



Task Force on Climate-related Financial Disclosures (TCFD)

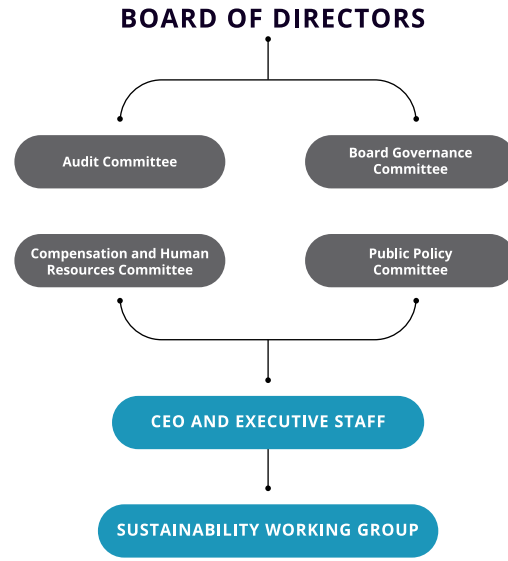
TCFD is a market-driven initiative, set up to develop a set of recommendations for voluntary and consistent climate-related financial risk disclosures in mainstream filings. The work and recommendations of the Task Force help firms understand what financial markets want from disclosure in order to measure and respond to climate change risks and encourage firms to align their disclosures with investors' needs.

ABOUT THIS REPORT AND INDICES

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TOPIC	RESPONSE
GOVERNANCE	
<p>Board oversight of climate-related risks and opportunities</p>	<p>The Board is responsible for oversight of our strategy, including our strategy around climate-related issues. Our Board’s Public Policy Committee specifically discusses our climate-related strategy, and action plans around climate change semiannually, with the CEO in attendance.</p> <p>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.</p>
<p>Management’s role in assessing and managing climate-related risks and opportunities</p>	<p>The full Board has general oversight over climate topics, though Public Policy Committee has the most direct/formal oversight.</p> <p>Our CEO sets our objectives, including those related to climate, and is actively engaged in managing the company’s approach to climate change. Our CEO is the ultimate decision-maker regarding reporting of sustainability metrics and objectives, as well as annual funding of capital set aside to address sustainability. 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 sustainability embedded into their performance goals.</p> <p>To deliver on our strategy, we established the Sustainability Working Group to provide structure for enterprise-wide sustainability management and to streamline engagement across diverse business and corporate functions. The Sustainability Working Group is comprised of senior leaders across our businesses. Members of the Sustainability Working Group brief the CEO and Executive Staff on a regular basis. The Board is briefed semi-annually on sustainability progress.</p>



TOPIC	RESPONSE
STRATEGY	
<p>Short-, medium-, and long-term climate-related risks</p>	<p>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."</p> <p>SHORT-TERM (<1 YEAR)</p> <p>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.</p> <p>MEDIUM-TERM (1-5 YEARS)</p> <p>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.</p> <p>As part of the climate scenario analysis conducted, 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.</p> <p>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.</p> <p>LONG-TERM (5-15 YEARS)</p> <p>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.</p>

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<p>Impact of climate-related risks on business, strategy, and financial planning</p>	<p>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.</p> <p>R&D: In 2022, we spent \$80M 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. Lennox continues to focus on maintaining leadership in energy-efficient climate control systems and using alternative refrigerants across our businesses.</p> <p>We leverage improvements in product development cycle time and product data management systems to commercialize new products to market more rapidly. Lennox is committed to transitioning all Lennox residential and commercial products to low GWP refrigerants by 2025 in line with expected regulations.</p> <p>Product Development: 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.</p> <p>Facility Operations: 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.</p> <p>Regulations and Public 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:</p> <ul style="list-style-type: none"> » 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 <p>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.</p>

TOPIC	RESPONSE
Resilience of strategy using 2°C or lower scenarios	<p>We conducted a climate scenario analysis to evaluate the potential risks and opportunities across a range of possible climate futures. In the 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).</p> <p>We identified that Lennox 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.</p> <p>The results of our scenario analysis are facilitating further clean product strategy discussions and business-wide priorities with the goal to support 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.</p>

RISK MANAGEMENT

Process to identify and assess climate-related risks	<p>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.</p> <p>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:</p> <ol style="list-style-type: none"> 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 <p>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.</p> <p>Separate from the ERM, we have developed comprehensive Lennox 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.</p>
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TOPIC	RESPONSE
<p>Process to manage climate-related risks</p>	<p>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:</p> <p>SHORT-TERM (<1 YEAR)</p> <p>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 train team members and update and house BCP documents 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.</p> <p>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.</p> <p>MEDIUM-TERM (1-5 YEARS)</p> <p>To mitigate our medium-term climate-related transition risks around the regulatory sphere, Lennox 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.</p> <p>LONG-TERM (5-15 YEARS)</p> <p>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 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.</p> <p>Further actions we take to manage climate-related risks include:</p> <ul style="list-style-type: none"> » 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

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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.
Metrics used to assess climate-related risks	We track and monitor a number of metrics around our environmental performance to further help us assess our climate-related risks. These metrics include: <ul style="list-style-type: none">» 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



About this Report

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The reporting boundary for the quantitative metrics was drawn from available data covering the 2022 calendar year, whereas qualitative information includes the 2022 calendar year and partial year data from the 2022 calendar year.

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, 2022, 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 www.lennox.com.

As used in this report, the terms “material”, “materiality”, “immaterial”, “substantive”, “significant”, and other similar terminology are not used, or intended to be construed, as they have been defined by or construed in accordance with the securities laws or any other laws of the United States or any other jurisdiction or are they are used in the context of financial statements and financial reporting.

The data presented in this report is collected using accepted and relevant scientific and industry accepted methodologies, which in some instances, are based on assumptions and estimates. Although our data has been internally vetted, there are inherent uncertainties and limitations in the collection and presentation of our data. For example, certain information in this report regarding our progress against our sustainability goals comes from third-party sources and operations outside of our control. While we believe such information is reasonably accurate and is based on generally accepted principles and methodology, the collection of this data is beyond our direct influence. In addition, the achievement of certain of our sustainability goals and targets that are discussed in this report are dependent on the actions of our partners, suppliers and other third parties, all of which are outside of our control.

Historical performance data may be revised due to reasons such as new data availability; industry-driven changes to methodologies; improvement in data collection and measuring systems; or activities such as joint ventures, mergers and acquisitions or divestitures. In cases where historical information is revised, we will footnote the change with a clear explanation. Statements about future developments and past occurrences are based on information and assumptions available as of the date of publication. While we are committed to providing timely updates, Lennox holds no obligation to update information or statements.

