

# Chairman and CEO's Letter to Shareholders

Dear Shareholders,

Every year, I look forward to this opportunity to share my thoughts with you. The ever-changing environment globally and in China has forced us to address many “questions of our times” over the past year. I know Alibaba’s decisions and development in the future is on top of mind for everyone, and I want to express my heartfelt appreciation for your continued support and confidence in Alibaba.

Over the past year, we were deeply impacted by the tremendous uncertainties brought about by the capricious nature of the COVID-19 pandemic, the new expectations of the Internet sector in China, and high frequency of international geopolitical conflicts. This may be the year in which changes in the external environment has been most severe in decades. In response to these big and impactful changes, our guiding principle has been “be confident, be flexible and be ourselves.”

**“Be confident”** means being confident in the development of the China economy, being confident in the future of the digital economy, and being confident in people’s pursuit of a better life. As long as these macro trends are clear and definite, then we are confident that Alibaba has a solid foundation for its existence and growth, and that we can make a meaningful contribution to society.

**“Be flexible”** means actively adapting to the changes in the environment by examining Alibaba objectively through the lens of socioeconomic developments and truly understanding the expectations that society has of Alibaba. We need to find Alibaba’s path within the context of the major trends of society’s development and macro-economic cycle.

**“Be ourselves”** means focusing on our core strategy and continually raising the bar on our capability to create value for customers and society. We need to improve our relationship and dialogue with society, and address uncertainty in the external environment with the certainty that we create through our own efforts.

## Clarification and progress of our three major strategies

Despite the challenges, Alibaba delivered a stable and rewarding year. In early 2022, we have further clarified our commitment to the three major strategies - consumption, cloud computing, and globalization – as the immovable pillars guiding Alibaba’s future.

During this past fiscal year, we achieved our stated goal of serving more than 1 billion annual active consumers in China. This is a milestone in the development of Alibaba. This means that our platform not only has the most expansive and most valuable consumer group in China, but we have also gradually built a comprehensive matrix of retail formats that offer distinctive value propositions. Over the past fiscal year, there were more than 124 million consumers on Taobao and Tmall with annual ARPU exceeding RMB10,000 with 98% continuing to be active year-over-year. And among the over 300 million annual active consumers on Taobao Deal, 20% had never shopped on Taobao or Tmall previously. Among Taocaicai’s annual active consumers this fiscal year, more than 50% are purchasing fresh groceries on the Alibaba platform for the first time. We believe that these two businesses will make greater contributions in the future to our overall retail matrix. We remain more committed than ever to creating value for customers, focusing on the user experience, and generating diversified growth through a matrix design and serving a variety of needs of different cohorts in differentiated

retail scenarios with the goal of increasing total wallet share of our 1 billion annual active consumers.

At the same time, following many years of development, we have gradually established a distributed logistics network that covers delivery demands for local (near), intermediate, and far distances. Our comprehensive logistics network has been invaluable during special situations like COVID: from the partnership-driven national express delivery established in the early years to the gradual expansion into regional and local delivery; from far distance delivery to local (near) distance appointment-based delivery, same-day delivery and next-day delivery; and to the intra-city logistics and real-time logistics fulfilment network that has been built and scaled in recent years. Alongside the continued development of its logistics infrastructure, Cainiao has also been continuously strengthening its customer service capabilities. This fiscal year, 69% of Cainiao's total revenue came from external customers, and the daily cross-border and overseas packages processed by Cainiao have exceeded 4.5 million.

We are in the process of moving deeper into the industrial Internet sector from the consumer Internet sector, and are working hard to enhance their integration. This past year, Alibaba Cloud maintained its leading position in the Chinese market and realized full-year profitability for the first time since Alibaba Cloud's establishment 13 years ago. Since the first day our cloud computing was established, we have believed in its massive and universal value proposition, so we have been incredibly determined to focus our technology strategy around cloud computing. Today, cloud computing has become essential to the increasing adoption of the industrial Internet and as society is becoming smart and digitalized. By 2025, the size of China's cloud computing market is expected to reach RMB1 trillion, which is three times the size of the current market and speaks to the massive market potential. To capture this historical opportunity where every sector and industry is going digital, we need to continue to build our technology and product capabilities, and fully integrate the basic infrastructure of cloud computing with big data and artificial intelligence. We need to go deep into every industry and offer unique solutions. DingTalk's development has allowed us to have an even more unique entry point to the industrial Internet. Through integrated DingTalk and Cloud strategy, we can help more enterprises advance from the digitization of organizations and offices towards broader business and operations digitization. This will result in widespread use of cloud computing and big data analytics in various scenarios and needs. Over the years, we have been unwavering in our commitment to growing together with our customers, there are more than 4 million paying customers, which include more than 60% of the A-share listed companies in China. We will continue to plant seeds in sunrise industries and customers that represent the future, and together drive the high-quality and sustainable development of our cloud computing business.

The direction of our globalization is very clear. We are focused on exploring consumption sector opportunities and cloud computing. Another way to understand our three business strategies is "two verticals and one horizontal." Today, Alibaba has multiple consumer-facing brands in many regions and countries around the world, which include AliExpress, Lazada, Trendyol, and Daraz. In overseas markets, we have more than 300 million annual active consumers. For cloud computing, Alibaba is offering services in 27 regions worldwide. We believe that we must compete in the international market in order to demonstrate Alibaba's excellence in the field of cloud computing. Alibaba Group is the world's third largest and Asia Pacific's largest infrastructure-as-a-service provider by revenue in 2021 in U.S. dollars, according to Gartner's April 2022 report.<sup>1</sup> In the 2021 Gartner Solution Scorecard for integrated IaaS and PaaS, Alibaba Cloud achieved a score of 81 out of 100. We believe Alibaba Cloud was ranked first in the world and achieved the highest scores in the four core

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<sup>1</sup> Source: Gartner, Market Share: IT Services, 2021, Neha Sethi et al., April 8, 2022 (Asia Pacific refers to Mature Asia/Pacific, Greater China, Emerging Asia/Pacific and Japan, and market share refers to that of infrastructure-as-a-service)

evaluations of computing, storage, network, and security, when compared with other global cloud service providers.

### **Proactively Seek Change, Create the Future**

There is a saying that people often overestimate the change in one year and underestimate the change over five or ten years. I believe that, in addition to the changes in our businesses, the series of changes we made on our organization and culture over the past year will together be the opening act of Alibaba's future development. We must evolve faster than the times, and be adamant in improving ourselves. We must be faster in translating consensus into action. Even if these changes need longer time frame to realize, we believe that we are on the correct path.

We boldly experimented with a new management responsibility system under our multi-governance structure. Since its establishment 23 years ago, Alibaba has evolved into an enterprise company driven by multiple business engines. Our various businesses are in different industries, in different life cycles and face different opportunities and challenges. This means that they each need more independent business strategy and management understanding, and can rapidly make appropriate judgement and decisions in response to shifting market demands. We also must be conscious of the unpredictable nature of a market in a volatile environment. We must make the organization more agile and flexible, and allow every unit in the organization to learn quickly and act proactively, thereby ensuring Alibaba's future is propelled forward by the different business engines collectively.

We also laid out clear management principles that will guide our development – “capacity building, value creation.” One of Alibaba's core values is customer first, and in order to realize this goal of customer first, we must be able to continually create new value for our customers. This is a new demand on our capabilities. In a highly competitive market, it is like sailing against the current. If you don't advance, you are retreating. We believe that taking a long-term approach without capability accumulation is essentially empty promises, and businesses that cannot create value cannot grow in a healthy and sustainable fashion. If the COVID-19 pandemic was a touchstone, it made us realize that our accumulated capabilities and efforts can contribute some color to people's lives and provide some support to the normal operations of cities, businesses and schools. There are many real, concrete yet subtle threads of connection between us, communities, micro businesses and the self-employed. It allows us to examine and improve our capabilities continually. Only through leveraging our abilities to do more can we live up to the expectations of society. To better realize our desire for “capacity building and value creation,” we have also implemented OKRs widely across the company. This pushes us towards sharing “the same desires from top to bottom and alignment between left and right” and evolving from purely quantitative-driven to more value-driven.

### **ESG serves as our strategic pillar for sustainable, high quality development**

During the Wuzhen Internet Conference last year, I formally announced ESG and Common Prosperity as the two key strategies of Alibaba's social responsibility. In December 2021, we published our Carbon Neutrality Action Report; this is an important milestone in Alibaba's development. We aim to achieve carbon neutrality in our own operations by 2030; reduce carbon emission intensity by 50% through collaboration with upstream and downstream partners on our value chain by 2030; take the lead in achieving carbon neutrality in our cloud computing, and become a green cloud; leverage the power of our platform to facilitate a reduction of 1.5 gigatons of carbon emissions in 15 years. These are ambitious goals and also a very serious commitment. At the same time, we hope these goals will mobilize us to proactively seek change and drive innovation or even opportunities for disruption of existing businesses in our pursuit of sustainable development. We believe sustainability goals will profoundly transform all industries, so we must look even sooner and further into the future.

Social responsibility is deeply embedded into Alibaba DNA. As a platform we innately facilitate social interactions, and the extensive cooperation amongst the many types of participants on our platform has not only brought about innovation and the emergence of new types of businesses, it has also created massive employment opportunities. Despite the tremendous uncertainty brought about by the pandemic and other reasons, we expect to have over 5,800 fresh college graduates joining Alibaba this year.<sup>2</sup> In 2021, alongside China's historic achievement of comprehensive poverty alleviation, we upgraded the Alibaba Poverty Alleviation Fund into a Rural Revitalization Fund. We supported rural revitalization through the three dimensions of industrial revitalization, talent revitalization and technology revitalization. We also put forth ten key initiatives in the latter half of last year. Through the mobilization of multiple businesses and long-term planning, we aim to implement our initiatives steadily and step-by-step taking into consideration both commercial value and social value. We will start in Zhejiang, focusing on technological innovation, economic development, job creation and care for vulnerable populations. Whether it is the flood in Henan or the pandemic in Shanghai, we have done everything we can to contribute to support the needs of people's lives through the commercial infrastructure and capabilities that we have accumulated over the years.

Over the past year, we have also worked to improve our corporate governance. We are committed to providing our employees with a nurturing work environment that supports personal growth and has a lot of vitality. More and more employees are enjoying new company benefits such as family care leave, flexible working arrangements, and interest-free home loans with lower thresholds. We believe that our employees are the drivers of the company's growth and we always aim to do more for our employees.

All in all, Alibaba is committed to a path of sustainable and high-quality development. You will soon see the ESG Annual Report that we are about to publish, where we will share much more about our progress in environmental protection, social responsibility and corporate governance.

Looking back on the past 23 years, Alibaba has been at the forefront of the development of an era. Alibaba has been creating and capturing opportunities presented by the digital economy era and China's rapid growth. Alibaba's past is intimately related to the development of China, and Alibaba's future path will continue to be highly aligned with China's economic growth and social development – whether it is technological innovation, creating a better life, pursuit of high-quality development, or enhancing international competitiveness. We hope that more inventions and creations will continue to be born at Alibaba that can serve the interests of our collective society.

The world will keep changing, but value is eternal. The more uncertain the era, the more we need to proactively seek valuable change. This is my 15th year in the company, and together with everyone, I hope we continue to charter Alibaba through even more positive changes in the future.

Daniel Zhang  
Chairman and Chief Executive Officer  
Alibaba Group

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<sup>2</sup> According to the number of offer letters that Alibaba Group's core businesses released.