

Corporate Governance at Alibaba

Alibaba has a unique governance model. To understand our system of corporate governance, it is important to understand the role of our **Mission** that guides us, our **Vision** that brings focus to our strategy, and our **Partnership System** that plays an active role in key decisions in the areas of leadership succession, human capital management, business ethics and social responsibility.



The Role of Mission and Vision

Typical public corporations think of “corporate governance” as a set of policies, rules, processes and compliance procedures. The presumption is that the profit motive inherently encourages risk taking by managers that must be tempered by checks and balances that reflect ethical considerations.

We do not view “growth” versus “governance” as a zero-sum game. In fact, quite the opposite. We believe a company must be mission-driven in order to achieve sustainability.

SOCIAL RESPONSIBILITY DEFINES OUR MISSION AND VISION

The belief in our mission – to make it easy to do business anywhere – is the foundational logic underlying our business decisions. We believe that we do not create value if we do not solve the problems of society, and if we do not create value for our customers, then the company will not be able to generate any revenue, much less profits, from customers.

We have stated publicly that we want Alibaba to last – “at least 102 years” which would span three centuries from our founding in 1999.

Our vision – to serve 2 billion consumers globally and help create 100 million jobs by supporting 10 million businesses to operate profitably by year 2036 – helps us set long-term strategy and goals that are consistent with our values. This vision focuses our priorities on consumer trust, small business and job creation.

We ask that everyone joining our company commit to our mission and vision. If we weren't guided by a common mission, then Alibaba would be a mere investment holding company with disparate businesses. With the collective pursuit of a clear vision, our various businesses will work together to generate synergies that drive long-term sustainable growth.

Because we believe Alibaba's business should be guided and driven by our mission and vision, socially responsible elements – i.e., solving customer problems, earning consumer trust, helping small businesses and creating jobs – are embedded in our business model.

Our Vision by 2036

- *To serve 2 billion consumers globally*
- *Support 10 million businesses to operate profitably*
- *Help create 100 million jobs*

The Role of the Alibaba Partnership

The Alibaba Partnership (the “Partnership”) is at the heart of our company culture and identity. Currently comprised of 36 senior management leaders who oversee the various aspects of the Alibaba Digital Economy, the Partnership has had a clear purpose since it was formed in 2010: to sustain the culture of the founders of Alibaba in order to ensure that we stay on course in defining and executing our mission, vision and values.

HOW THE ALIBABA PARTNERSHIP OPERATES

Living Body: The Alibaba Partnership is a dynamic group of people that operates as a living body, adding new blood through the admission of new partners each year. Partners are required to retire from the Partnership if they are no longer contributing to the work of growing the Alibaba Digital Economy. Since its founding, the Partnership has expanded from the admission of new partners each year; currently there are 36 members of the Partnership.

Partnership Charter: The Partnership is governed by a Partnership agreement (the “Partnership Charter”) and operates under principles, policies and procedures that have evolved with our business. The key provisions of the Partnership Charter address, among other things, the criteria and duties of the partners, their right to vote on matters of importance to the Partnership, and meeting quorum and voting procedures.

Admission of New Partners: The most important element of the Partnership is the annual process of selecting and admitting new partners to the Partnership. New partner candidates are selected on the criteria of

- personal character;
- impact on our business;
- demonstrated ability to live and evangelize our culture; and
- at least five years tenure of service to the Alibaba Digital Economy.

Admission of new partners requires the approval of at least 75% of all partners.

Collective Decision-Making: All Partnership votes are made on a one-partner-one-vote basis. Each partner has a vote equal to that of any other partner on matters that come to the Partnership for decision: election of new partners, expulsion of partners, selection of Partnership-nominated board members to Alibaba Group, and amendment of the Partnership Charter, to name a few.

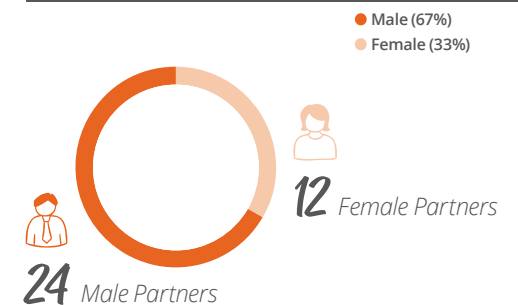
Stock Ownership: Another important element of the Partnership is that each partner has share ownership in Alibaba Group that is substantial relative to their net worth. The average partner has no less than a majority of their net worth in the shares

of Alibaba Group. Newly admitted partners are awarded shares in the Alibaba Group that vest over 10 years, and each partner must retain a significant level of share ownership that aligns the partners’ interests with the stockholders of the company.

Diversity and Experience: Of the 36 current partners of the Partnership, 12 partners (33%) are women, and 32 of the partners (89%) have been employed within the Alibaba Digital Economy for more than 10 years.

ALIBABA PARTNERSHIP COMPOSITION

By Gender



The Role of the Alibaba Partnership *continued*

BOARD COMPOSITION

Based on our articles of association, the Alibaba Partnership has the right to nominate a majority of the board of directors of Alibaba Group, although the Partnership may choose not to fully exercise that right. Board candidates nominated by the Partnership, as well as independent directors recommended by the board's nominating and corporate governance committee, are elected to the board by the majority vote of all of Alibaba Group's shareholders.

Currently, five of the eleven board members (Jack Ma, Joe Tsai, Daniel Zhang, Eric Jing and Michael Evans) are nominated by the Partnership, five of the board members (C.H. Tung, Walter Kwauk, Jerry Yang, Börje Ekholm and Wan Ling Martello) are independent directors nominated by the Board's nominating and corporate governance committee, and one director (Masayoshi Son) is nominated by SoftBank Group which has been a long-term investor in Alibaba Group since 2000.

HUMAN CAPITAL MANAGEMENT AND LEADERSHIP SUCCESSION

One of the most important roles of public company boards is the selection and appointment of their company's senior leadership, in particular the chairman and chief executive officer. Through Partnership-nominated directors, the Partnership plays a crucial role in advising our Board in developing senior management talent from within and planning for leadership succession. This process reduces the risk of leaving succession management to chance.

The continuous cultivation and annual selection process of admitting new partners into the Partnership is the vehicle for us to identify talented individuals throughout our organization who exemplify our culture and embody the required leadership traits we look for in managing our business. These leadership traits include:

- integrity,
- intellect,
- emotional intelligence,
- ethical conduct,

- energy,
- ability to influence,
- strategic mindset,
- open-mindedness,
- resilience,
- self-awareness, and
- humility.

We expect that partners fulfill their responsibility as culture carriers and demonstrate the ability to evangelize our mission, vision and values to our customers, employees, shareholders and other stakeholders. Partners must continuously serve in the businesses of the Alibaba Digital Economy and have a track record of contribution, performance and positive impact to our business.

Because each partner has been carefully selected through the partner development and admission process with a focus on leadership and cultural traits in addition to proven performance and management ability, the pool of partners provides the primary source of talent for our leadership.

As in the case of other public companies, our board determines leadership succession at the highest level by selecting and appointing our chairman and chief executive officer. On leadership succession, board members nominated by the Partnership fulfil their directorship duties by counseling and offering their knowledge about potential internal senior candidates to the independent directors.

Because Partnership-nominated directors are familiar with the company's senior leaders through the talent development process as partners, our board is afforded a much more complete and transparent view of the company's human capital and leadership succession alternatives when the critical time comes for senior management transition.

The Role of the Alibaba Partnership *continued*

ETHICAL CONDUCT

The Alibaba Partnership is the steward of our company's conscience. Partners are expected to not only conduct themselves with integrity but also to monitor the ethical conduct of all of our employees as well as their business practices. Through the established procedure of expulsion (via the vote of over 50% of the partners), the Partnership may expel partners who do not fulfil expectations on integrity and ethical conduct or repeatedly breach our stated values.

Partners have a duty to set the tone at the top. Through day-to-day management of businesses within the Alibaba Digital Economy, they are expected to communicate the values of the company to employees through actions and various interactions with employees such as meetings, speeches and group discussions. Among the values we have identified as important to sustainability, we especially emphasize "customer first" and "integrity" as the core values that guide our ethical conduct.

Our customer-first mentality ensures that we put serving those who give us our *raison d'être* as the highest priority. We believe that if we adhere to the principle of doing right by our customers, our employees will make the right judgment and do the right thing when the interests of our customers conflict with

the short-term profit motive. We believe that if our customers are well-served by our employees, then our shareholders will benefit from the resulting value creation.

Integrity is at the center of how we expect the partners in the Partnership to demonstrate leadership. Specifically, in management and leadership positions, partners are expected to walk the talk, approach issues with honesty and openness, own their mistakes and honor commitments.

We believe that the expectations we put on the partners who lead our businesses will influence our entire workforce by setting the right tone at the top.

SOCIAL RESPONSIBILITY

Partners in the Alibaba Partnership are expected to make personal contribution of time and financial resources to solving social problems that require long-term investment and therefore do not receive the attention of the commercial sector.

Partners have established individual and joint foundations to carry out their philanthropic activities. Some of the focus areas include education, eradication of poverty, environmental improvements, and economic and social mobility for women.

Worthy of note are the Jack Ma Foundation, which focuses on rural education, poverty and entrepreneurship, and Lakeside Modou Foundation, a foundation collectively established by the 12 women partners in the Partnership to provide care and a better future to women and children in rural and underdeveloped areas of China.

The partners believe that philanthropy must be sustainable, which means that their initiatives should inspire others to action and leverage all available societal resources beyond their own. For example, when the Jack Ma Foundation initiated a program to improve education for children in poverty stricken areas, the Foundation created an annual prize to select and award 100 model rural teachers and recruited international architects to help design dormitories featuring clean sanitary conditions and caring community spaces for school children on a *pro bono* basis.

In summary

We believe our Partnership system is a strong positive feature of our corporate governance framework in the following ways:

- The high standards of personal character and ethical conduct required of partners ensure that we set the right tone at the top;
- Unlike companies controlled by their founders with a dual-class voting structure, Alibaba Group is not susceptible to the same kind of key man risk and vagaries of a single controlling shareholder;
- The Partnership assists our board in human capital management and leadership succession, especially the selection of the company's chairman and chief executive officer;
- The collective decision-making process of the Partnership ensures that matters that come up for decision have been carefully debated and deliberated, and that no single individual controls key Partnership decisions; and
- The system of admitting new partners and retiring old partners represents a continuous process of invigoration to ensure excellence of our management team, continuing innovation and sustainability of our business.

The Role of the Board and Board Committees

The Alibaba board is responsible for the long-term success of the company through nominating independent directors, selecting the chairman and chief executive officer, monitoring strategy and management execution, setting senior management compensation, and providing oversight to the company's financial reporting, internal control systems, business conduct and code of ethics.

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. All members of our audit committee are independent directors. A majority of the members of our compensation committee and nominating and corporate governance committee are independent directors.

Brief descriptions of these committees follow, and more detail can be found in our annual report on Form 20-F.

Audit Committee

The Audit Committee oversees our accounting and financial reporting processes and the audits of our financial statements; selects, evaluates and supervises our independent auditor; oversees our internal accounting controls and audit procedures; reviews and approves related party transactions; oversees procedures for employee complaints and concerns; and reports regularly to the full board of directors. The Audit Committee is chaired by Walter Kwauk, an independent director with 25 years of senior leadership experience in the audit industry with KPMG.

We maintain a Related Party Transaction Policy that stipulates that, unless otherwise pre-approved by our board of directors, all related party transactions, including transactions involving directors, officers, and other members of senior management, must be approved or ratified by the Audit Committee.

We have an internal audit department of 29 employees and our head of internal audit reports directly to the Audit Committee. The internal audit function conducts independent and continuous testing of the integrity and robustness of our financial reporting, operational system controls, IT general controls and design of key policies and procedures. Our internal audit staff meets as frequently as twice a month with the chair of the Audit Committee and quarterly with other members of the Audit Committee to review their work.

Compensation Committee

The Compensation Committee oversees our compensation policies; reviews the performance of our directors and executive officers; determines the compensation to our executive officers, approves the aggregate bonus pool allocated to the partners of the Alibaba Partnership who are our employees; and monitors policies and magnitude of equity incentives to our employees as a whole. The compensation committee is chaired by independent director Jerry Yang, co-founder and former chief executive officer of Yahoo! Inc.

Nominating and Corporate Governance Committee

The Nomination and Corporate Governance Committee recommends independent director nominees; reviews board composition with regards to characteristics such as independence, knowledge, skills, experience and diversity; advises the board on corporate governance and compliance matters. The nominating and governance committee is chaired by our board chairman Jack Ma.

Related Party Transactions

“Related party transaction” is both a legal and ethical concept. Certain legal definitions of transactions between “related parties” do not create a conflict of interest between the company’s management, directors or major shareholders and the interests of its independent shareholders.

For example, a commercial contract between Alibaba Group and a company in which Alibaba Group is a 30% shareholder is by definition a “related party transaction” under the U.S. securities rules governing foreign private issuers and the analysis our board must make to ensure the fair and arms-length nature of the transaction is no different from the analysis that one would apply to transactions between unrelated parties.

On the other hand, transactions between the company and a director, officer or major shareholder could potentially raise the issue of conflict of interest that requires stricter scrutiny by our board and its audit committee. It is with this philosophy in mind – knowing the distinction between technical related party transactions and transactions that give rise to apparent or actual conflict – that we created the governance framework for the board and our management to evaluate and approve related party transactions.

One particularly significant instance of high standards of scrutiny is our agreement announced earlier this year for Alibaba Group to terminate a profit interest, and instead acquire a 33% equity stake in, Ant Financial and ancillary transactions. Because Ant Financial is a company in which the partners of Alibaba Partnership and the employees of Alibaba Group have significant equity shareholding, the transactions went through a rigorous process of evaluation and scrutiny by our board. The transactions were carefully reviewed and approved by a committee comprised of only independent directors and the non-executive director appointed by SoftBank Group. The committee was advised by independent legal and financial advisors. In addition, the Audit Committee of the board, comprised of only independent directors, reviewed and approved the transaction.



For more information on how we handle related party transactions see our annual report on Form 20-F.

Asset Ownership in Compliance with Regulations

In order to comply with relevant laws, rules and regulations in China governing foreign investment in certain types of internet businesses, we use a corporate structure similar to that adopted by many peer companies in our industry.

Our Internet Content Provider Licenses required to operate certain internet businesses in China are held by entities whose direct or indirect owners are Chinese nationals that are either founders or employees of Alibaba or members of the Alibaba Partnership.

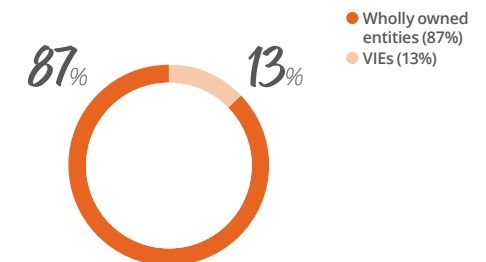
Alibaba Group has entered into a series of agreements with such entities, that under accounting rules are referred to as “variable interest entities” or VIEs, and their Chinese national owners, such that Alibaba consolidates the VIEs on its financial statements because Alibaba, among other things, (i) bears the economic risk and benefits of the VIEs, (ii) through contracts such as technology and licensing agreements, is entitled to substantially all of the profits of the VIEs, (iii) has an exclusive option to acquire the shares or assets in such VIEs if permitted by law, and (iv) holds the voting proxy with respect to such VIEs.

We believe that we have structured our VIEs to be best-in-class from the point of view of financial integrity, economic participation, asset security and control over free cash flow of the business. As of the end of Fiscal 2018 (March year-end), assets in the VIEs in aggregate do not exceed 8% of the total assets of Alibaba Group, and the VIEs generated approximately 13% of consolidated group revenues and less than 5% in consolidated operating cash flows

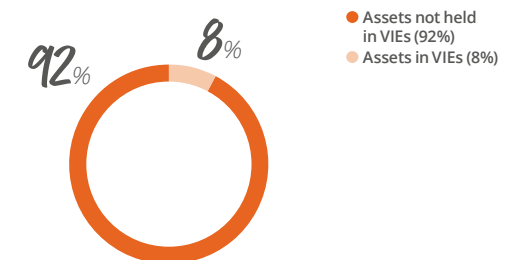
during the then-ended fiscal year. In other words, the vast majority of Alibaba Group’s assets, revenues and cash flow belong to wholly owned entities of Alibaba Group in which we have sole legal title and control. In addition, most of the critical assets of our business, such as user data, customer contracts, intellectual property, technology infrastructure and software source code are held in controlled or wholly-owned subsidiaries of Alibaba Group.

Subject to foreign currency regulations in China, our shareholders have direct access to substantial cash flows generated by Alibaba Group’s businesses because much of our assets and business activities that generate cash flow are owned by or conducted through subsidiaries that are controlled or wholly owned by Alibaba Group. Access to cash flow is a key feature that rating agencies take into consideration when assigning a credit rating. Alibaba Group has the best credit rating (A1 by Moody’s/A+ by S&P/A+ by Fitch) among all private Asian corporate issuers.

MINIMAL REVENUES FROM VIES



MINIMAL ASSETS IN VIES



Supportive Governance Mechanisms

As outlined in our corporate governance policies:

- 1** We encourage shareholders to engage with us and make their views known to the board or to the independent directors as a group, especially at the time of our annual general meeting and by writing to our Company Secretary.
- 2** Our independent directors have the chance to meet in executive session with no management members present at all regularly scheduled board meetings.
- 3** Our Integrity Compliance Department has the power to conduct investigations of any suspected non-compliance with the law or our Code of Ethics, and has authority over all directors, officers and employees. We conduct mandatory annual training to help prevent violations, and we are transparent about violations that have occurred.

Read more



CORPORATE GOVERNANCE GUIDELINES

For more information, [click here](#)



CODE OF ETHICS

For more information, [click here](#)