSINESS ETHICS AND COMPLIANCE

We also embrace a responsibility to uphold our high standard of ethics, which are embodied in our core values of Integrity, Respect, and Excellence. We provide ongoing ethics training and awareness on the LII Code of Business Conduct and numerous other ethics-related topics such as conflicts of interest, insider trading, and antitrust.

EMPLOYEE HEALTH AND SAFETY

Safety is always our top priority and our safety programs are succeeding to reduce risks across our operations. We are committed to ensuring that every employee returns home safe at the end of each day.

EMPLOYEE DIVERSITY AND INCLUSION

Our diversity and inclusion programs drive professional development and leverage our employees' unique perspectives. As part of our ongoing commitment to create an inclusive workplace, I joined over 1,300 CEOs across the country in the CEO Action for Diversity & Inclusion pledge, the largest CEO-driven business commitment to advance diversity and inclusion in the workplace.

COMMUNITY INVOLVEMENT AND CHARITABLE GIVING

We support the communities where we live and work through financial contributions and employee volunteerism.

In 2019, LII and our employees supported hundreds of non-profit organizations focused on our five giving areas: education, the arts, the environment, youth development, and health and human services. In 2020, we also focused contributions on social and racial justice issues.

Our customers, shareholders, and employees care that we are an environmentally and ethically sound company and our employees are focused on achieving our ESG objectives and delivering on our commitments.



Todd M. Bluedorn

Chairman and
Chief Executive
Officer

A handwritten signature in black ink, appearing to read "T. Bluedorn", written in a cursive style.

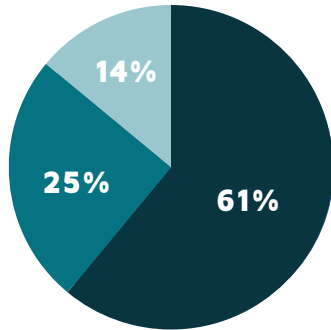


BUSINESS OVERVIEW

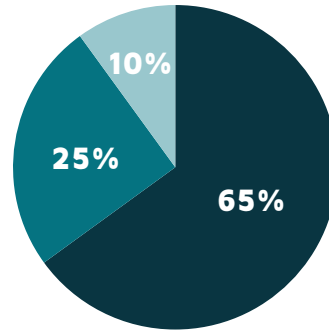
For nearly 125 years, LII has led our industry in providing innovative climate control solutions. These solutions include the most efficient products and systems on the market and support our commitment to sustainability, energy efficiency, and social responsibility.

We design, manufacture, and market a broad range of products for the heating, ventilation, air conditioning, and refrigeration (“HVACR”) markets. We have leveraged our expertise to become an industry leader known for innovation, quality, and reliability.

2019 Revenue¹



2019 Segment Profit^{1,2}



Residential Heating & Cooling

Commercial Heating & Cooling

Refrigeration



LENNOX Stores



LENNOX
VRF

LENNOX
NATIONAL ACCOUNT SERVICES



Furnaces, air conditioners, heat pumps, packaged heating and cooling systems, indoor air quality equipment, comfort control products, replacement parts and supplies

Unitary heating and air conditioning equipment, applied systems, controls, installation and service of commercial heating and cooling equipment, variable refrigerant flow commercial products

Condensing units, unit coolers, fluid coolers, air cooled condensers, air handlers, process chillers, cold storage, controls, compressorized racks

1. Adjusted to exclude revenue from the Kysor Warren Refrigeration business divested in 2019.

2. Excludes eliminations, unallocated corporate expense, and \$40M of insurance proceeds for 2018 lost profit.

Our Business Strategy:

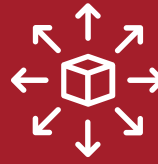
To sustain and expand our premium market position by offering a full spectrum of products to meet our customers' needs by following four strategic priorities:



**Innovative Product
and System Solutions**



**Manufacturing
and Sourcing
Excellence**



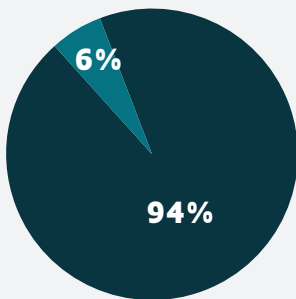
**Distribution
Excellence**



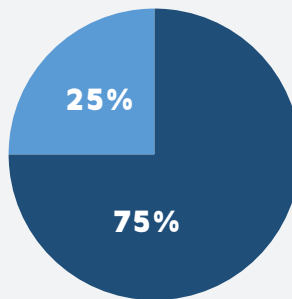
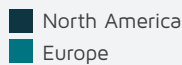
**Expense
Reduction**

KEY HIGHLIGHTS

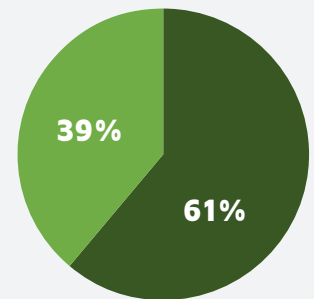
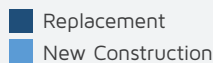
Business Mix



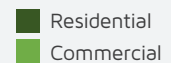
Geography



End Market

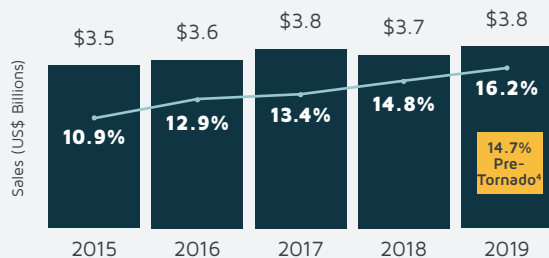


Customer

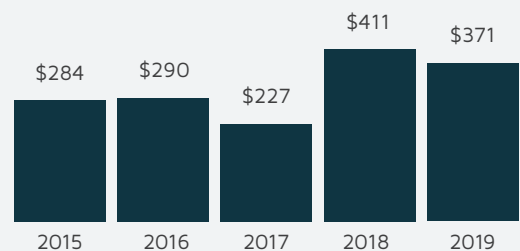


Sales, Earnings, and Cash Flow

Revenues & ROS¹



Free Cash Flow (\$Millions)



	2015	2016	2017	2018	2019
GAAP EPS	\$4.11	\$6.34	\$7.17	\$8.77	\$10.38 ^{2,3}
Core EPS	\$5.14	\$6.95	\$7.92	\$9.52	\$11.19 ²

	2015	2016	2017	2018	2019
FCF% NI ⁵	152%	104%	74%	114%	91%

¹ 2018-2019 revenue, ROS, and Core EPS reflect the 2018-2019 Refrigeration divestitures; 2015-2017 not restated.

² Includes benefit of \$40M to EBIT and \$0.75 to EPS in 2019 from insurance proceeds for Q4 2018 lost profits.

³ Includes non-cash pension settlement charges of \$1.89 to EPS in 2019.

⁴ 2019 Pre-Tornado ROS % adjusts for \$110M of lost revenue and \$40M of insurance proceeds received in Q1 2019 for the Q4 2018 lost profits.

⁵ Free cash flow as a percent of GAAP net income.



ENVIRONMENTAL

We are committed to continuously advancing environmental sustainability in our products, services, and operations.

We measure and set aggressive reduction goals for energy, greenhouse gas emissions, waste, and water. Substantial progress for these metrics was achieved by investing capital dedicated to sustainability projects, engaging our employees to identify and drive completion of environmental projects, and encouraging employees to adopt conservation-minded behaviors.

PRODUCT EFFICIENCY AND INNOVATION

We operate a global engineering and technology organization that focuses on new technology invention, product development, product quality improvements and process enhancements, including our development of next-generation control systems as well as heating, cooling, and refrigeration products that include some of the most efficient products in their respective categories.

Energy innovation has long been a key value driver within our product development strategy. From our Ultimate Home Comfort System to the highest efficiency commercial rooftops on the market, we continue to raise the bar with the most advanced and efficient products.

We are proud that more than 65% of our residential products and more than 60% of our commercial products, by revenue, meet ENERGY STAR® criteria.

PRODUCT VITALITY INDEX

A key way we measure our success in product innovation is through our product vitality index (sales of products launched in the last three years as a percentage of total sales). We place a large focus on this metric as we develop products to delight customers and reduce our carbon footprint. We consistently maintain a strong PVI of over 40%, which means our newest products, with the highest efficiencies, are important drivers in our strong performance. Our product vitality index is a direct reflection of sustainability innovations incorporated into our products.



Residential Product Highlight: Ultra-low NOx Furnace

As the first and only manufacturer with a full line of Ultra-low Nitrogen Oxide emitting residential gas furnaces, we are helping people take meaningful, necessary steps towards lowering gas emissions that form ground-level ozone. Our Ultra-low NOx furnaces produce 65% less NOx emissions than a typical furnace. They are also more cost effective, creating a projected 25% heating cost savings in an average year. In this way, we are decreasing the carbon footprint of our products and our consumers.



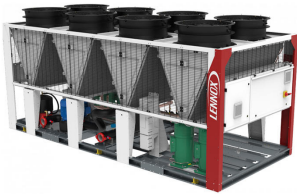
Residential Product Highlight: XC25 Air Conditioner

Another advanced innovation, the XC25 delivers energy-smart, year-round comfort. This product has been designated as one of the most efficient ENERGY STAR® certified products in 2020. With industry-leading efficiencies of up to 26 SEER, consumers can save hundreds of dollars in utility costs every year.



Commercial Product Highlight: Emergence® rooftop units

The Emergence® Ultra High Efficiency rooftop is the most efficient packaged rooftop line in its class with efficiency ratings up to 23.5 SEER, 15 EER, and 22 IEER. All Emergence rooftops feature the Prodigy® 2.0 control system that allows customers to configure the unit to meet the unique demands of their application to achieve maximum unit efficiency resulting in energy savings. These units help building owners qualify for many state and local utility rebates and Leadership in Energy and Environmental Design (LEED) points. Our rooftops feature the Environ® Coil System which maximizes sustainability by reducing refrigerant usage by over 50% and the optional MSAV supply fan which provides up to 75% fan power savings.



Refrigeration Product Highlight: eComfort chillers

We are leaders in introducing alternative low Global Warming Potential (GWP) refrigerants such as R32 in rooftops and chiller products in Europe. We are developing products with microchannel heat exchangers that reduce the use of traditional refrigerants by 70% while qualifying several lower GWP refrigerants that are emerging in the marketplace. We have developed new technologies that boost the efficiency of our products. Our products comply with stringent new efficiency standards of the US Department of Energy and European Ecodesign directives.

INDOOR AIR QUALITY (IAQ)

The HVAC industry plays an important role in public health through indoor climate systems. The COVID-19 pandemic has made indoor air quality a primary concern for homeowners and building owners and operators as commercial spaces continue to be reoccupied.

Residential

Our residential offering, Healthy Climate Solutions, provides many innovative and effective ways to improve the quality of our residential customers' air. Working with central heating and cooling systems, Healthy Climate® Solutions improve the air throughout an entire home, not just in individual areas. This makes them more effective than portable indoor air quality products. The industry-leading products in this line include:

- The PureAir™ Air Purification System
- The Healthy Climate® Carbon Clean 16 media air cleaner
- The Healthy Climate® Energy Recovery Ventilator (ERV)

Commercial

The Building Better Air initiative combines our innovative product line and industry-leading building services to provide comprehensive indoor air quality solutions for a variety of commercial spaces. There are three steps to Building Better Air:

Indoor Air Quality Survey – A Lennox representative will offer services to assess the equipment currently serving the building to identify ways to improve indoor air quality. This assessment will evaluate the general condition of the HVAC equipment, verify proper ventilation, and detail the status of current air purification capabilities to create a baseline for the building's current indoor air quality.

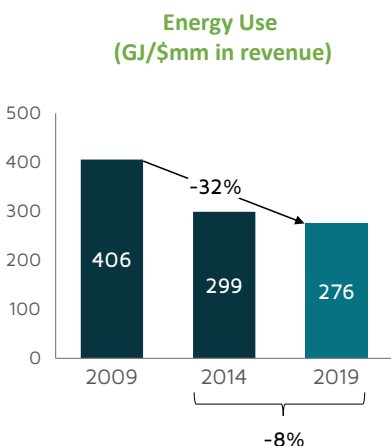
Indoor Air Quality Solutions – After studying the details from the assessment, a Lennox representative will then walk through available options to improve indoor air quality. Focusing on air purification, ventilation, and humidity control, a comprehensive IAQ solution will be created that is tailored to the needs of the building and application.

Preventative Maintenance – Indoor air quality is an ongoing priority and it is critical that a maintenance plan is established to ensure the IAQ upgrades to the HVAC system remain effective. A Lennox representative will lay out a comprehensive maintenance schedule that will help keep the indoor air quality of the building at the recommended level.

ENERGY MANAGEMENT

Energy efficiency is important for our products, and central to our direct operations. Beyond our energy efficient products, we have set a 25% energy reduction target by 2024 (from a 2014 baseline) and employ strategies to continuously reduce our energy consumption.

In 2019, our total energy consumed was 303,200 MWh, including 11,200 MWh (3.7%) of renewable energy. Overall, we have reduced our energy use by 32% since 2009.



We have decreased energy consumption in multiple ways, including investments in new IT systems that allow denser utilization reducing square footage used by nearly 50 percent, hardware consolidation in our data center, and participation in the US Department of Energy's Better Plants initiative.

We have reduced our energy use by 8% since 2014.

BETTER PLANTS PARTNERSHIP

Through the Department of Energy's Better Plants initiative, partner companies share best practices with peer companies, learn energy management strategies, obtain additional resources (i.e. INPLT, IAC, CHP), and receive technical assistance from the U.S. Department of Energy.

Beginning in 2014, we focused on 12 of our principle locations with the goal of improving energy intensity by 25% in 2025. In 2019, we had achieved 20.7% of our goal.

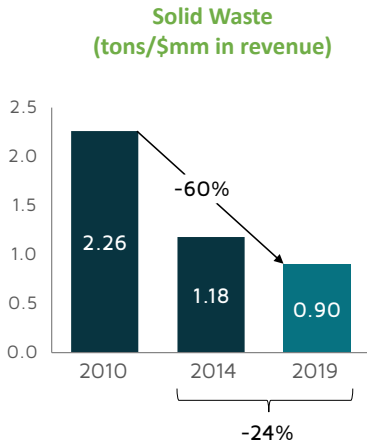


Energy Management Awards

2018	2019
Best of IBS: Best Green Building Product: Dave Lennox Signature® Collection SL290NV Ultra Low NOx Furnace	Duke Energy's Smart Saver Highest Midstream Sales
Lennox Residential Heating and Cooling	Lennox Commercial Heating and Cooling

WASTE MANAGEMENT

Using a 2014 baseline, we aim to reduce our landfill solid waste by 25% by 2024. In 2019, we conducted a comprehensive hazardous waste baseline to help establish future hazardous waste tracking and reduction targets.



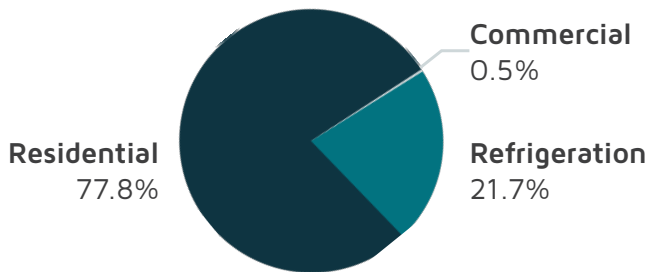
Our operations generated 189.3 tons of hazardous waste. We had no reportable spills in 2019. **Since 2010, we have reduced our revenue-normalized landfill solid waste by 60%.** Below is a summary of our hazardous and dangerous waste data. These figures are very low for our industry and for a company of our size.



Employee-innovated stacking brackets replace heavy wood crates to protect units, reducing waste and transportation costs.

Since 2014, we have reduced our revenue-normalized landfill solid waste by 24%, nearly reaching our 2024 goal.

LII Hazardous and Dangerous Waste by Business Unit



Hazardous and Dangerous Waste (Tons) - 2019

	US	INTERNATIONAL	TOTAL
Commercial	0.9	0.0	0.9
LII	0.1	0.0	0.1
Refrigeration	0.0	41.2	41.2
Residential	0.7	146.5	147.2
TOTAL	1.6	187.7	189.3



CLIMATE CHANGE AND GHG EMISSIONS

We recognize the significant risks posed by global climate change and how our operations and products can help mitigate those risks. Using a 2014 baseline, we aim for a 25% reduction in our Scope 1 and 2 location-based emissions by 2024

CLIMATE RISK

We manage climate-related risks through our Enterprise Risk Management program, which identifies and addresses risk issues including climate-related issues and is presented to the full Board twice a year including an annual assessment. This program helps us measure our progress.

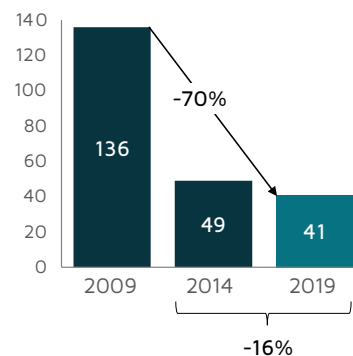
Additionally, we publicly disclose our environmental performance by responding annually to CDP (formerly the Carbon Disclosure Project) and aligning this disclosure with the SASB and TCFD frameworks. More details about our approach to managing climate-related risks and opportunities can be found in our TCFD index of this report.

Since 2014, we have reduced our Scope 1 and Scope 2 location-based emissions by 16%.

SCOPE 1, 2, AND 3 EMISSIONS

To measure our progress, we track Scope 1, 2, and 3 emissions covering the following GHGs: CO₂, N₂O, CH₄, HFCs, HCFCs. **Since 2009, we have reduced our Scope 1 and Scope 2 location-based emissions by 70%.**

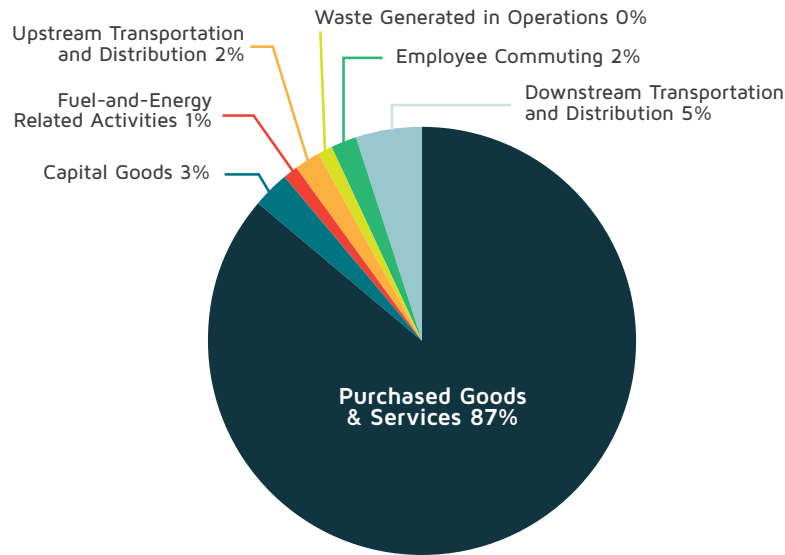
**Greenhouse Gas Emissions
Scope 1 and Scope 2 Location-based
(MT CO₂e/\$mm in revenue)**



Scope 1, 2, and 3 Emissions - 2019

EMISSIONS	MT CO ₂ e (2019)	MT CO ₂ e (2018)	MT CO ₂ e (2017)
Scope 1	95,900	102,200	89,400
Scope 2	64,900 (location-based) 53,600 (market-based)	65,900 (location-based) 58,100 (market-based)	71,400 (location-based) 64,400 (market-based)
Scope 3	981,000	935,100	947,100

Scope 3 Emissions: Sources



THIRD PARTY VERIFICATION

Our Scope 1, 2, and 3 emissions were verified by a third-party company, Apex Companies. Apex verifies our GHG inventories are conducted in accordance with World Resources Institute's and World Business Council for Sustainable Development's best practice criteria. Our GHG accounting is also verified in accordance with ISO reference standard 14064-3: Greenhouse gases — Part 3: Specification with guidance for the validation and verification of greenhouse gas statements.

REFRIGERANT MANAGEMENT

We have taken a proactive approach towards climate change by reducing the impact of our operations and developing market-leading alternative refrigeration solutions.

The goal to reduce is a journey. As a first step to reduce environmental impacts from refrigerants, early on we replaced ozone-depleting Chlorofluorocarbons, CFCs, with Hydrofluorocarbons, or HFCs. HFCs do not deplete the ozone, although they remain a significant source of greenhouse gases, though not as bad CFCs. For this reason, we have implemented strict management controls to track their usage and loss.

We also substitute HFCs in some products with alternative refrigerant compounds, which have low global warming potentials and do not deplete the ozone. In developing new products, we strive to use more alternative refrigerants with lower global warming potential.

REFRIGERANT TRACKING

Refrigerant loss from bulk storage tanks at manufacturing locations is tracked on a monthly basis using a mass balance of refrigerant purchased minus refrigerant used in finished goods. Refrigerant loss from manufacturing equipment at facilities containing greater than 50 pounds of refrigerant is tracked monthly in our internal refrigerant management system.

ALTERNATIVE REFRIGERANT TECHNOLOGIES

Our global refrigeration business has invested in a Center of Excellence focused on developing products using alternative refrigerants, including natural refrigerants such as CO₂. We are also conducting technology demonstrations with natural refrigerants such as ammonia.

Our rooftop and chiller products in Europe use R32, an alternative lower GWP refrigerant. These alternative refrigerants lessen environmental impact by reducing global warming and not damaging the ozone layer. Our product development success keeps us well-positioned as HFCs become more regulated and ultimately phased out.

ECODESIGN is a European regulation (EEC) directly linked to the CE mark. It applies to all energy consuming products. Many directives are included in Ecodesign (2009/125/EC), including energy performance targets and customer communication datasheets.

Aligning the design of our refrigeration products with this directive makes us a leader in energy efficient products.

To optimize energy efficient design, we have developed software that estimates the real energy savings and the total cost of ownership, taking into account the installation site, the thermal loads of the building, and opening hours.



PRODUCT LIFECYCLE MANAGEMENT AND MATERIALS SOURCING

The success of our products is attributable to their efficiency, design flexibility, total cost of ownership, low life-cycle cost, ease of service, and advanced control technology.

Most of our products have lifespans of more than a decade. Our approach to product lifecycle management complies with all applicable regulatory standards, such as refrigerants being evacuated and captured.

From design and manufacturing to use and disposal, we understand the importance of building a circular economy and reducing the impact of our products at all stages of use. The primary component of our products is metal that is easily recyclable, which reduces our impact on the environment.

MATERIALS SOURCING

We actively monitor risks associated with the use of critical materials and currently work with the DOE, EPA, ENERGY STAR® on different initiatives to enhance our understanding of these risks. We are focused on monitoring this issue as it relates to refrigerants.



Our supply chain leadership performs road maps with each of the factories to share supplier issues and strategies. We carefully track our sole single-source components and commodities, and we target reducing our sole single source spend every year. We invest in dual sourcing qualification projects. Communication, both internal and external, and planning around critical materials is our best tool for reducing our materials-related risks.

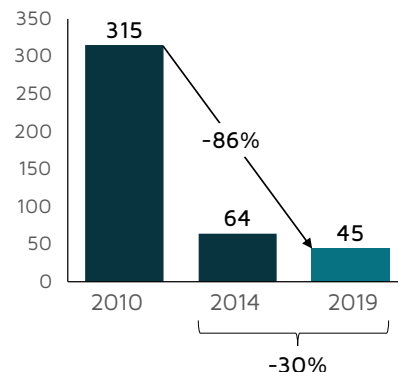
WATER STEWARDSHIP

We are committed to best practices in water stewardship. Across our operations, we continuously look for ways to reduce our water consumption, with a target to reduce our water use by 25% by 2024, from a 2014 baseline.

Water is an important input and output across all our operations and we recognize it is a critical resource shared with the communities in which we operate. We carefully track our water consumption on a regular basis and identify areas for more efficient use or re-use. For example, we've attained significant reductions in water consumption through drought-tolerant landscaping and irrigation management. **Since 2010, we have reduced our revenue-normalized water use by 86%.**

Since 2014, we have reduced our revenue-normalized water use by 30%, achieving our 2024 goal ahead of schedule.

Water Use (m³/\$mm in revenue)





SOCIAL

LII prides itself on being an employer that values diversity and inclusion, a responsible manufacturer of safe and innovative products, a good neighbor to our communities, and an exemplary leader within our industry. We set goals and track our progress across several areas, some of which are highlighted in this section.

CULTURE AND VALUES

At LII, we pride ourselves on an organizational culture built on innovation and the shared commitment to do the right thing. Our leadership team takes a hands-on approach to fostering a more diverse, inclusive, and safer workplace through continuous improvement and stakeholder engagement.

We behave in an honest and straightforward manner.



We respect our employees, customers, competitors, and the communities where we work and live.

We value high performance from our employees and suppliers and quality in our products and services. We deliver value to our shareholders.

EMPLOYEE HEALTH AND SAFETY

LII is committed to a safe workplace for every employee. Our operational health and safety performance is a key priority for our senior leadership and Board, where safety results and initiatives are presented twice a year to the Public Policy Committee and annually to the Board.





We pride ourselves on a “bottoms-up” approach to safety initiatives, welcoming ideas from all levels, which helps us sustain key processes and best practices. Leadership and teamwork are found everywhere. Every fall, our Corporate Safety team partners with our businesses to develop a comprehensive safety plan for the following year. The VP of Operations for each business presents their plan to the CEO and leadership team, which supports major initiatives at a corporate as well as local level.

Our CEO and operations leaders review all recordable incidents, identifying root causes and corrective actions to reduce safety and ergonomic risks. Significant efforts are focused on risk assessments and mitigations to reduce injury frequency and severity.

Key focus areas for risk reduction include: hand and arm lacerations; slips, trips, and falls; and back and shoulder injuries. Higher cut level gloves and sleeves are used to reduce laceration risks. A continued emphasis on proper lifting techniques helps employees maintain safe habits. Safety improvements are driven through robust processes including: observations, audits, education, communication, and employee engagement.

HEALTH AND SAFETY AUDITS

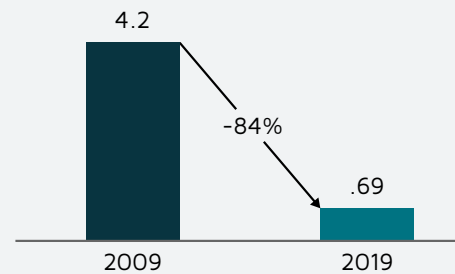
Our Corporate Safety team is responsible to administer factory audits, and each year factories are evaluated by a cross-functional team of EHS professionals. The audits include collecting data, documenting processes, and interviewing employees on the shop floor and the management team. Our goal is to improve audit results year over year.

Our efforts resulted in significant reductions in safety incident rates in 2019, and we’re proud of our record of

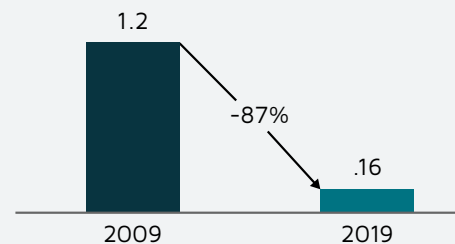
zero workplace fatalities since 2011. We’re confident that we have the right focus, resources, and initiatives to achieve our goal of each employee returning home safely every day.

OUR SAFETY PERFORMANCE

Recordable Frequency Rate
(Recordable Injuries per 200,000 hours worked)



Lost Time Frequency Rate
(Lost Time Injuries per 200,000 hours worked)





COVID-19: IMPACT AND RESPONSE

In 2020, the COVID-19 pandemic has undoubtedly been one of the most significant events facing our business and stakeholders. We are proud of efforts taken at all levels of our company to keep our employees and communities safe and to minimize disruptions to our business operations and customers. As an essential business, we have implemented best practices and procedures across several areas of response.

Employee health, safety, and well-being



- Mobilizing COVID-19 teams such as the LII Task Force, facility/business response teams, and nurses/safety managers
- Communicating frequently and transparently with our global employees about guidelines, developments, and protocols
- Equipping our essential workers with the necessary PPE and formalizing re-entry protocols for health and safety
- Granting 14 days of paid time off for COVID patients and close contacts who must quarantine
- Practicing close contact tracing for every positive COVID-19 case
- Providing tools and resources to manage a remote workforce
- Implementing technology enhancements and forward-thinking initiatives to improve the employee work-from-home experience, including work-life balance and well-being



Supply chain and business continuity

- Sharing expertise in safety audits and best practices to help our suppliers remain operational
- Taking lessons learned from impacts across different global operations and applying them to build resiliency in our capacity and inventory
- Investing in geographical diversification and dual sourcing for components and commodities
- Progressing significant digital transformation of the business before and during the pandemic and realizing gains in remote productivity
- Prioritizing the expansion of our portfolio of indoor air quality (IAQ) products through our commercial Building Better Air initiative and residential Healthy Climate Solutions products



Community and stakeholder support

- Providing heating and air conditioning systems at no cost to frontline workers and those affected by the pandemic through our Feel the Love Program
- Virtualizing our professional learning solutions and training programs
- Localizing our charitable giving efforts to the most impacted communities

EMPLOYEE DIVERSITY AND INCLUSION

LII competes in a global market with a diverse workforce built on a foundation of respect. We comprise many different backgrounds, experiences, and cultures. The collective power of our varied perspectives enables us to provide innovative product systems and solutions to our customers worldwide.

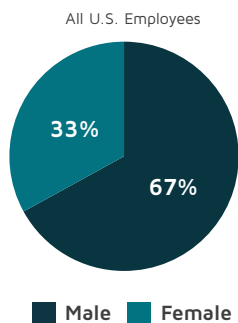
Our diversity and inclusion efforts are aimed at ensuring we have the breadth of talent required to deliver maximum value to our customers, shareholders, and other stakeholders. We recognize the importance of diversity and the value that different perspectives bring to our company.



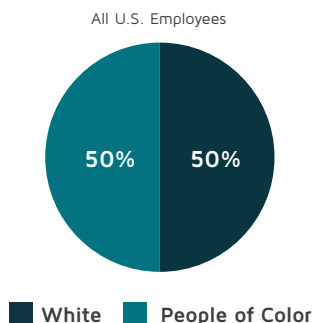
LII maintains a strong “promote from within” philosophy and an organizational commitment to talent development. We strive to ensure that our development programs have a focus on diverse representation across all levels.

WORKFORCE DIVERSITY

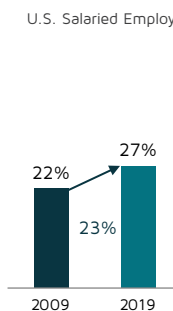
Gender Representation – 2019



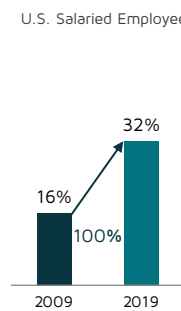
People of Color Representation – 2019



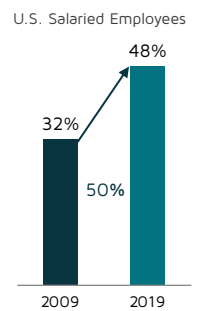
Female Representation



People of Color Representation



Total Diversity Representation



Female Representation by Level – 2019
U.S. Salaried Employees



People of Color Representation by Level – 2019
U.S. Salaried Employees



EMPLOYEE RESOURCE GROUPS

We offer several voluntary, employee-led groups dedicated to creating an inclusive environment, providing professional development, and offering support for the communities where we live and work.

These include the LII Women’s Business Council (LWBC), LII Young Professionals Association (LYPA), LII’s Employees of African Descent (LEAD), and Programs Representing Individual Diversity Equality (PRIDE).

These groups work with and through our LII Inclusion & Diversity Council, which maintains a company-wide

focus on diversity and inclusion at LII, including monthly Inclusion Awareness events highlighting various aspects of diversity, including age, gender, ethnicity, and physical ability, with the objective to inform and encourage discussion among employees.





CEO ACTION FOR DIVERSITY & INCLUSION

In 2020, as part of our ongoing commitment to create an inclusive workplace, Chairman and CEO Todd Bluedorn joined over 1,300 CEOs across the country in the CEO Action for Diversity & Inclusion pledge. This pledge is the largest CEO-driven business commitment to advance diversity and inclusion in the workplace. We pledge to create an environment where diverse perspectives and experiences are welcomed and respected, and where all employees feel empowered to participate in discussions regarding diversity and inclusion.

CEO **ACT!ON** FOR DIVERSITY & INCLUSION

Our commitment includes the following four goals:

1. We will continue to make our workplaces trusting places to have complex, and sometimes difficult, conversations about diversity and inclusion.
2. We will implement and expand unconscious bias education.
3. We will share best—and unsuccessful—practices.
4. We will create and share strategic diversity and inclusion plans with our board of directors

In addition, we have launched a multi-month campaign encouraging employees to take the I ACT ON individual pledge, which is a subset of the CEO Action program.

ENGAGEMENT, TRAINING, AND DEVELOPMENT

EMPLOYEE ENGAGEMENT

Our diversity and inclusion efforts promote employee engagement to leverage the unique strengths of each employee. Our global employee engagement survey, first launched in 2010 and historically conducted bi-annually, allows us to hear directly from our employees worldwide. During our most recent survey conducted in 2018, 95% of employees participated, providing valuable feedback needed to build an even stronger company for the future. Going forward, LII is enhancing the employee feedback process on a more frequent cadence, such as conducting pulse surveys.

LII is also a member of the Society of Women Engineers (SWE), an inclusive organization focused on issues of interest to women specializing in engineering and technical careers. The organization helps companies advance women engineers and technologists, achieve diversity recruitment and retention goals, and support leadership training initiatives.

Every employee makes a difference. Regardless of where we work around the globe, we harness the collective power our top employees to ensure LII remains the best in our industry.



EMPLOYEE CAREER DEVELOPMENT

We are committed to investing in our employees and their ongoing career development. With our “Career Journey” program, we provide employees with intuitive and engaging tools to reflect on skills and interests, and explore a variety of potential career paths. The program presents an enhanced skill/competency framework, which includes role-specific technical skills and more focused usage of our LII Competencies. Career Journey also aims to develop resources to help employees and managers have more meaningful career development conversations.

Benefits for employees who use Career Journey include:

- Deeper understanding of personal career drivers/ motivators
- Transparency on what skills and competencies are expected for roles across LII and one’s own development areas for each role
- Ability to explore potential career paths from current to desired future role
- Resources for candid conversations with managers on career aspirations and targeted development options

LENNOX LEARNING SOLUTIONS

Lennox Learning Solutions is a top-tier HVAC training provider for technicians, salespeople and leaders in the HVAC industry. Affordable and easily accessible, Lennox Learning Solutions offers many programs across multiple platforms, including eLearning, webinars, video, live streaming, and instructor-led classes in 33 locations around the U.S. and Canada.

With our HVAC training and development programs, leaders and their management teams receive training to lead a business into success.

Technicians learn HVAC fundamentals and more advanced skills to improve productivity and reduce call backs in the field, and salespeople gain the processes and strategies they need to close more jobs at the kitchen table. Since 2005, Lennox Learning Solutions has developed over 500 learning assets in 45 categories specifically designed for the HVAC market. Lennox Learning delivers training with a focus on the consumer, so HVAC professionals can provide top-notch service to their customers, in their communities.



SUPPLY CHAIN

Our Business Partner Code of Conduct is made available online to our suppliers in 12 languages.

LII relies on various suppliers to furnish the raw materials and components used to manufacture of our products. Our central strategic sourcing group consolidates the procurement of pricing for materials, components, transportation, and indirect items across business LII relies on various suppliers to furnish the raw materials and components used to manufacture of our products. Our central strategic sourcing group consolidates the procurement of pricing for materials, components, transportation, and indirect items across business segments. The goal of the strategic sourcing group is to develop global strategies for a given category, concentrate purchases with strategic suppliers and develop long-term relationships with these vendors. By developing these strategies and relationships, we maintain quality, reduce costs, and improve financial and operating performance. Compressors, motors, and controls are our top three component purchases, while steel, copper, and aluminum account for the bulk of our raw material purchases.

As part of our supplier audit process, we consider the following risks in our assessments:

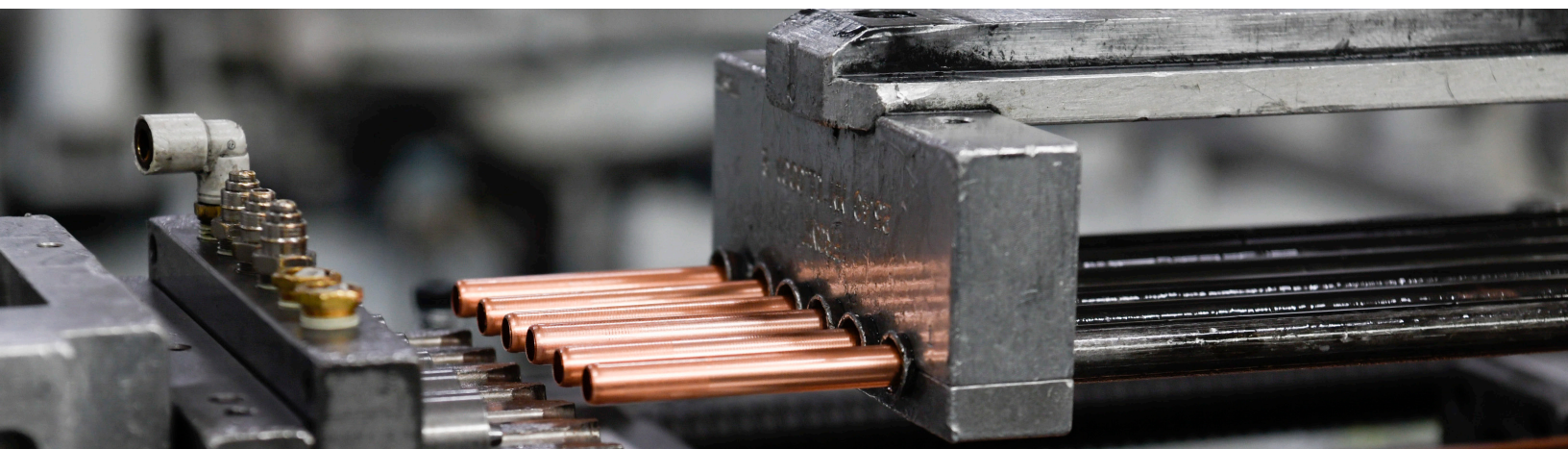
- Local labor risks, such as skills and access to training
- Availability of a process for employees to communicate grievances or ethics concerns
- Workplace safety and provision of personal protective equipment (PPE)
- Workplace conditions, such as lighting and air quality
- Compliance with laws, including applicable anti-slavery and child labor laws, import and export laws

We audit all new suppliers and rigorously monitor our current suppliers.

PRODUCT SAFETY

The quality and safety of our products are key priorities. We test our products to ensure that they meet all applicable safety standards.

Our products run through rigorous safety testing, including field tests. Additionally, we employ several “lines of defense” to uncover and address any safety-related issues. We use a monthly quick market intelligence (QMI) quality process that connects the engineering team and technical field consultants to identify any issues. If there is a trend in the field, our product teams open a QMI report and a cross-functional team is organized to problem solve and implement corrective actions. Early launch containment process also monitors recently launched products and warranty claims associated with these products. Our technical support call center also monitors for any product safety-related information.





COMMUNITY INVOLVEMENT AND CHARITABLE GIVING

We support the communities where we live and work. We give to causes that our employees care about and align with our business objectives, with the belief that our local leadership teams are best suited to assess the needs of their local communities.

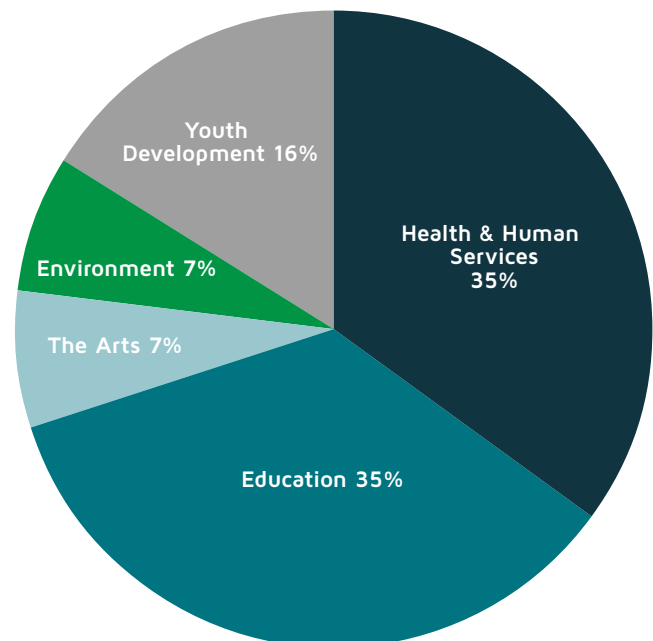
Our employees volunteer in many different capacities, from tutoring children to serving in leadership positions with local charities to working on home improvement projects for those in need of a helping hand.

One example of this is Feel The Love®, which has been a key program for Lennox Residential since 2009. Culminating in Feel The Love weekend every October, Lennox connects local community members with HVAC installers in the United States and Canada to deliver heating and air conditioning systems at no cost to deserving people who need a helping hand. Recipients are selected based on a variety of criteria including physical, mental, or social disabilities, financial challenges, job loss, military service, and community service.

But beyond that, each recipient has one thing in common—they always put others first. In 2020, Lennox and partnering dealers are including frontline workers and those that have been impacted by the COVID-19 pandemic. Now, more than ever, our essential workers need our help.

We are proud of the \$1.75M in monetary contributions we made during 2019, as well as the generous amounts employees contributed under our matching gifts program and LII's other corporate donations.

Giving by Category - 2019



SOCIAL JUSTICE SUPPORT

In light of the difficult events in 2020 that highlighted issues related to inequality and systemic racism, LLI initiated a new program supporting non-profit organizations committed to social justice, with unlimited employee matching contributions for the Legal Defense Fund and The Advancement Project.

Some of the organizations we support include:

- NAACP Legal Defense Fund and Educational Fund
- The Advancement Project
- Local social justice-related charities in Dallas-Fort Worth, Atlanta, Columbia/Orangeburg





LII's Corporate Headquarters in Richardson, Texas.

GOVERNANCE

Lennox values and practices strong corporate governance. We recognize that a strong corporate governance foundation is necessary to achieve our environmental and social goals.

BOARD COMPOSITION AND DIVERSITY

LII's Corporate Governance Guidelines provide that, for new members, the Board will seek the best qualified candidates with consideration for diversity.

This consideration may include diversity of experience, functional expertise, and industry knowledge. Our Board of Director Qualification Guidelines further provide that the Board Governance Committee consider a candidate's personal characteristics, business attributes, independence, professional responsibilities, governance responsibility, and availability and commitment in determining the particular qualifications desired for any new Board member.

Additionally, those qualifications will vary according to the particular area of expertise being sought and the desire to complement the existing board at the time of vacancy.

Board Composition Highlights

36%

Female Directors

75 Years

Mandatory Retirement Age

60 Years

Average Director Age

10.4 Years

Average Tenure

NAME	M/F	AGE	TENURE (YEARS)	INDEPENDENT
Todd M. Bluedorn (Chairman and CEO)	M	57	13	
Sherry L. Buck	F	56	1	✓
Janet K. Cooper	F	66	21	✓
John E. Major	M	74	27	✓
Max H. Mitchell	M	56	4	✓
John W. Norris, III	M	62	19	✓
Karen H. Quintos	F	56	6	✓
Kim K.W. Rucker	F	53	5	✓
Shane D. Wall	M	55	<1	✓
Gregory T. Swienton	M	70	10	✓
Todd J. Teske (Lead Director)	M	55	9	✓

RISK MANAGEMENT AND ESG OVERSIGHT

Our Board’s Public Policy Committee is responsible for overseeing the company’s environmental, health and safety issues, as well as our position on corporate social responsibility and significant public issues that affect our investors and other key stakeholders.

LII’s Board oversees the company’s processes to manage risk at the Board and senior management levels, including enterprise risk exposure. While the Board and its committees oversee our risk management, our management is responsible for the development, implementation, and maintenance of our risk management processes.

Our management provides periodic reports to the Board and Board committees, as appropriate, on its assessment of strategic, operational, legal and compliance, and financial reporting risks. The Board and Board committees, as appropriate, review and consider the management reports provided on our enterprise risk and risk

management strategy. Our Enterprise Risk Management program, which identifies and addresses risk issues including climate-related issues, is presented to the full Board twice a year.

Our CEO sets specific GHG reduction goals and reviews risk related issues for the corporation including climate change. Additionally, issues surrounding GHG reductions are reviewed at the Board’s Public Policy Committee meetings with the CEO in attendance at these meetings. Our progress toward GHG reduction goals and other matters relating to climate change, including strategy and action plans, are on the Public Policy Committee agenda semi-annually.

ESG OVERSIGHT

LII’s Board is responsible for oversight of our ESG strategy. As part of standard meetings and ad hoc as needed, the Board reviews ESG topics including, but not limited to:

- Product Efficiency and innovation
- Energy Management
- Waste Management
- Refrigerant Management
- Climate Change and GHG Emissions
- Water Stewardship
- Culture and Values
- Employee Health and Safety
- Employee Diversity
- Inclusion and Engagement
- Shareholder Rights
- Executive Compensation
- Risk Management
- Business Ethics and Compliance
- Public Policy
- Cyber Security and Data Privacy

Our four standing Board Committees are responsible for specific ESG topics and report into the full Board.

BOARD OF DIRECTORS

Audit Committee	Governance Committee	Compensation & HR Committee	Public Policy Committee
<ul style="list-style-type: none"> • Accounting and Tax Transparency • Risk Management • Business Ethics and Compliance • Cyber Security and Data Privacy 	<ul style="list-style-type: none"> • Shareholder Rights • Board Composition and Diversity • Risk Management 	<ul style="list-style-type: none"> • Employee Diversity, Inclusion and Engagement • Employee Training and Development • Executive Compensation • Risk Management 	<ul style="list-style-type: none"> • Energy Management • Waste Management • Refrigerant Management • Climate Change and GHG Emissions • Water Stewardship • Employee Health and Safety • Community Involvement and Charitable Giving • Risk Management • Public Policy

BUSINESS ETHICS AND COMPLIANCE

We continue to drive our business results by keeping ethics at the forefront of everything we do at LII.

We proudly operate on a foundation of integrity and the highest standards of business ethics and have done so for nearly 125 years. Our core values of Integrity, Respect, and Excellence drive our business results and our commitment to our stakeholders. We conduct our business in accordance with all applicable laws around the world. Our Ethics & Compliance Office reports annually to LII's Audit Committee on our global program and its continuous improvement.

LII CODE OF BUSINESS CONDUCT

The LII Code of Business Conduct provides guidance on how to carry out daily activities in accordance with our values, policies, and legal requirements. All employees, including officers and members of our board of directors, must follow our Code. The Code is provided in nine languages and is publicly available on our website. Employees can report violations or suspected violations of the Code through

an ethics hotline or online form, which both offer anonymity and are operated by an outside party. On a quarterly basis, the Audit Committee of the Board of Directors is apprised of all reported ethics matters.

The Ethics & Compliance Office provides multiple training opportunities and communication channels to link ethics to our culture in ways that are easily accessed and absorbed by our employees. We are proud that LII ensures that every employee, including those in our manufacturing facilities, regularly complete annual training on the Code of Business Conduct.

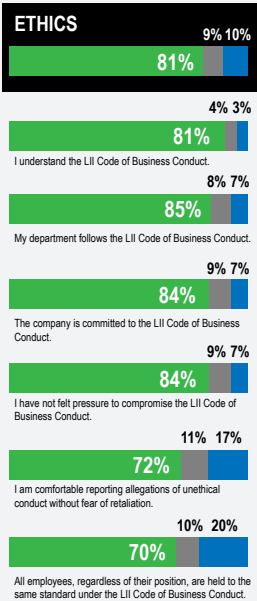
Employees also complete courses in areas such as anti-corruption, antitrust, insider trading, protection of intellectual property, harassment, and conflicts of interest. We have an established process to vet third parties for anti-bribery/anti-corruption risk. We are developing processes to extend our high ethical standards to our global supplier vetting process.

HAVE A CODE OF BUSINESS CONDUCT CONCERN?
REPORT IT.

It's that simple. You don't have to have proof - just a good faith belief. You don't need to do your own investigation.

Reach out directly to a supervisor, Human Resources, Legal, or Ethics & Compliance, OR
Report using www.lennox.com/ethics or 1-855-LII-ETHICS (1-855-544-3665).

X LII prohibits retaliation against employees who report suspected violations in good faith.



PUBLIC POLICY

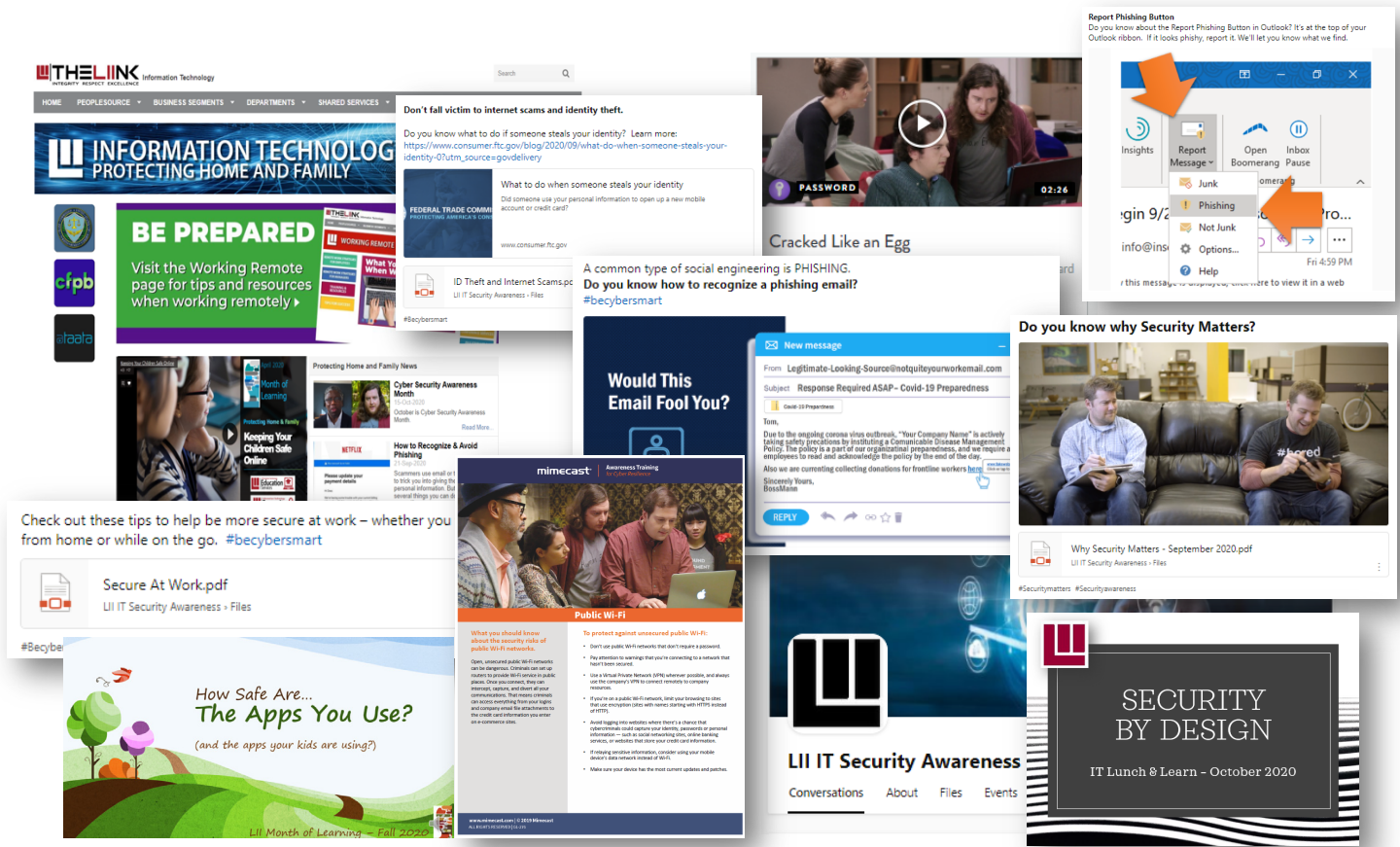
LII is a leader in the HVACR industry and actively participates in the development and implementation of policies that increase energy efficiency and reduce emissions. We work through various industry associations and coalitions to shape future legislation, regulations, building codes, and safety standards in the policy areas that affect our business.

The HVACR industry is regulated and we are proactive in shaping and influencing legislation and regulations such that they are fair, predictable, environmentally responsible, and cost-effective. Globally, LII is an active participant in the United Nations Montreal Protocol process to reduce ozone depletion and reduce the global warming potential of refrigerants. We support and comply with the European

Union's energy efficiency targets, directives, and rules as well as the EU program to phasedown F-gases.

We work closely with legislators, regulatory agencies, environmental advocates, and other stakeholders at the global, federal, and local levels to influence, anticipate, and support:

- Energy conservation standards for HVACR products
- Product certification, verification, and testing for product efficiency ratings
- The phaseout of ozone depleting refrigerants
- The phasedown of high global warming potential (GWP) refrigerants
- Air quality and emissions standards
- Tax policy or other government incentives that encourages the purchase and installation of high-efficiency products
- Trade policy that supports free trade



We leverage multiple communication channels to drive security awareness.

CYBERSECURITY AND DATA PRIVACY

Cybersecurity and data privacy are key priorities for our business - we have quadrupled our investment in cybersecurity operations and infrastructure, such as advanced threat protection software, network segmentation, and firewalls throughout our global operations for risk mitigation.

Regarding our approach to managing cybersecurity risks, we have a Steering Committee that meets on a quarterly basis to share learnings, discuss any new regulations, and oversee our cybersecurity roadmap.

Our CTO reports to the Board every quarter on our cybersecurity performance and incidents, including risks and improvements to our cybersecurity roadmap. We also maintain a comprehensive Incident Response Plan that we test annually. We participate in national level breach simulations and information sharing programs. We provide our employees with awareness tips and training on how to properly protect company assets, data, and systems.

Operationally, we employ three core teams:

- Cybersecurity engineering: this team is involved in all new system/infrastructure deployments/capabilities with

a stage gate process, and they are involved at every step to ensure data/information safety.

- Data privacy: this team represents a partnership between Legal and IT, where data privacy concerns and compliance are involved and addressed in both a reactive and proactive rigorous process. Our Risk & Compliance team conducts regular audits and risk assessments to ensure our controls are appropriate and sufficient to defend against security breaches, align with the NIST framework, and industry best practices.
- Security Operation Center (SOC): this team in India operates 24/7 where they can document and investigate any anomalies, such as email fraud affecting employees, suppliers, and customers.



ABOUT THIS REPORT

LII's ESG report references the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD) reporting frameworks.

The reporting boundary for the quantitative metrics was drawn from available data and covering the 2019 calendar year. This report also includes qualitative information from the 2019 calendar year and partial year data from the 2020 calendar year. In the spring of 2019, LII sold its refrigeration case business, Kysor Warren. The information, charts, and statistics throughout this report exclude the impact from the Kysor Warren business during 2019. LII engaged Georgeson and HXE Partners to support the stakeholder engagement process, report content development, quantitative data collection and calculations, and report design. Our environmental information included in this presentation is preliminary, unaudited, and subject to revision.

This report contains forward-looking statements within the meaning of the federal securities laws. You can

identify these statements by our use of the words "assumes," "believes," "estimates," "expects," "guidance," "intends," "plans," "projects" and similar expressions that do not relate to historical matters. You should exercise caution in interpreting and relying on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and could materially affect actual results, performance or achievements. We do not undertake a duty to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. The data and information herein are as of December 31, 2019 unless otherwise indicated.

Stakeholders are urged to closely consider the disclosure and risk factors in our most recent Annual Report on form 10-K and in other reports on file with the Securities and Exchange Commission, available at Lennox's website, www.lennoxinternational.com.

For any questions related to this report, please contact Steve Harrison, VP, Investor Relations, at steve.harrison@lennoxintl.com.

REPORT INDICES



SUSTAINABILITY ACCOUNTING STANDARDS BOARD (SASB)

SASB standards enable businesses around the world to identify, manage and communicate financially-material sustainability information to their investors. SASB provides a complete set of 77 globally applicable industry-specific standards that identify the minimal set of financially material sustainability topics and their associated metrics

for the typical company in an industry. The following table references topics from the “Electrical & Electronic Equipment” and “Industrial Machinery & Goods” industry standards. Upon reviewing both industry standards, we included relevant topics to our strategy and operations.

TOPIC	SASB CODE	DESCRIPTION	ANSWER / REFERENCE
Employee Health and Safety (Industrial Machinery & Goods)	RT-IG-320a.1	(1) Total recordable incident rate (TRIR), (2) fatality rate, and (3) near miss frequency rate (NMFR)	1) 0.69 (down from 0.88 in 2018) 2) 0 3) Not disclosed
Energy Management	RT-EE-130a.1	(1) Total energy consumed, percentage (2) grid electricity, (3) percentage renewable	1) 303,200 MWh 2) 292,000 MWh (96.3%) 3) 11,200 MWh (3.7%)
Hazardous Waste Management	RT-EE-150a.1	Amount of hazardous waste generated, percentage recycled	In 2019, our operations generated 189.5 tons of hazardous waste, defined by the authorities that regulate each of our facilities. Percentage of hazardous waste recycled is not currently tracked.
	RT-EE-150a.2	Number and aggregate quantity of reportable spills, quantity recovered	We had no reportable spills in 2019.
Product Safety	RT-EE-250a.1	Number of recalls issued, total units recalled	0
	RT-EE-250a.2	Total amount of monetary losses as a result of legal proceedings associated with product safety	\$0
Materials Sourcing	RT-EE-440a.1	Description of the management of risks associated with the use of critical materials	We currently work with the DOE, EPA, ENERGY STAR® on different initiatives to enhance our understanding of these risks. We are focused on monitoring this issue as it relates to refrigerants. Our supply chain leadership performs road maps with each of the factories to share supplier issues and strategies. We carefully track our sole single-source components and commodities, and we target reducing our sole single source spend every year. We invest in dual sourcing qualification projects. Communication, both internal and external, and planning around critical materials is our best tool for reducing our materials-related risks.

TOPIC	SASB CODE	DESCRIPTION	ANSWER / REFERENCE
Product Life Management	RT-EE-410a.1	Percentage of products by revenue that contain IEC 62474 declarable substances	0%
	RT-EE-410a.2	Percentage of eligible products, by revenue, that meet ENERGY STAR® criteria	Residential: 65% Commercial: 60% Refrigeration: No ENERGY STAR® eligible products
	RT-EE-410a.3	Revenue from renewable energy-related and energy efficiency-related products	Not disclosed
Business Ethics	RT-EE-510a.1	Description of policies and practices for prevention of: (1) corruption and bribery and (2) anti-competitive behavior	<p>The LII Code of Business Conduct provides guidance on how to carry out daily activities in accordance with our values, policies, and legal requirements. All employees, including officers and members of our board of directors, must follow our Code. The Code is provided in nine languages and is publicly available on our website.</p> <p>Employees can report violations or suspected violations of the Code through an ethics hotline or online form, which both offer anonymity and are operated by an outside party. On a quarterly basis, the Audit Committee of the Board of Directors is apprised of all reported ethics matters.</p> <p>The Ethics & Compliance Office provides multiple training opportunities and communication channels to link ethics to our culture in ways that are easily accessed and absorbed by our employees. We are proud that LII ensures that every employee, including those in our manufacturing facilities, regularly complete annual training on the Code of Business Conduct. Employees also complete courses in areas such as anti-corruption, antitrust, insider trading, protection of intellectual property, harassment, and conflicts of interest. We have an established process to vet third parties for anti-bribery/anti-corruption risk. We are developing processes to extend our high ethical standards to our global supplier vetting process.</p>
	RT-EE-510a.2	Total amount of monetary losses as a result of legal proceedings associated with bribery or corruption	\$0
	RT-EE-510a.3	Total amount of monetary losses as a result of legal proceedings associated with anti-competitive behavior regulations	\$0
Activity Metrics	RT-EE-000.A	Number of units produced by product category (indoor climate control electronics)	Proprietary data
	RT-EE-000.B	Number of employees	As of December 31, 2019, we employed approximately 11,200 employees. Approximately 4,700 of these employees were salaried and 6,500 were hourly. Approximately 3,000 employees, including international locations, are represented by unions.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES



The Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) is a market-driven initiative, set up to develop a set of recommendations for voluntary and consistent climate-related financial risk disclosures in mainstream filings. The work and recommendations of the

Task Force help firms understand what financial markets want from disclosure in order to measure and respond to climate change risks and encourage firms to align their disclosures with investors' needs.

TOPIC

ANSWER / REFERENCE

GOVERNANCE

Board oversight of climate-related risks and opportunities

Our Chairman of the Board and CEO sets specific GHG reduction goals and reviews risk-related issues for the corporation including climate change. Additionally, issues surrounding GHG reductions are discussed at the Board's Public Policy Committee meeting with our CEO in attendance at these meetings.

Our progress toward GHG reduction goals and other matters relating to climate change including strategy and action plans are on the Board Public Policy Committee agenda semi-annually.

Our Enterprise Risk Management program, which identifies and addresses risk issues including climate-related issues, is presented to the full Board twice a year. The annual assessment is presented in the September Board meeting and a mid-year update is presented in the March Board meeting.

Management's role in assessing and managing climate-related risks

Our CEO is engaged in managing climate change for the company. Our CEO is the ultimate decision-maker regarding GHG metrics and objectives and the annual funding of capital set aside to address GHG emissions reductions. Our CEO also supports measures to meet objectives and is the go-to person if roadblocks interfere with meeting objectives. Climate change responsibility rests with our CEO due to our CEO's interest and desire to understand our impact on climate change and vice versa, and he is in the best position to make timely decisions relative to climate change issues.

Our Director Environmental Affairs (DEA) is responsible for generating worldwide Scope 1, 2, and 3 GHG emissions data and reporting and discussing the data along with progress on corporate-wide initiatives to meet GHG reduction goals with the CEO. The CEO and DEA discuss climate-related issues affecting the corporation (e.g. renewable energy opportunities, third party climate change initiatives) as needed and jointly prepare the semi-annual Board Public Policy Committee presentations.

STRATEGY

Short, medium, and long-term climate-related risks

Our business and financial planning horizons are based on quarterly, annually, and three-year increments. Our Enterprise Risk Management process is described below under "Risk Management."

Short term (<1 year)

As climate change advances, severe weather events may increase. The ability to plan for and mitigate the effects of severe weather events is important not only for our operations, but for key suppliers as well. Our key suppliers could experience a disruption in production if impacted by a severe weather event. We have developed robust business continuity planning processes that address severe weather events.

To identify potential exposures, we digitally map (geographic information system) all our key suppliers to pinpoint their locations relative to weather and other natural catastrophe hazard zones around the globe. We do this to improve our visibility of assets subject to flooding, earthquake, windstorm, extratropical storms, volcano, tsunami, tropical cyclone, hail, tornado, lightning, storm surge and coastal flooding. In addition to identifying assets exposed to risks, we also conduct live tracking of significant weather events and distribute event notices to key stakeholders. By identifying potential storms early, our stakeholders may take action to reduce risks to employees, better protect our assets.

Medium term (1-5 years)

We are subject to extensive and changing federal, state, and local laws and regulations designed to protect the environment. These laws and regulations could impose liability for remediation costs and civil or criminal penalties in cases of non-compliance. Compliance with environmental laws increases our costs of doing business. Because these laws are subject to frequent change, we are unable to predict the future costs resulting from environmental compliance.

Changes in environmental and energy efficiency standards and regulations, such as the recent amendments to the Montreal Protocol to phase down the use of hydrofluorocarbons, may particularly have a significant impact on the types of products that we are allowed to develop and sell, and the types of products that are

developed and sold by our competitors. Our inability or delay in developing or marketing products that match customer demand and that meet applicable efficiency and environmental standards may negatively impact our results.

The demand for our products and services could also be affected by the size and availability of tax incentives for purchasers of our products and services. Our future success depends on our continued investment in research and new product development as well as our ability to commercialize new HVACR technological advances in domestic and global markets. If we are unable to continue to timely and successfully develop and market new products, achieve technological advances or extend our business model and technological advances into international markets, in response to many factors, including climate change, our business and results of operations could be adversely impacted.

LII is a leader in the HVACR industry and actively participates in the development and implementation of policies that increase energy efficiency and reduce emissions. We work through various industry associations and coalitions to shape future legislation, regulations, building codes and safety standards in the policy areas that affect our business.

Long term (5-15 years)

Longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves are understood to be a great challenge for the world but are not considered relevant in our current enterprise risk management processes since the nature of our manufacturing and distribution processes can adapt to changing chronic conditions. Should we identify risk associated with chronic physical changes in the future, we will integrate them into our Enterprise Risk Management system.

There are potential negative impacts associated with various stakeholder perceptions of our response to climate change. Energy efficiency and refrigerants are key components of products across our business units. If we are unable to continue to timely and successfully develop and market new products, achieve technological advances or extend our business model and technological advances into international markets, in response to many factors, including climate change, reputation and results of operations could be adversely impacted.

A vital way we are addressing these risks is to increase the quality and quantity of our disclosure around our sustainability commitments and approach to managing material ESG issues. Our Enterprise Risk Management system is regularly reviewed and adapted to meet the needs of our changing risk landscape, in which climate change is expected to assume a larger part. We believe we are well positioned to manage climate change issues both in our operations and in product development with the ultimate result being that our reputation for innovative and responsible HVAC solutions should remain intact.

Impact on business, strategy, and planning

In 2019, we spent \$69.9M on R&D to develop products aligned with environmental sustainability, customer focus, and new regulatory requirements. The company continues to focus on maintaining leadership in energy-efficient climate control systems and advanced controls across our businesses. We operate a global engineering and technology organization that focuses on new technology invention, product development, product quality improvements, and process enhancements. We leverage product development cycle time improvements and product data management systems to commercialize new products to market more rapidly.

The HVACR industry is regulated and we are proactive in shaping and influencing legislation and regulations such that they are fair, predictable, environmentally responsible, and cost-effective. Globally, LII is an active participant in the United Nations Montreal Protocol process to reduce ozone depletion and reduce the global warming potential of refrigerants. We support and comply with the European Union's energy efficiency targets, directives, and rules as well as the EU program to phasedown F-gases.

We work closely with legislators, regulatory agencies, environmental advocates, and other stakeholders at the global, federal, and local levels to influence, anticipate, and support:

- Energy conservation standards for HVACR products
- Product certification, verification and testing for product efficiency ratings
- The phaseout of ozone depleting refrigerants
- The phasedown of high global warming potential (GWP) refrigerants
- Air quality and emissions standards
- Tax policy or other government incentives that encourages the purchase and installation of high-efficiency products
- Trade policy that supports free trade

Our Refrigeration business has developed a Refrigeration Center of Excellence and has developed technologies using CO₂ and ammonia as alternate refrigerants.

Resilience of strategy using 2-degree or lower scenarios

We do not currently conduct formal scenario analysis related to climate change resiliency. This is an area of analysis that we are exploring.

RISK MANAGEMENT

Process to assess climate-related risks

Our Enterprise Risk Management process, led by our CEO, is conducted annually and includes broad risk surveys sent to key management personnel to assure previously identified risks remain up to date, including climate-related risks, as well as targeted risk workshops conducted at all business units led by our CEO. Top risks are identified ranked and risk-response plans are developed, with business unit leadership teams monitoring progress and reporting to our CEO and Executive Staff. Our Board reviews and monitors our top ten risk and mitigation plans.

Using the process described above, risks are placed in “impact/likelihood” quadrants. Factors for scoring potential impact include, but are not limited to, financial, operational, brand, and health and safety impact. Impact/significance is scored on a 1-5 impact scale, with the following dollar amounts considered:

- 1 - Insignificant: profit/cash flow impact less than \$1 million
- 2 - Minor: profit/cash flow impact \$1-\$5 million
- 3 - Moderate: profit/cash flow impact \$5-\$25 million
- 4 - Major: profit/cash flow impact \$25-\$100 million
- 5 - Catastrophic: profit/cash flow impact more than \$100 million

Likelihood is scored on a 1-5 scale, from least likely to almost certain, with frequency, probability and time horizon considered. The highest quadrant of concern (i.e. substantive financial or strategic impact) is any issue with an impact rating of 3 or higher and a likelihood rating of 3 or higher.

Process to manage climate-related risks

We manage climate-related risks through:

- Setting environmental performance objectives and monitoring our progress.
- Complying with applicable environmental laws and regulatory requirements globally.
- Providing strategic training and guidance to our environmental and compliance professionals to help them stay informed on environmental issues and best practices that could impact our business.
- Publicly disclosing environmental performance through reporting frameworks such as SASB and CDP, in addition to TCFD. The reporting process helps us manage and measure our progress as well as engage with our internal and external stakeholders.

We reduce our operational and reputational risks related to climate change through sound environmental and business management. Our facilities vary in function, geography, size and surrounding natural environments, which gives rise to varying exposure levels to severe weather events, different regulatory requirements, and different levels of environmental quality. Although our facilities have their own operating plans depending on their location, all function under a common enterprise risk management process which provides an effective foundation for environmental stewardship.

Our Risk Management team owns the business continuity planning (BCP) process, educates stakeholders, and facilitates BCP scenario testing. Three operational business segment champions and site-specific BCP team leaders ensure team members are trained and BCP documents are updated and housed within the BCP SharePoint system. Each manufacturing facility has five to 15 employees at manufacturing sites (based on size and complexity) who participate in training, documentation, and testing. We transfer some of these risks to insurers. We purchase property insurance covering replacement costs for damage to our facilities, business interruption loss resulting from physical damage, and more limited contingent business interruption loss from suppliers disrupted by a physical damage loss.

Integration of risk process into overall risk management

Our Enterprise Risk Management program is comprehensively updated to reflect short- and long-term physical impacts of climate change, as well as social risks including employee safety, product safety, and cybersecurity.

We have taken a proactive approach towards climate change by reducing the impact of our operations and developing market-leading alternative refrigeration solutions. As a first step to reduce environmental impacts from refrigerants, early on we replaced ozone-depleting Chlorofluorocarbons, CFCs, with Hydrofluorocarbons, or HFCs. HFCs do not deplete the ozone, although they remain a significant source of greenhouse gases, though not as bad CFCs. For this reason, we have implemented strict management controls to track their usage and loss.

We also substitute HFCs in some products with alternative refrigerant compounds, which have low global warming potentials and do not deplete the ozone. In developing new products, we strive to use more alternative refrigerants with lower global warming potential.

METRICS AND TARGETS

Metrics used to assess climate-related risks

In addition to carbon emissions and emission intensities, we currently track and monitor a number of risk metrics related to our environmental performance:

- Energy usage related to our direct operations
- Energy efficiency ratings of our products, such as SEER (Seasonal Energy Efficiency Ratio)
- Percentage of our product portfolio, by revenue, represented by energy efficient products

Scope 1 and Scope 2 emissions

Emissions	MT CO2e (2019)	MT CO2e (2018)	MT CO2e (2017)
Scope 1	95,900	102,200	89,400
Scope 2	64,900 (location-based)	65,900 (location-based)	71,400 (location-based)
	53,600 (market-based)	58,100 (market-based)	64,400 (market-based)
Scope 3	981,000	935,100	947,100

For emissions methodology, we used the following standards, protocols, and data collection methods:

Scope 1:

- AR5 - CH4, N2O, Refrigerant
- US EPA Climate Leaders: Direct Emissions from Mobile Combustion Sources - Propane, Propylene
- US EPA Climate Leaders: Direct Emissions from Stationary Combustion - Gasoline, Diesel, Ethanol
- GHG Protocol - Natural Gas (energy & volume)

Scope 2 - Location:

- US EPA eGRID - USA
- Canadian Industry Partnership for Energy Conservation - Canada
- International Energy Agency: CO2 Emissions from Fuel Combustion (CO2, N2O, CH4) - France, Germany, India, Mexico, Spain

Scope 2 - Market:

- AIB European Residual Mixes - France
- Supplier Specific - USA, Spain, German
- (Location-Based) International Energy Agency: CO2 Emissions from Fuel Combustion - Mexico & India

Scope 3

- Purchased good and services
- Capital goods
- Fuel-and-energy-related activities
- Upstream transportation and distribution
- Waste generated in operations
- Business travel
- Employee commuting
- Downstream transportation and distribution
- Use of sold products
- End-of-life treatment for sold products

Our Enterprise Risk Management program, which identifies and addresses risk issues including climate-related issues, is presented to the full Board twice a year.

Describe targets used

We currently use an intensity target for our emissions, using metric tons CO2e per USD(\$) value-added. Based on a 2014 baseline, we aim for a 25% reduction in our Scope 1 and 2 location-based emissions by 2024.