



**AUTOMOTIVE NEWS WORLD CONGRESS**

January, 2009

# Do You Remember Your First New Car?



# An Unattainable Dream Within Reach

## Accomplishment

- “I never thought I would own a new car in my lifetime”
- “It’s a personal accomplishment I can share with my family”
- “I have arrived”

## Security and Convenience for the Family

- “I can protect those who are important to me”
- “Gives me confidence that I can care for my family”
- “Now I don’t have to take the kids to school in middle of the night”

## Freedom

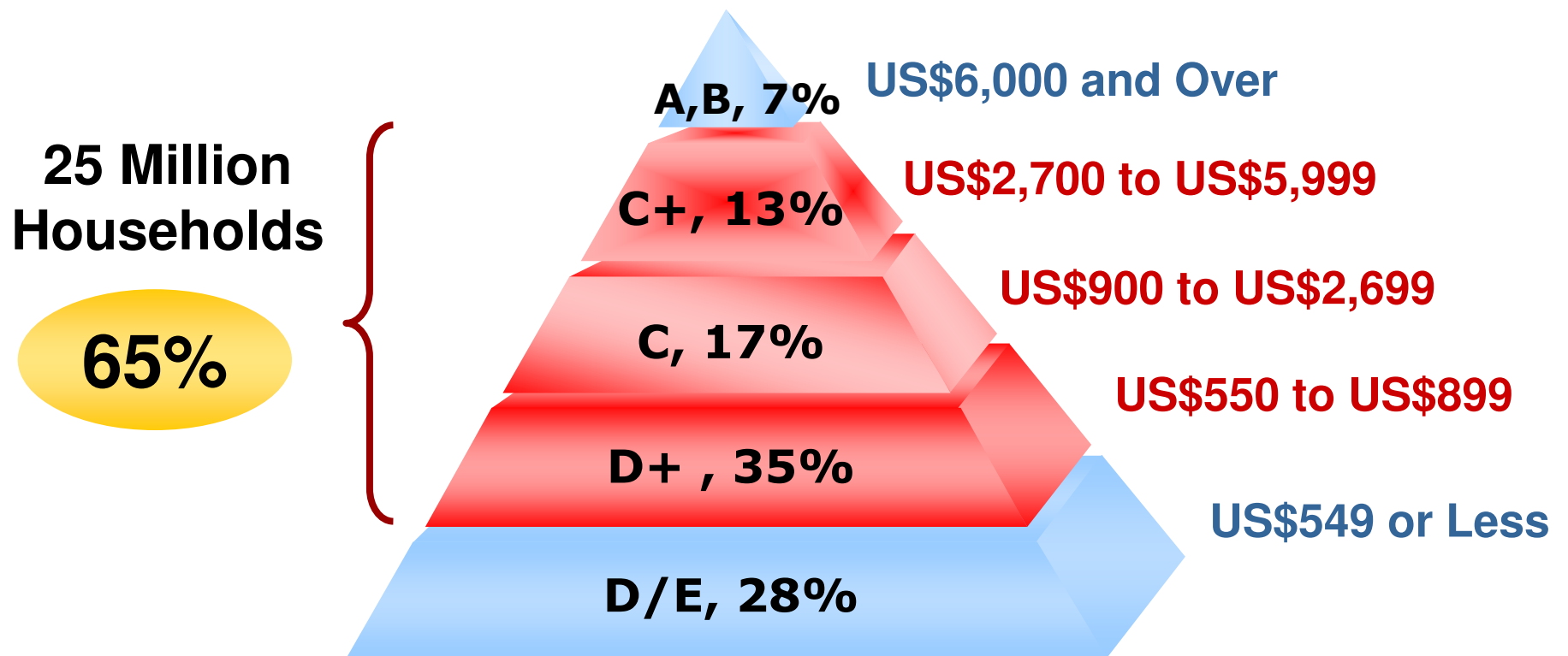
- “I can go where I want, when I want”
- “No more peseros.....yeah!!”



# What is the Market Opportunity?

**México: Target Market Segment C to D**

**Monthly Income**





## What is Innovative About This Venture?

- One of several global efforts to provide affordable, accessible transportation to the lower and emerging middle classes of the developing world
- Grupo Salinas and FAW: Unique combination of retail/banking powerhouse and a Chinese automaker (low-cost engineering and manufacturing)
- First volume launch of Chinese vehicles in North America
- Developing a hub-and-spoke retail model with agencies supporting regional Elektra stores as part of a total system
  - FAW Agencies: Intensive brand/product experience; inventory management; after-sales support
  - Elektra Stores: Relationship-intensive experience of buying from neighborhood retail store who has known them for years



## So...Who is Grupo Salinas?

Leading specialty retailer, banking and financial services company in Mexico and Latin America

Unique business model that combines specialty retail with financial services, through an unparalleled knowledge of the market

Operates approximately 1,000 stores and more than 1,500 banking and financial services branches in six countries in Latin America

Serves a demographic that has always been ignored by other banks. We are doing what no other financial institution has done: tap the underserved market

We are celebrating 100 years of existence. We are committed to increase the purchasing power and to improve the quality of life of families through access to high-quality products and services





# Grupo Salinas: Broad Based Conglomerate



## Retail / Financial



Grupo Elektra



**BANCO AZTECA®**  
ve por tu futuro



**Seguros Azteca**  
Tu Futuro Seguro



## Media



TV AZTECA



AZTECA AMERICA



Por un México LIBRE

## Telecommunications



*Pensamos en ti*



## Transport



Motorcycles



GS  
Distribution

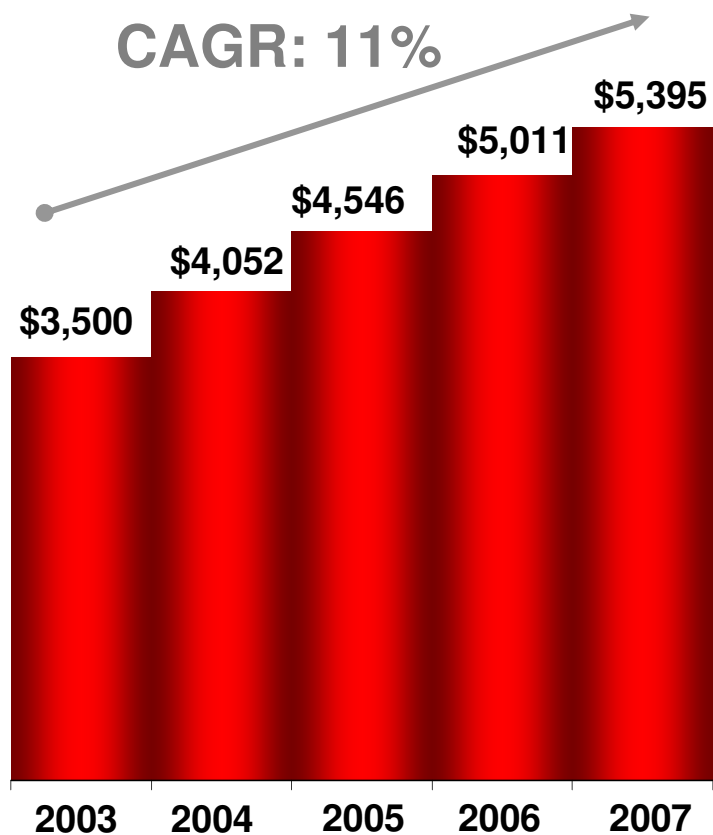


Automobile  
Assembly

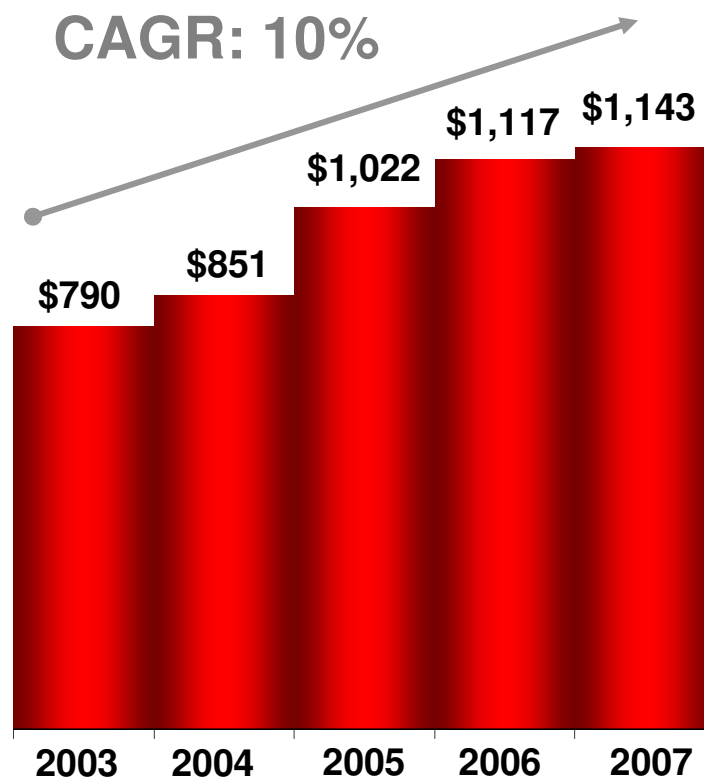


# Solid Financial Performance

## SALES



## EBITDA



Combined sales and EBITDA of Grupo Elektra, TV Azteca and Grupo Iusacell  
Millions of US\$, converted from constant Ps. as of December 31, 2007



## Tires: The Beginning in Transport

- Wal-Mart and Costco are the Mexican market leaders in tire distribution so expanding Elektra's merchandise line was natural
- Top brand tires (Michelin and Bridgestone) were offered as bundles including installation, balancing and a Total Warranty guarantee to change the tire in the first year no questions asked
- Accessible credit packages allowed Elektra customers to shift from buying used tires or cheap new tires with poor performance
  - 1 Tire \$50 pesos per week
  - 4 tires \$150 pesos per week
- Sales surged to over 200K the first year
- Elektra now #3 after only 3 years compared to Wal-Mart and Costco's ten years in the business



# Motorcycles: Second Step in Transport

## Freedom & Mobility



**ITALIKA**  
MOTOCICLETAS

## Productivity



## Security

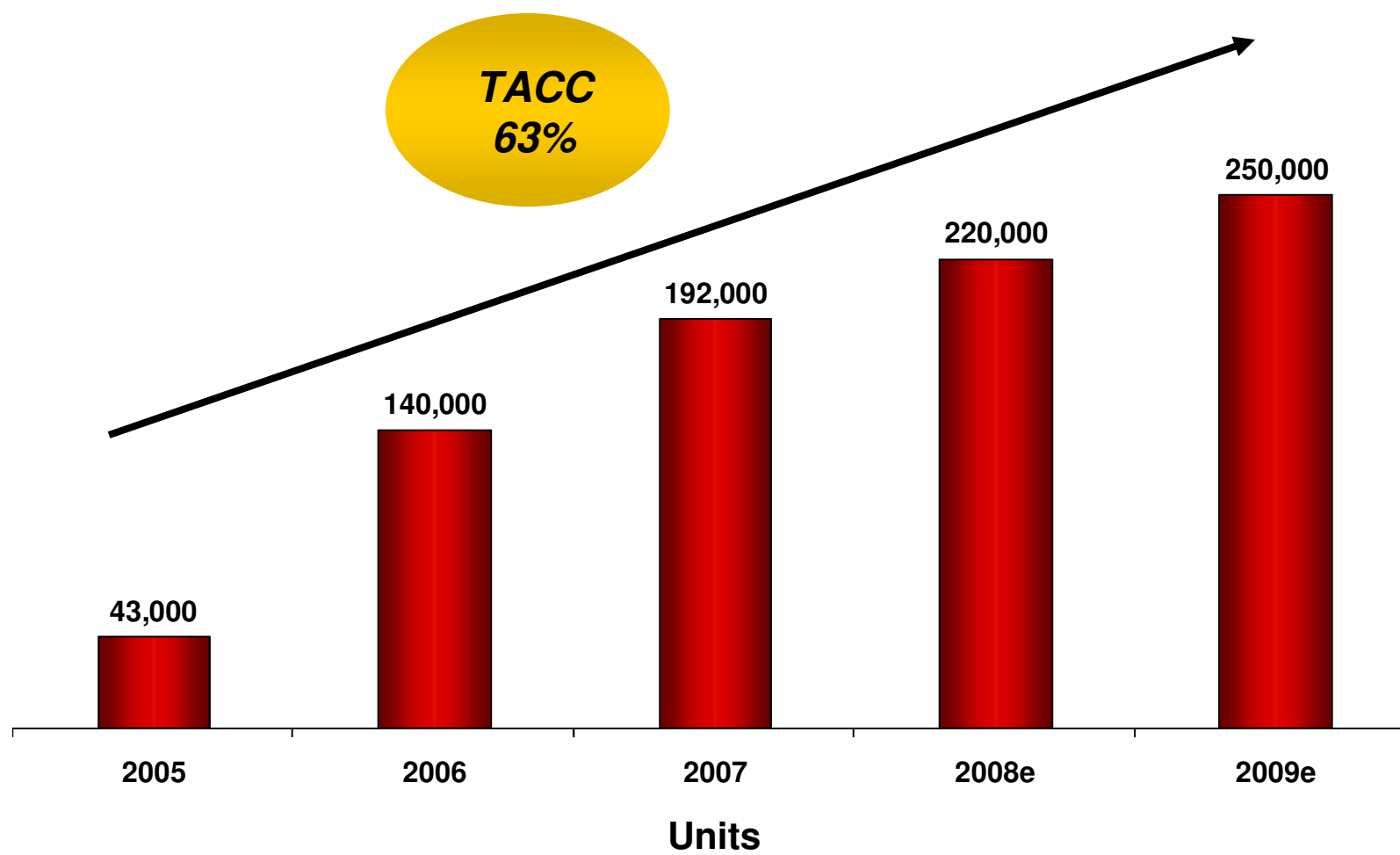


***“Why pay for public transportation when you could use your own vehicle?”***

- Recognized a “market hole” between high-end U.S. / Japanese bikes and very low cost, low quality imports
- Created an appealing, desirable brand, “Italika”, owned by Grupo Salinas
- Negotiated a supply contract with Chinese bike manufacturer, Loncin
- Provide an accessible complete package with financing and customer service

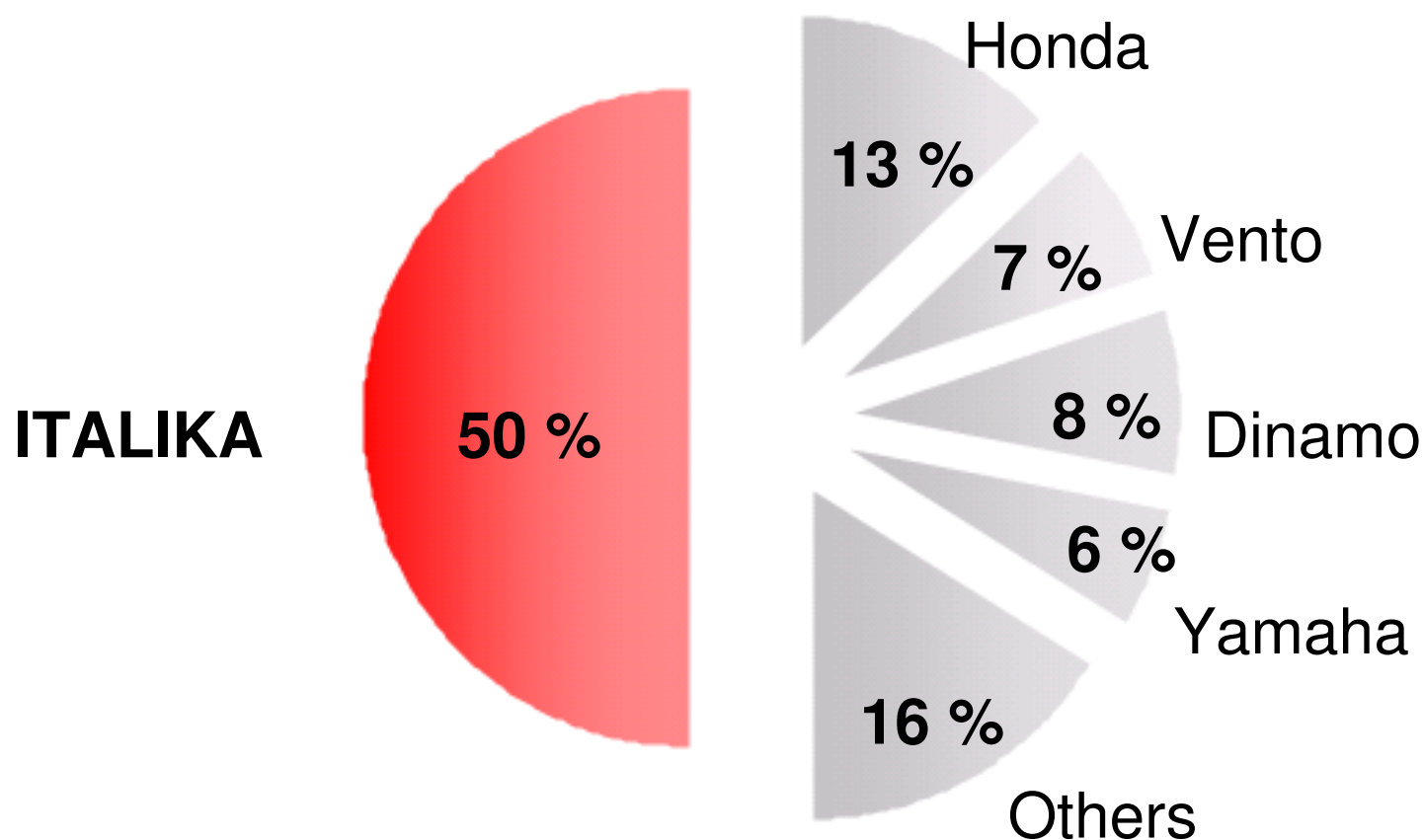


**From 0 to 600,000 motorcycles sold in only 4 years**





## Italika Dominates the Market in Three Years



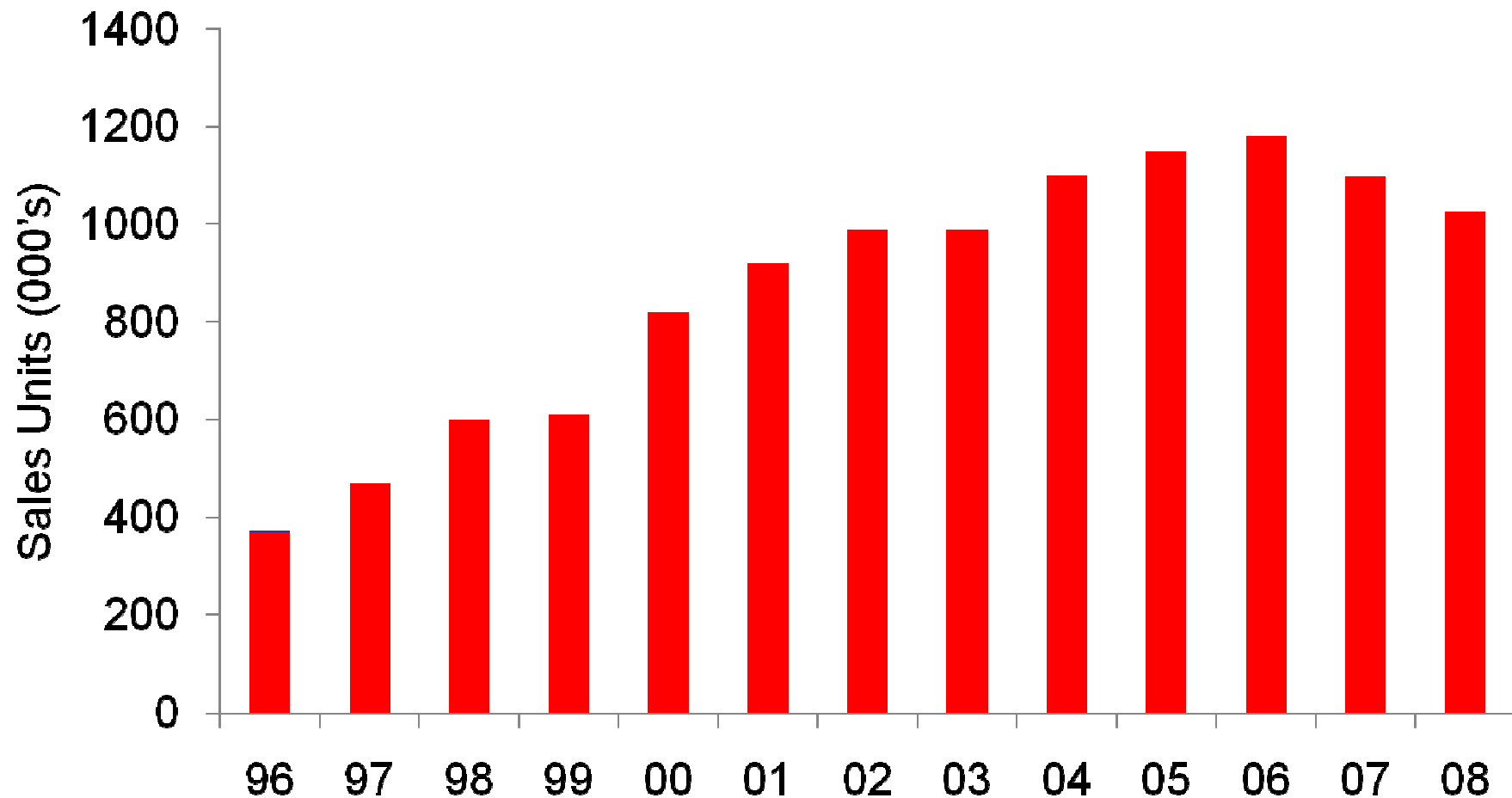
**México Market Share**

## Manufacturing: Long-Term Commitment

- Itálíka assembles bikes in Toluca
- Production capacity: 250,000 units
- 500 Direct Employees and 2,200 Indirect Employees



### Mexico: New Vehicle Sales





# Mexico: A New Vehicle Fulfills a Dream

- Unsatisfied demand for new autos in Mexico
  - About 14M potential consumers
- Current vehicle options for many consumers
  - Public Transportation: Crowded, sometimes unsafe, no “investment” in owning your own vehicle
  - Previously-owned auto: Financing expensive; short warranties
  - Illegal import: Financing difficult or non-existent; no warranty; no permission to circulate in Mexico City; regulations may eventually be enforced
- A new automobile fulfills a dream most of these consumers previously believed unachievable
- But there are few financing choices for this segment of the market

## And.....the Problem with “Chocolates”

- Of our target market, *if* they own a car, almost 70% own a vehicle over 10 years old
- Major competition for new popular car segment is the importation of illegal autos or “chocolates”
  - About 1.2M per year ... exceeds annual new car sales
- Government enforcement of regulations very loose due to political implications
- But, illegal vehicles do not generate tax revenues, employment or investment for the country
- Pollution level of many of these autos is high
- Consumers need viable alternatives to replace the “chocolates”



# Why Autos in Grupo Salinas?

- **We know our customers needs and desires**
  - Over 100 years in the Mexican retail market
  - Long customer relationships with high repurchase loyalty
- **Elektra: a strong retail channel brand with extensive presence**
  - Income of US\$3.6 billion in 2007, and EBITDA of US\$581 million
  - More than 1,900 points of sale in eight countries in Latin America
  - High growth in the most profitable lines of the retail business
- **Banco Azteca: a strong retail bank**
  - 9 million credit accounts and 7 million deposit accounts
  - Assets to finance 100,000 automobile consumer loans per year
  - Unique model allows approving credit to target consumers
- **We have strong relations with the Mexican government**

## 2007

- Team formed to search for low-cost Asian automaker with right products, ample resources and aligned goals
- After an intensive investigation primarily in India and China, Grupo Salinas chose FAW as their auto partner
- GS Motors formed with two entities:
  - 100% owned Distribution Company
  - 70% / 30% manufacturing joint venture with FAW
- Zinapécuaro, Michoacán chosen for assembly plant location
  - Near large Pacific coast port of Lazaro Cardenas
  - In heart of central Mexico with majority of auto market, especially for sub-compacts
  - State has aggressive plans to build industrial base

- #1 auto company in China with more than 50 years of experience
- Sales of 1.43 million vehicles in 70 countries
- Alliances with Toyota, Mazda, VW / Audi in China
- Largest design center in China with more than 2000 engineers
- Full vehicle line from subcompacts to luxury to heavy trucks/buses
- FAW's goal: sell more than 3 million vehicles globally by 2012



## Global 500

### FORTUNE GLOBAL 500

- FAW: Well-funded, profitable, growing
- In 2007, FAW achieved sales of \$26.4B
- Ranked # 303 in “Fortune Global Top 500”
- Next step: Global expansion

Rank	Company	Revenues (\$ millions)	Profits (\$ millions)
301	Enterprise GP Holdings	26,714	109
302	Cosmo Oil	26,568	308
303	China FAW Group	26,391	660
304	Macy's	26,340	893
305	Delphi	26,160	-3,065

## GS Motors: Progress to Date

- Introduced three subcompact vehicle lines
- Over 4000 units sold
- Twenty six FAW locations constructed during 2008:
  - 20 full agencies (showroom + service center) with 4 more opening in 1Q09
  - 4 show rooms
  - 2 service centers
- More than 300 points of sale at Elektra Stores with car exhibition
- FAW presence in more than 11 Mexican states representing 58% of Mexico's population and 60% of automotive Mexican market





**FAW**

# F1 HatchBack

IDEAL PARA AHORRAR



- ✓ Base vehicle lowest entry price in the market at under \$5,500 USD
- ✓ Fun design
- ✓ Fuel efficient 3-cylinder engine
- ✓ Well-equipped with body color mirrors with indicators, electric windows, and aluminum wheels



**FAW**

# F5Sedán

TOMA EL CONTROL



- ✓Luxury and technology at a great price, still under \$9,000 USD
- ✓Safety equipped with ABS and a driver-side airbag
- ✓Good handling capabilities
- ✓Beginning to win acknowledgement in industry press reviews



# FAW Agencies: A Brand Experience



# FAW Agencies: Presence in Key Central Mexican States

San Luis Potosí

Querétaro

Puebla

Guanajuato

Jalisco

Veracruz

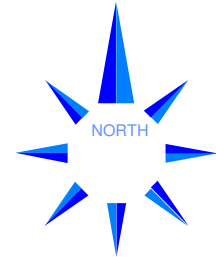
Michoacán

Estado de México

Distrito Federal

Morelos

Guerrero



**60% of Mexican Automotive Market**

# Hub & Spoke Retail Model: Agencies Support Regional Elektra Stores

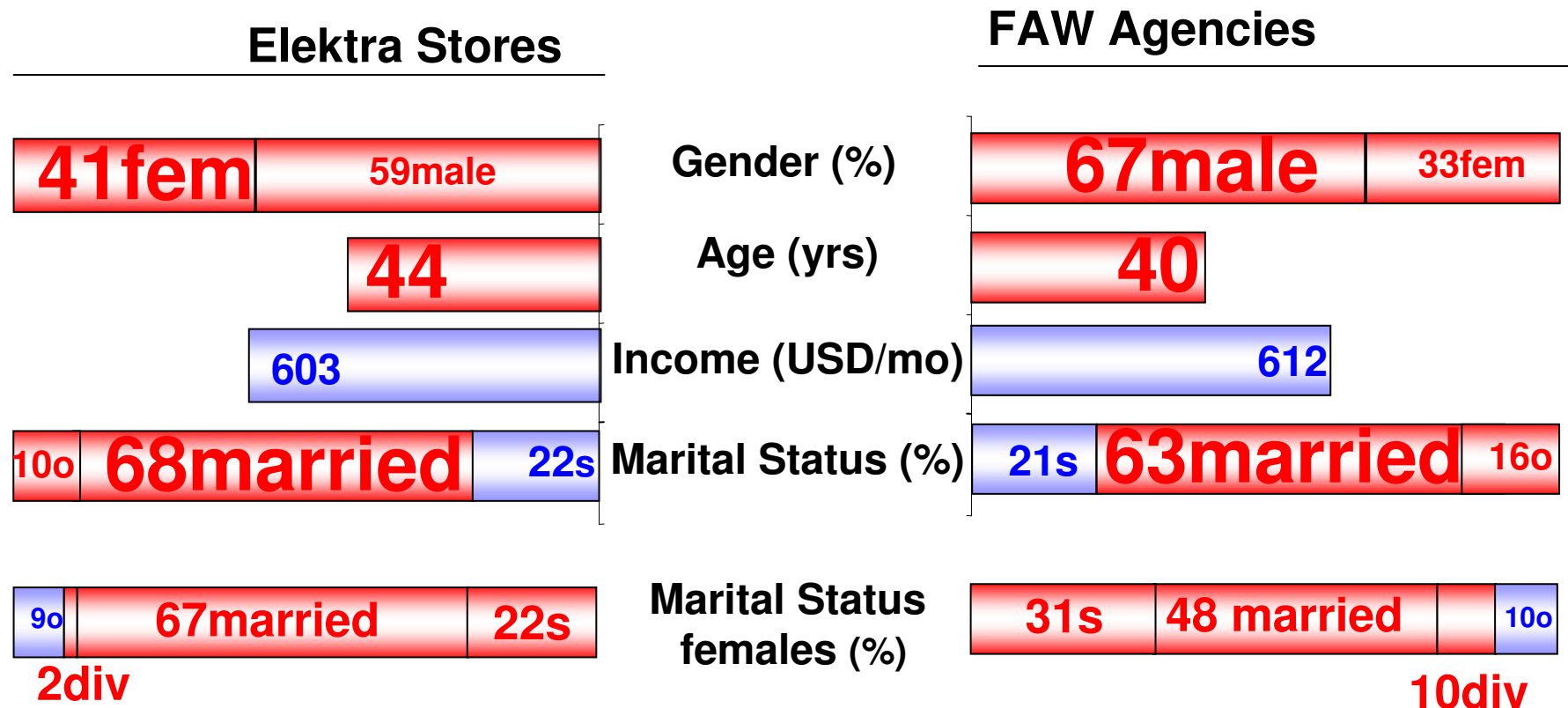


- ✓ Agencies are the heart of regional retail networks
- ✓ Agencies attract a different profile consumer, many new to Grupo Salinas
- ✓ Roughly half of sales are at Elektra stores where consumers have strong long-term relationships



# Channel Choices: Customer Demographics

**Females more comfortable purchasing an FAW in Elektra vs. males**  
**Younger customers and independent females prefer FAW Agencies**



# Grupo Salinas Expert in Much of Consumer Value Chain



**Financing**



**Retail**



**Seguros Azteca**  
Tu Futuro Seguro

**Insurance**



**Spare Parts**



**Satisfied Customers**



**Land Logistics**



**Service**



**Import / Export  
Sea Logistics**



# Manufacturing Required to Avoid Import Duties --- Crucial for Competitiveness



**Financing**



**Manufacturing**



**Land Logistics**



**Retail**



**Satisfied Customers**



**Service**



**Seguros Azteca**  
Tu Futuro Seguro

**Insurance**

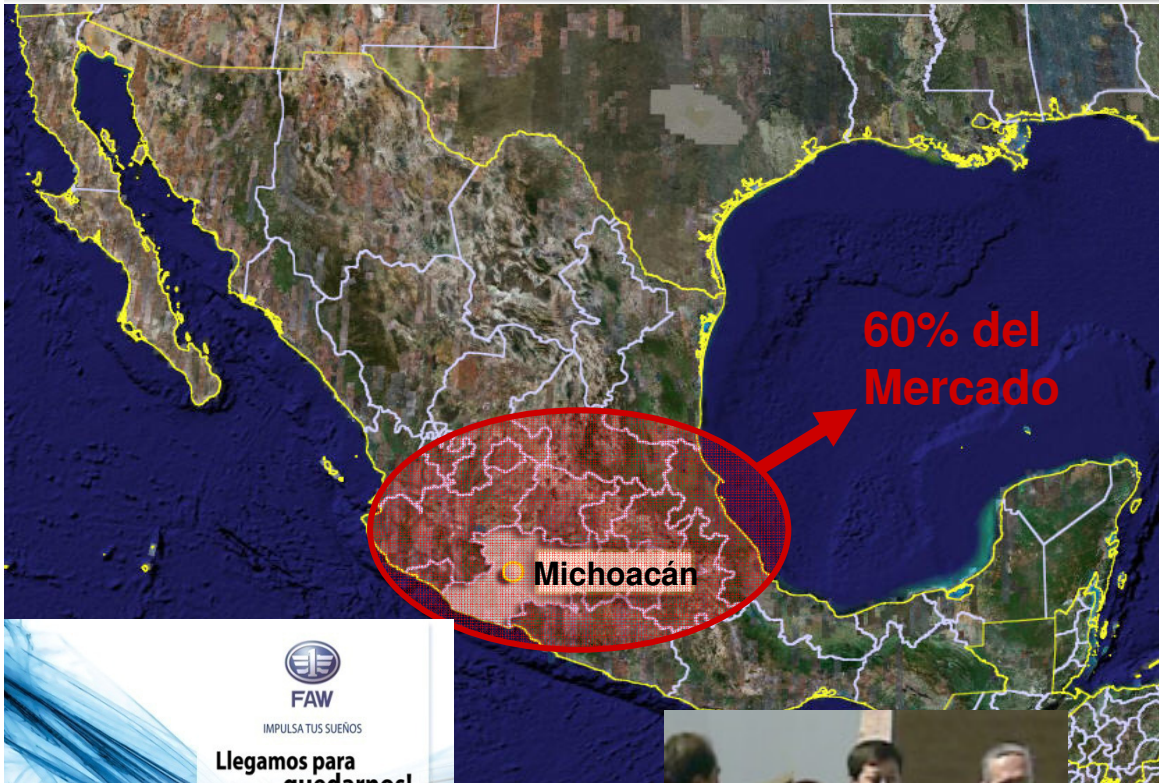


**Spare Parts**



**Import / Export  
Sea Logistics**

# Auto Assembly: The Next Step



- President of Mexico, Felipe Calderón and Owner of Grupo Salinas, Ricardo Salinas laid the first stone for the new assembly plant
- Plant will be a JV with GS and FAW
- Investment will be over \$100M with an initial production capacity of 50K units growing to 100K
- SOP and ramp currently planned during 2010 / 2011



## **Opportunities**

- Leveraging the agencies, many just newly opened
- Investing in “store-in-store” concept in key Elektra stores including dedicated product sales personnel
- Expanding financial packages with Banco Azteca
- Formally launching the FAW brand with media support
- Expanding into other vehicle / service offerings

## **Challenges**

- Economic crisis impacts bottom of the pyramid hardest
- Exchange rate risks with dollar-based purchases
- Raising the purchase intent for FAW, a Chinese brand
- Raising the consideration of Elektra stores as a place to buy cars
- Developing market demand while planning new manufacturing plant