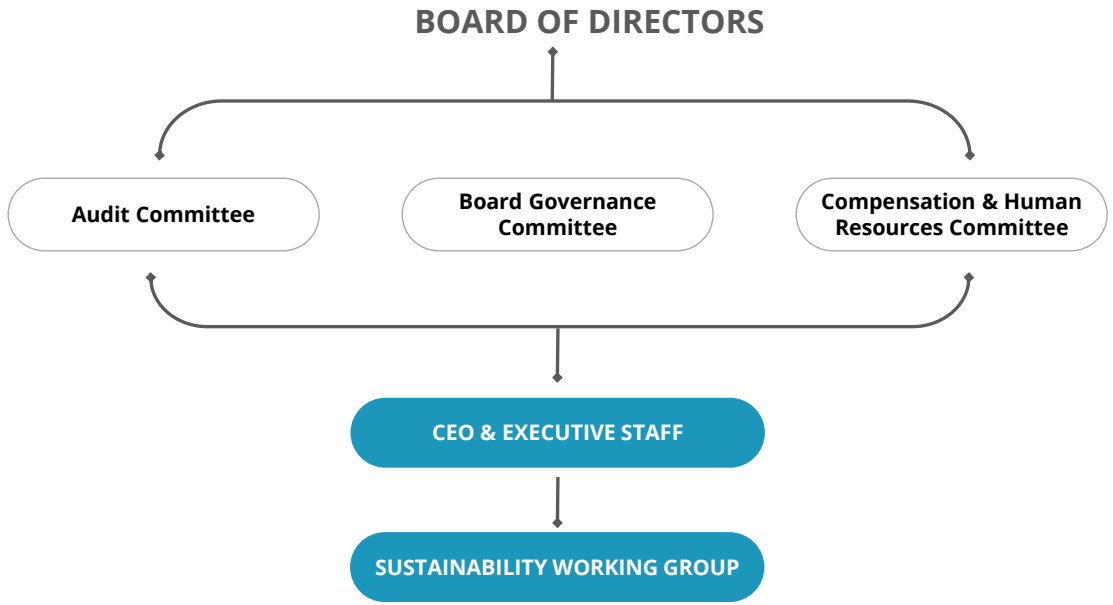
TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

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.

TOPIC	RESPONSE
GOVERNANCE	
Board oversight of climate-related risks and opportunities	The Board is responsible for oversight of our strategy, including our strategy around climate-related issues. In 2024, our Board's Public Policy Committee specifically discussed our climate-related strategy, and action plans around climate change semiannually, with the CEO in attendance. Starting in 2025, that responsibility will transition to the full Board. Our Enterprise Risk Management program identifies and addresses climate-related risks that were presented to and discussed with the Board twice in 2024, 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 oversight over climate topics. 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 expenditures to address sustainability related opportunities. The responsibility to set and execute on goals that support these objectives is delegated to our Executive Staff, which is comprised of senior executives responsible for all our major business segments and corporate functions. Our CEO and Executive Staff have sustainability embedded into their performance goals. 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 segments and corporate functions. The Sustainability Working Group is comprised of senior leaders across our businesses including our Vice President of Government Affairs and Sustainability. 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.



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 the operations of our key suppliers. We have robust business continuity planning processes and dual sourcing projects to improve supply chain resiliency in the face of severe weather events. To identify potential exposures, we digitally map (geographic information system) 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 issues early, we 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, we evaluated the potential risks and opportunities a range of possible climate futures may have on our business. We identified potential risks of aggressive policies that could force faster transitions away from HFC refrigerant, higher product efficiency standards, and a transition away from gas-consuming heating equipment. Although these laws are subject to frequent changes, we have calculated estimates of the financial impact noncompliance with these regulations would have on our business. 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 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 products. If we are unable to successfully develop and market new products and achieve technological advances in response to 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 risks 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, our reputation and results of operations could be adversely impacted.

TOPIC	RESPONSE
STRATEGY	
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 2024, we spent $93.6M on R&D to develop new products and services that are more efficient and sustainable, align with customer needs, and comply with regulatory requirements. An estimated thirty percent of the patent applications we filed over the last 10 years are tied to energy efficiency improvements. We leverage improvements in product development cycle time and product data management systems to commercialize new products to market more rapidly. Lennox transitioned most residential and commercial products to lower GWP refrigerants on January 1, 2025, in line with regulatory requirements. **Product Development:** In accordance with the Kigali Amendment to the Montreal Protocol and the AIM Act, Lennox transitioned to refrigerants with a lower global warming potential (GWP) that also do not deplete the ozone. We offer the most energy-efficient heat pumps, air conditioners, and furnaces available on the market today. Our cold climate heat pumps are designed to deliver efficient heat in colder climates than standard heat pumps. Variable speed products deliver better comfort and more efficient operation. Our products support a transition to zero-emission sources of energy. Our smart communicating controls execute precise comfort control to meet heating and cooling loads and ventilation requirements comfortably and efficiently, allowing customers to use less energy than non-communicating HVAC systems. Our product development efforts provide the highest levels of comfort, reduce energy use and, help our customers reach their electrification and decarbonization goals. **Facility Operations:** Over the past few decades, we replaced CFC and HCFC refrigerants with HFC refrigerants to eliminate the ozone depleting potential (ODP) of the refrigerants used in our products. In 2025 we begin the transition of most of our products to lower global warming potential (GWP) refrigerants that do not deplete the ozone and have a significantly lower GWP than HFC refrigerants. However, refrigerants remain a significant source of greenhouse gas emissions and we are implementing additional controls to track and improve our refrigerant management practices. **Regulations and Public Policy:** We innovate, produce and distribute some of the most energy 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 conservation 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, lower GWP refrigerant regulatory requirements, and extended producer responsibility. During our annual strategic assessment, we evaluate likely transition timelines and adjust our product plans to adapt to anticipated changes.

TOPIC	RESPONSE
Resilience of strategy using 2°C or lower scenarios	The Lennox Sustainability Working Group evaluates the potential risks and opportunities across a range of possible future scenarios. In addition, each business segment (Building Climate Solutions and Home Comfort Solutions) conducts an annual strategic assessment to evaluate product planning in response to customer needs, future markets, environmental trends, and regulatory compliance. The impact and scope of various transitions (refrigerant, efficiency, emissions, regulatory) are evaluated quarterly at Quarterly Product Planning meetings. Lennox has considerable opportunities to support future transitions aimed at reducing emissions and moving toward the electrification and decarbonization of our products. Lennox anticipates and will meet the demand for more energy-efficient and lower-emission products as consumer demand and the regulatory landscape evolves. Lennox has a rich history of innovation and continues to produce some of the most energy efficient and environmentally friendly HVACR products on the planet. Lennox was also the first HVACR manufacturer to meet the Department of Energy's Cold Climate Heat Pump challenge, which is a large step in transitioning heating products for cold climates from fossil fuels to electricity. We understand and evaluate the risks associated with accelerated policies resulting in quicker transitions to higher energy conservation standards, to products with lower operational emissions and away from higher global warming potential refrigerants. Our annual strategic assessment facilitates product strategy discussions and business priorities to support investment decisions and marketing priorities. These decisions prepare us for the expected shifts in the market that impact product selection and demand.
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, Achievable, 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 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

TOPIC	RESPONSE
Process to identify and assess climate-related risks *(contd.)*	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 a 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 Lennox facility risk profiles for our major locations to determine the probability and potential severity of climate-related physical risks– including coastal erosion, extreme heat, floods, hailstorms, tornadoes, hurricanes, severe winters and thunderstorms. For each facility, we quantified the potential severity and occurrence of each climate-related risk and identified possible risk mitigation strategies for the most impactful risks across our facilities.
Process to manage climate-related risks	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 standard 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 facilitating BCP scenario testing. Two 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 impacts. 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 related to regulations, 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.

TOPIC	RESPONSE
Process to manage climate-related risks *(contd.)*	**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 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 remains 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 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. Our ERM results and progress were presented to the full Board twice a year, though specific risks may be reviewed by the Board more frequently.
METRICS AND TARGETS	
Metrics used to assess climate-related risks	We track and monitor several environmental performance metrics to assess climate-related risks. These metrics include but are not limited to: » Scope 1 emissions – direct emissions from sources owned or controlled by a company including energy use related to our direct operations, and refrigerant loss from our manufacturing facilities. » Scope 2 emissions – indirect emissions from purchased electricity, steam, heat, and cooling. » Scope 3 emissions – all other emissions associated with a company's activities. » Energy efficiency ratings of our products, such as SEER (Seasonal Energy Efficiency Ratio), AFUE (Annual Fuel Utilization Efficiency, and HSPF (Heating Seasonal Performance Factor). » Percentage of our product portfolio, by revenue, that is above the federal minimum energy conservation standard. » Water usage related to our direct operations.