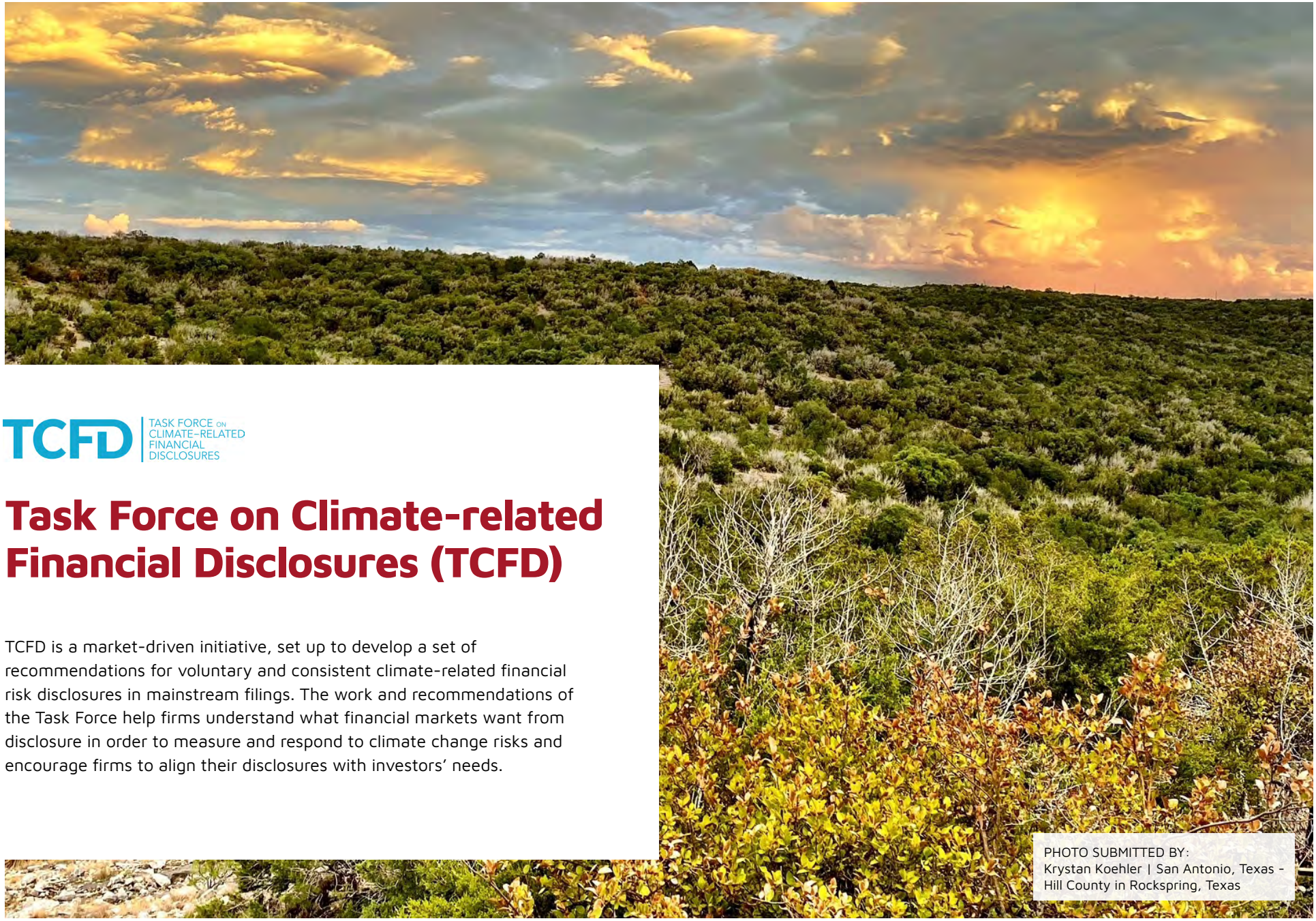

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Task Force on Climate-related Financial Disclosures (TCFD)

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.

PHOTO SUBMITTED BY:
Krystan Koehler | San Antonio, Texas - Hill County in Rockspring, Texas

TOPIC	RESPONSE
GOVERNANCE	
Board oversight of climate-related risks and opportunities	LII's Board is responsible for oversight of our ESG strategy, including our strategy around climate-related issues. Our Board's Public Policy Committee specifically discusses our climate-related strategy, GHG emission reduction goals, and action plans around climate change semiannually, with the CEO in attendance. Our Enterprise Risk Management program identifies and addresses climate-related risks which are presented to and discussed with the Board twice a year, though specific risks may be reviewed by the Board more frequently.
Management's role in assessing and managing climate-related risks and opportunities	The full Board has general oversight over climate topics, though Public Policy Committee has the most direct/formal oversight. Our CEO sets our ESG objectives, including those related to climate, and is actively engaged in managing LII's approach to climate change. Our CEO is the ultimate decision-maker regarding reporting of GHG metrics and objectives, as well as annual funding of capital set aside to address GHG emissions reductions. The responsibility to set and execute on goals that support these objectives is delegated to our Executive Staff, which comprises of the senior executives responsible for all our major business segments and corporate functions. Our CEO and Executive Staff have ESG embedded into their performance goals. To better understand our climate-related risks, this year we have begun climate risk training for our executive leadership to pinpoint our greatest opportunities. In 2021, to deliver our ESG strategy, we established our Global ESG Council (ESGC) to provide a structure for enterprise-wide ESG management and streamline engagement across diverse business and corporate functions. The ESGC is comprised of senior leaders across our business, corporate functions, and regions, and is currently chaired by our Vice President, Deputy General Counsel and Chief Sustainability, Ethics & Compliance Officer. Members of the ESGC brief the CEO and the Executive Staff on a regular basis regarding our climate goals and progress. The Board is briefed semi-annually on ESG progress.

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TOPIC	RESPONSE
STRATEGY	
Short-, medium-, and long-term climate-related risks	Our business and financial planning horizons are based on quarterly, annual, and three-year increments, and consider climate-related risks. Our Enterprise Risk Management process, which incorporates these risks, is described below under "Risk Management." **SHORT-TERM (<1 YEAR)** **Physical Risks (Acute):** As climate change advances, severe weather events may increase. The ability to plan for and mitigate the effects of severe weather events is important for our operations and key suppliers. Our key suppliers could experience a disruption in production if impacted by a severe weather event. We have developed robust business continuity planning processes and dual sourcing projects to build supply chain resiliency in the face of 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. We do this to improve our awareness of assets subject to acute hazards, including flooding, earthquakes, windstorms, extratropical storms, volcanos, tsunamis, tropical cyclones, hail, tornados, lightning, storm surges 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 are able to take action to reduce risks to employees and better protect our assets. **MEDIUM-TERM (1-5 YEARS)** **Transition Risks (Regulatory and Market-Related):** 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. As part of the climate scenario analysis conducted in 2021, we evaluated the potential risks and opportunities a range of possible climate futures may have on our business. In particular, we identified potential risks of aggressive policies that could force faster transitions away from HFC refrigerant, higher product efficiency standards, and movement away from fossil fuel or gas-powered heating equipment. Although these laws are subject to frequent changes, we have calculated initial estimates of the financial impact noncompliance with these regulations would have on our business. Please see our CDP responses for further details. Changes in environmental and energy efficiency standards and regulations, such as the UN Montreal Protocol's Kigali Amendment to phase down the use of HFCs, may 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. **LONG-TERM (5-15 YEARS)** **Physical Risks (Chronic):** Longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea levels to 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. Transition Risks (Reputation): 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, the reputation and results of operations could be adversely impacted.

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TOPIC	RESPONSE
Impact of climate-related risks on business, strategy, and financial planning	We recognize that the identified climate-related risks may have a significant impact on our business. Therefore, we are focused on addressing these risks by integrating climate considerations into our R&D, product development, and public policy strategies. **R&D:** In 2021, we spent $76M on R&D to develop new products and services that are more efficient and sustainable, align with customer focuses, and comply with new regulatory requirements. Thirty percent of the patent applications we filed over the last 10 years are tied to energy efficiency improvements. LII continues to focus on maintaining leadership in energy-efficient climate control systems and using alternative refrigerants across our businesses. We leverage improvements in product development cycle time and product data management systems to commercialize new products to market more rapidly. Supported by sustainability-focused R&D efforts, LII is committed to transitioning all Lennox residential and commercial products to low GWP refrigerants by 2025 in line with expected regulations. **Product Development:** We have taken a proactive approach toward addressing climate-related risks by developing efficient, market-leading solutions. From a refrigerant perspective, we have substituted HFCs in some products with alternative refrigerant compounds that 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. Furthermore, we continue to launch the most energy-efficient air conditioning units, furnaces, refrigeration, and heat pumps on the market. Our heat pumps in particular are designed to perform better in colder climates than standard heat pumps, and have variable speed settings that are compatible with intermittent renewable energy sources, including solar and wind. Additionally, the communication controls built into our products, as well as our smart thermostats, enable more precise operational control to meet heat/cool load and ventilation requirements, allowing customers to use less energy than other non-communicating HVAC systems. Together, continuing to develop efficient products both drives our strategy and enables us to reduce energy usage and corresponding emissions across our products' life cycle. **Facility Operations:** To reduce our operation's contribution to climate change, which indirectly aims to reduce future climate-related risks on our business, we replaced ozone-depleting CFCs with HFCs. HFCs do not deplete the ozone and have a global warming potential lower than that of CFCs. However, they remain a significant source of greenhouse gases. For this reason, we have implemented strict management controls to track our operational refrigerant losses. **Regulations and Public Policy:** LII is at the forefront of driving responsible environmental policy. We innovate, produce and distribute some of the most efficient products on the planet. We continue to lead the global HVACR industry's transition to more environmentally friendly refrigerants by advocating for faster transitions to low GWP refrigerants and supporting the broad use of reclaimed and recycled refrigerants. We actively participate in and work with various industry associations, sustainability focused coalitions and other stakeholders to promote, among others: » Energy efficiency standards for HVACR products » Product certification, verification, and testing for product efficiency ratings » Phaseout of high global warming potential refrigerants » Air quality and emissions standards » Tax policy or other government incentives that encourage the purchase and installation of energy-efficient products Our businesses also monitor and conduct stress testing for regulatory risks, particularly as it relates to potential future regulations around increasing energy efficiency and low GWP refrigerant regulatory requirements. We conduct analysis and testing on likely timeframes for and stringency of such regulations.

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TOPIC	RESPONSE
Resilience of strategy using 2°C or lower scenarios	Under the Science Based Targets Initiative (SBTi)'s well-below 2°C scenario, we have set near-term science-based emissions reduction targets. In 2021, we conducted a climate scenario analysis to evaluate the potential risks and opportunities across a range of possible climate futures. In this year's scenario analysis, the impact and scope of various transition risks were evaluated against three scenarios: an ambitious net zero scenario (IEA NZE), a more conservative stated policies scenarios (IEA STEPS), and a middle of the road announced pledges scenario (IEA APS). We identified that LII has considerable opportunities to support a transition and adapt to the most aggressive IEA NZE scenario through our product lines and clean product strategies, all the while meeting increasing demand for new energy-efficient heating and cooling equipment, including heat pumps. We also identified potential risks of aggressive policies that could force faster transitions away from HFC refrigerant and towards higher product efficiency standards. The results of our scenario analysis are facilitating further clean product strategy discussions and business-wide priorities with the goal to support LII's R&D allocation decisions and marketing priorities. These decisions will be aimed to take advantage of expected shifts in the overall market demand and landscape. We expect to continue these discussions and further advance subsequent scenario analyses in future years.
RISK MANAGEMENT	
Process to identify and assess climate-related risks	We view climate change as a driver that indirectly influences varying components of our top risks. For example, climate-driven risks to the regulatory landscape are assessed as part of our overall assessment of regulatory risk in our ERM process. The ERM process consists of a comprehensive bottom-up approach: from risk identification and response planning by operating management to risk assessments and monitoring by our executive team, and finally, reviews of top prioritized risks and corresponding risk response plans by the Board. All risks are addressed with a plan to accept, mitigate/reduce, share/transfer, or avoid risks, and all Risk Response Plans are encouraged to follow SMART guidelines—be Specific, Measurable, Aggressive, Relevant, and Time bound. 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 risks and corresponding mitigation plans. In this process, risks are placed in "impact/likelihood" and "impact/significant" quadrants. Likelihood is scored on a 1-5 scale, from "least likely" to "almost certain," considering frequency, probability, and time horizon. Significance is also 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 Factors for scoring potential impacts of the risk include, but are not limited to, financial, operational, brand, and health and safety impact. Climate-related risks and considerations may also influence the risk's level of impact. Combined, the highest quadrant of concern (i.e., substantive financial or strategic impact) is any issue with impact and likelihood ratings of 3 or higher and a likelihood rating of 3 or higher. Separate from the ERM, we have developed comprehensive LII facility risk profiles to determine the probability and potential severity of climate-related risks– including coastal erosion, extreme heat, floods, hailstorms, severe winters and thunderstorms– on each of our facilities. For each facility we quantified the potential financial impact of each climate-related risk and identified possible risk improvements for the most impactful risks across our facilities.

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TOPIC	RESPONSE
Process to manage climate-related risks	Overall, we manage and 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 ERM process which provides an effective foundation for environmental stewardship. We have specific processes that help us manage our short-, medium-, and long-term climate-related risks: **SHORT-TERM (<1 YEAR)** We have a robust business continuity planning (BCP) process, with oversight from our Risk Management team, to manage acute, physical climate risks. The process includes educating stakeholders and facilitation of BCP scenario testing. Three operational business segment champions and site-specific BCP team leaders ensure that 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 believe this process builds site specific resiliency in the face of potential climate-related disasters. We also transfer some of these physical climate 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. **MEDIUM-TERM (1-5 YEARS)** To mitigate our medium-term climate-related transition risks around the regulatory sphere, LII leverages our leadership position in the HVACR industry to actively participate in the development and implementation of climate-related policies that increase energy efficiency and reduce emissions. We work through various industry associations and coalitions to shape future climate-related legislation, regulations, building codes and safety standards in the policy areas that affect our business. **LONG-TERM (5-15 YEARS)** A vital way we are addressing long-term climate-related transition risks to our reputation is by increasing 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. Further actions we take to manage climate-related risks include: » 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 the Sustainability Accounting Standards Board (SASB) and CDP, in addition to the TCFD. The reporting process helps us manage and measure our progress as well as engage with our internal and external stakeholders on climate-related issues
Integration of risk processes into overall risk management	Although climate-related risks are already indirectly incorporated into our ERM, described under **"Process to identify and assess climate-related risks,"** we are working on formally incorporating climate-related risks. This year, we are providing education on climate and human capital risks as they relate to our business. These ERM surveys are shared with operating management during the risk identification process. Our ERM results and progress are presented to the full Board twice a year, though specific risks may be reviewed by the Board more frequently.

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TOPIC	RESPONSE
Metrics used to assess climate-related risks	We disclose our GHG emissions and emission intensities as part of this TCFD Index. In addition, we track and monitor a number of metrics around our environmental performance to further help us assess our climate-related risks. These metrics include: » Energy usage related to our direct operations » Refrigerant loss from our manufacturing facilities » 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 » Water usage related to our direct operations
Scope 1, 2, and 3 emissions	Our Scope 1, 2, and 3 emissions cover over 95% of our operational facilities and track the following GHGs: CO2, N2O, CH4, HFCs, HCFCs. The vast majority of our total emissions comes from our Scope 3 emissions, particularly during our products' operational lifecycles. All 2021 Scope 1, 2, and 3 emissions have been verified by a third party, Apex Companies. Please see the data assurance letter from Apex Companies in this section of the report in accordance with ISO 14064-3 standards.
Targets used to manage climate-related risks and opportunities	We have set science-based emissions reduction targets approved by the Science Based Targets Initiative (SBTi). We have committed to reducing absolute Scope 1 and 2 greenhouse gas (GHG) emissions by 37.5% and Scope 3 emissions by 30% per product sold by 2034 from a 2019 base year. These targets were approved by the Science Based Targets Initiative (SBTi) in December of 2021 against the SBTi's Criteria v4.2. The two targets we set for LII were assessed against SBTi's qualitative and quantitative criteria and validated in accordance with the SBTi validation protocol. In 2021, we saw an 8% increase in our absolute Scope 1 and 2 market-based emissions since 2019 due to increases in production. We are working towards driving reductions through our GHG Emissions Management plan, described earlier in our report.

Emission (mTCo2e)	2019	2020	2021
Scope 1	95,900	83,100	116,700
Scope 2 (Location-Based)	64,900	56,400	51,400
Scope 2 (Market-Based)	53,600	46,000	45,600
Scope 3	90,228,300	81,421,800	100,267,900
Total Scope 1+2+3 Emissions (Market-Based)	90,377,800	81,550,900	100,430,200

We used the following standards, protocols, and data collection methods for each source driving our overall emissions calculation methodology:

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
» 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 3
Categories: 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