

Zai Lab 2024 TCFD Report

Governance

Board-Level Oversight

The Board of Directors at Zai Lab, including its committees, holds a critical role in overseeing the Company's environment, social, and governance strategy and activities, which includes oversight of climate-related issues. For example, the Audit Committee oversees the Company's Enterprise Risk Management (ERM) program and, as part of this enterprise risk oversight, plays a pivotal role in identifying, evaluating, and managing and mitigating climate-related risks and opportunities. In addition, the Nominating and Corporate Governance Committee oversees environmental, social, and governance (ESG) matters, which includes oversight of the Company's implementation of, and performance with respect, to our climate-related strategies, goals, commitments, policies, and practices. In overseeing climate-related issues, the Nominating and Corporate Governance Committee considers various factors, including the Company's mission, the nature of our business and operations and related risk levels, and applicable sustainability-related laws, regulations, and best practices.

Management's Role and Responsibilities

As part of our mission to positively impact human health for patients in China and worldwide, the Company is committed to maintaining high standards of environmental health. The Company's Chief Sustainability Officer (CSO) leads the Company's efforts with respect to ESG matters, including climate-related issues at Zai Lab. The CSO is the central point of accountability for our ESG Trust for Life Strategy, which encompasses environmental strategies, commitments, goals, targets, and progress for the Company. The CSO collaborates with the Board, executive management, leaders throughout the Company, and other stakeholders to develop and evaluate sustainability strategies, commitments, goals, and objectives; set targets; and track progress towards environmental performance metrics. This can include initiatives such as reducing greenhouse gas emissions, optimizing resource use, promoting sustainable supply chain practices, and implementing environmentally friendly policies and procedures.

The CSO collaborates with executive management and cross-functional teams, including the Global Compliance Committee (GCC), Risk Coordination Council (RCC), and other relevant committees, to integrate sustainability considerations into the Company's enterprise risk management framework.

The GCC is a management committee chaired by the Chief Compliance Officer that reports to the Audit Committee and Chief Legal Officer, as appropriate, regarding GCC findings related to material enterprise risks. This committee can play a key role in overseeing climate-related risks that may have regulatory or legal implications. By including climate-related risks in its assessments and findings, the GCC promotes awareness and understanding of climate issues and integrates consideration of climate-related risks into the broader risk oversight process.

The RCC is a committee comprising senior leaders responsible for governance, quality, and operations within Zai Lab. Co-chaired by the Chief Compliance Officer, the RCC provides a platform for discussing and identifying risks across the organization. The RCC serves as a forum to discuss and assess environmental risks and opportunities. The RCC periodically reports to the GCC and the Audit Committee, thus promoting communication and evaluation of climate-related risks at the highest levels of the Company.

The Company's risk governance structure demonstrates our commitment to effective risk management, including climate-related risks. The various committees with responsibility for risk oversight and management work collaboratively, each within its specific purview, to provide oversight, identify, monitor, and manage risks across the organization. Through their efforts, Zai Lab can proactively identify and assess climate-related challenges and promote the integration of environmental considerations into the Company's compliance, operational, and governance processes.

To further integrate sustainability into our business and operations, the CSO also works closely with the Chief Financial Officer and Chief Procurement Officer to embed environmental strategy into our supply chain management, including Scope 3 (S3) management oversight. The CSO promotes communication and awareness with respect to key climate-related matters and developments through regular reporting to the Nominating and Corporate Governance Committee of the Board, executive management, and internal stakeholders including risk and cross-functional teams with responsibility for ESG matters as well as through periodic reporting to external stakeholders, such as through this TCFD report and our annual and interim ESG reports.

Strategy

Climate Risks & Opportunities

Zai Lab recognizes that climate change is a global issue, and we are committed to doing our part to minimize our contribution to climate change. By identifying and assessing the impacts of climate-related risks and opportunities over the short, medium, and long term, we are taking steps to focus our efforts in areas that are most significant to our business and for which we can have a meaningful impact.

There are two categories of climate-related risks defined by TCFD: transition risks and physical risks. Transition risks are associated with the transition to a low-carbon global economy and include the assessment of current and emerging regulatory, technology, legal, market, and reputational risks. Physical risks come from the impacts of climate change. They can be short-term events such as extreme weather events and changes in weather patterns that are more long term.

In 2024, Zai Lab conducted a climate and nature risk assessment where we evaluated both climate and nature-related risks. This assessment included transitional and physical climate- and nature-related risks in order to determine the significance of each risk to our business and operations, in alignment with our ERM framework. Prior to this assessment, Zai Lab conducted a nature materiality analysis to identify critical nature impacts and dependencies, utilizing data from the ENCORE tool developed by the UN Environment Program Finance Initiative to understand material nature issues within the sectors in which we operate. This assessment provided key inputs into potentially relevant nature-related risks to further verify with stakeholders.

Our 2024 assessment found that no climate- or nature-related risks pose a significant impact to Zai Lab. The tables below outline our current understanding of the most relevant climate- and nature-related physical and transition risks for our business and their potential impacts to our operations.

Physical Risks

Risk Type	Risk	Description	Potential business impact & mitigation
Acute	Cyclones	Cyclones may become more severe and intense as global warming continues, having the potential to be more disruptive and damaging.	Cyclones can damage manufacturing facilities leading to reduced production capacity, disruption to operations, and disruptions to supply chains.
Acute	Wildfires	Wildfires can impact our operations and our employees, specifically in the California region where wildfires have become more prevalent. Wildfires can destroy infrastructure and prevent employees from getting to work, as well as raw materials and products from being delivered. Moreover, wildfires can damage buildings and result in significant or complete loss of assets.	Wildfires can decrease revenues by causing business interruption and increase costs if they damage Zai Lab's assets.
Acute	Flooding	Flooding can impact critical public infrastructure in low-laying areas and affect our ability to operate efficiently. Some locations in China are considered low-laying and may be exposed to flooding.	Flooding could introduce delays in the transportation of raw materials and delay production, as well as damage goods on the ground level.

Transition Risks

Risk Type	Risk	Description	Potential business impact & mitigation
Policy & Legal	Enhanced emissions reporting regulations	Emerging emission reporting requirements, such as the U.S. SEC's proposed regulation on climate-related disclosures, would require companies to establish sophisticated data collection, management, and reporting capabilities. Inadequate processes, systems, and tracking could make adjusting to these changes difficult and could require Zai Lab to invest in additional hiring needs and/or technology resources.	Enhanced climate-related regulations can increase operating or compliance costs.
Market	Increased cost of raw materials	Raw and synthetic material availability can be affected by both physical and transition risks (e.g., from natural disasters, mandates, and regulations).	Zai Lab may experience increased costs and reduced availability of raw materials if supply is affected by climate, especially straining single-source inputs. Increased costs of raw materials would increase our production costs.
Policy & Legal	Climate- and nature-related mandates on and regulation of existing products and services	Regulations mandating GHG emissions reductions and/or reduced impact on natural ecosystems in medical and pharmaceutical products and/or processes can lead to increased operating and compliance costs by requiring companies to innovate to develop more sustainable products and/or processes.	Zai Lab may face non-compliance fines if the organization is unable to keep up with emerging regulations. Preparing for new compliance requirements may also increase costs.

Scenario Analysis and Resilience Measures

In 2023, we conducted a scenario analysis for physical and transition risks that were identified as most relevant to our business to determine our potential exposure to different possible scenarios and assess our resilience to them.

Physical Risk

For physical risk, we looked at extreme temperatures under three warming scenarios: SSP 1-2.6 or a low warming scenario (below 2°C), SSP 2-4.5 or a moderate warming scenario (2°C-4°C), and SSP 5-8.5 or a high warming scenario (above 4°C). We focused our analysis on heat waves, defined as three or more consecutive days above 90°F and/or three or more consecutive days of temperatures above the historical 98th percentile temperature for the location.

To conduct this analysis, we identified 25 Zai Lab locations across our real estate portfolio. Our analysis determined that globally, a few Zai Lab locations will likely experience increased frequency and duration of heatwaves. Impacted facilities may experience increased operating expenses from rising energy costs required for cooling during more frequent and severe heatwaves. Climate modeling showed that in 2030, under a moderate warming scenario, Zai Lab's facilities in Taipei and San Diego would experience the greatest relative increase in heatwave days, although both locations are small facilities and, in the scope of business impact, represent a minor risk to overall operations. Zai Lab may be most vulnerable to increased frequency and duration of heatwaves at sites in Suzhou where power outages could disrupt key laboratory and factory equipment or warehouse temperature requirements for treatment products, but these facilities are equipped with backup power generation.

Transition Risk

To evaluate our exposure to emerging climate-related policy and mandates, we used scenarios from the Network for Greening the Financial System (NGFS). NGFS carbon pricing data was used as an indicator of regulatory stringency to evaluate Zai Lab's exposure to policy and legal risk. We projected our emissions under growth and reduction scenarios to account for our business growth and our efforts to reduce emissions. We then overlaid carbon pricing data from three NGFS scenarios to determine the magnitude of policy implementation in each scenario based on the cost of carbon that we would be subject to under different policy ambition scenarios.

The analysis focused on policy and legal risk in three scenarios which cover a range of possible warming pathways: Net Zero 2050, Delayed Transition, and Current Policies. We found that Zai Lab's Purchased Goods and Services emissions category has the highest risk exposure to carbon regulation across the three scenarios. In the Net Zero 2050 scenario aligned with a 1.5°C pathway, we could face short-term risk as more stringent climate-related policy would be implemented across regions and sectors to limit warming aligned with the Paris Agreement. In the medium- to long-term, Zai Lab could face an increase in risk from a Delayed Transition scenario in which limited action is taken until 2030, after which the world would see a sharp increase in activities to maintain a trajectory to limit warming to below 2°C.

Zai Lab could face financial implications to varying degrees across these scenarios from policy and legal related risks, including increased operating costs from investment in compliance related resources; fees from noncompliance or litigation pertaining to climate-related regulation; and indirect impacts from reputational damage associated with noncompliance. We will continue to monitor and manage supply chain emissions to reduce carbon related risk exposure.

Risk Management

Climate- and nature-related risks currently pose a low risk to Zai Lab’s business and operations. However, we will continue to monitor climate risks so that we may identify existing and emerging climate risks that are most relevant to the business, assess their significance to our business, evaluate where Zai Lab can have the greatest impact, and determine appropriate steps for managing and mitigating such risks.

Zai Lab identifies, assesses, and manages climate and nature risk through our Enterprise Risk Management (ERM) process. We assess the likelihood, impact, and current risk management measures for each risk in order to prioritize our enterprise risks and develop measures to manage and mitigate these risks, as appropriate, to increase our resilience to these risks. We engage our stakeholders in our risk assessment process through participation in surveys and workshops.

In 2024, as part of our annual enterprise risk assessment, we conducted a climate- and nature-related risk and opportunity assessment, expanding the 2023 assessment to include relevant nature-related risks considering emerging regulations and frameworks. Nature and climate-related physical and transition risks were considered in the context of Zai Lab’s operations and evaluated based on three criteria: the level of potential impact, likelihood of occurrence, and control measures to manage the risk. A survey was distributed to stakeholders across the business to evaluate each risk on a 1-4 scale for each of these three criteria. Stakeholder workshops were then held to gather further input on past climate and nature-related impacts and vulnerabilities to further assess the significance of each risk. Climate and nature risks were then prioritized against each other based on assigned ratings and qualitative stakeholder input. Zai Lab will continue to include climate- and nature-related risks in its annual ERM process.

Metrics & Targets

Environmental stewardship is integral to creating better outcomes. We are committed to setting emission reduction targets, combined with implementing innovative operational improvements to transition to a low carbon economy. After signing the SBTi commitment letter in 2023, Zai Lab continues to pursue efforts to develop and achieve an emissions reduction target.

Zai Lab measures and tracks our Scope 1, 2 and 3 GHG emissions annually.

Emissions Category	2022	2023	YOY Change
Scope 1: Direct emissions	19 tCO2e	15 tCO2e	-30%
Scope 2: Indirect location-based emissions	3,951 tCO2e	4,664 tCO2e	-15.2%
Scope 3: Waste generated in operations	43 tCO2e	1 tCO2e	-33,120%
Scope 3: Fuel and energy related activities	1,109 tCO2e	765 tCO2e	-44.7%
Scope 3: Upstream transportation and distribution	1,998 tCO2e	110 tCO2e	-1,700%
Scope 3: Business travel	6,542 tCO2e	6,191 tCO2e	-5.7%
Scope 3: Capital goods	8,786 tCO2e	2,411 tCO2e	-264.4%
Scope 3: Purchased goods and services	51,051 tCO2e	55,213 tCO2e	7.5%