

Segment Data

(in thousands) Year ended December 31,

	2006	2005	2004	2003	2002
Net sales:					
Automotive	\$ 5,185,080	\$ 5,013,460	\$ 4,739,261	\$ 4,477,508	\$ 4,335,362
Industrial	3,107,593	2,795,699	2,511,597	2,253,947	2,246,124
Office products	1,779,832	1,662,393	1,540,878	1,457,149	1,396,453
Electrical/electronic materials	408,138	341,513	335,605	297,618	315,826
Other	(22,701)	(30,015)	(30,074)	(36,922)	(34,838)
Total net sales	\$ 10,457,942	\$ 9,783,050	\$ 9,097,267	\$ 8,449,300	\$ 8,258,927
Operating profit:					
Automotive	\$ 399,931	\$ 398,494	\$ 396,015	\$ 363,022	\$ 381,771
Industrial	257,022	214,222	173,760	151,109	178,027
Office products	166,573	157,408	150,817	143,263	140,912
Electrical/electronic materials	22,630	17,470	14,611	7,112	2,756
Total operating profit	846,156	787,594	735,203	664,506	703,466
Interest expense, net	(26,445)	(29,564)	(37,260)	(51,538)	(59,640)
Corporate expense	(44,341)	(45,299)	(58,980)	(37,121)	(33,354)
Intangible asset amortization	(463)	(396)	(356)	(1,539)	(2,421)
Minority interests	(3,991)	(3,271)	(2,688)	(2,565)	(2,315)
Income before income taxes and accounting change	\$ 770,916	\$ 709,064	\$ 635,919	\$ 571,743	\$ 605,736
Assets:					
Automotive	\$ 2,625,846	\$ 2,711,620	\$ 2,521,906	\$ 2,369,969	\$ 2,313,747
Industrial	910,734	976,903	955,029	957,735	982,951
Office products	669,303	722,813	681,992	621,523	581,203
Electrical/electronic materials	105,623	113,913	104,918	97,195	98,225
Corporate	123,224	183,572	133,730	23,506	26,224
Goodwill and intangible assets	62,254	62,717	57,672	58,028	58,705
Total assets	\$ 4,496,984	\$ 4,771,538	\$ 4,455,247	\$ 4,127,956	\$ 4,061,055
Depreciation and amortization:					
Automotive	\$ 52,565	\$ 44,102	\$ 39,222	\$ 42,681	\$ 43,007
Industrial	7,941	8,345	8,972	10,265	10,789
Office products	9,518	9,551	10,245	10,639	9,856
Electrical/electronic materials	1,394	1,612	2,011	2,729	3,422
Corporate	1,542	1,523	1,401	1,160	656
Intangible asset amortization	463	396	356	1,539	2,421
Total depreciation and amortization	\$ 73,423	\$ 65,529	\$ 62,207	\$ 69,013	\$ 70,151
Capital expenditures:					
Automotive	\$ 111,644	\$ 68,062	\$ 52,263	\$ 58,754	\$ 38,599
Industrial	6,187	5,695	3,922	6,824	10,868
Office products	6,002	8,893	12,354	7,211	13,376
Electrical/electronic materials	904	1,550	1,552	394	224
Corporate	1,307	1,514	1,986	721	1,691
Total capital expenditures	\$ 126,044	\$ 85,714	\$ 72,077	\$ 73,904	\$ 64,758
Net sales:					
United States	\$ 9,314,970	\$ 8,768,737	\$ 8,198,368	\$ 7,666,389	\$ 7,568,926
Canada	1,071,095	954,317	845,563	731,200	623,686
Mexico	94,578	90,011	83,410	88,633	101,153
Other	(22,701)	(30,015)	(30,074)	(36,922)	(34,838)
Total net sales	\$ 10,457,942	\$ 9,783,050	\$ 9,097,267	\$ 8,449,300	\$ 8,258,927
Net long-lived assets:					
United States	\$ 415,569	\$ 388,916	\$ 368,345	\$ 339,020	\$ 339,495
Canada	72,556	62,842	65,649	57,906	47,522
Mexico	3,389	3,254	3,066	4,094	4,739
Total net long-lived assets	\$ 491,514	\$ 455,012	\$ 437,060	\$ 401,020	\$ 391,756

Management's Discussion and Analysis of Financial Condition and Results of Operations

2006

Overview

Genuine Parts Company is a service organization engaged in the distribution of automotive replacement parts, industrial replacement parts, office products and electrical/electronic materials. The Company has a long tradition of growth dating back to 1928, the year we were founded in Atlanta, Georgia. We have increased sales in 56 of the last 57 years and increased profits in 44 of the last 46 years. In 2006, business was conducted throughout the United States, in Puerto Rico, in Canada and in Mexico from approximately 2,000 locations.

We recorded consolidated net sales of \$10.5 billion for the year ended December 31, 2006, an increase of 7% compared to \$9.8 billion in 2005. Consolidated net income for the year ended December 31, 2006, was \$475 million, up 9% from \$437 million in 2005. The combination of ongoing healthy economic conditions, strong end markets and effective internal initiatives provided us the opportunity to achieve another record level of sales and earnings in 2006. All four business segments contributed to our progress for the year, with each showing gains in revenues and profits.

Our progress in 2006 follows 8% increases in revenues in both 2004 and 2005, and represents the third consecutive year of double-digit growth in earnings per share. During the three-year period ended December 31, 2006, the Company implemented a variety of growth initiatives, including the introduction of new and expanded product lines, geographic expansion, sales to new markets, enhanced customer marketing programs and cost savings initiatives. Each of our business segments participated in developing these initiatives, as discussed further below.

The major categories on the December 31, 2006 consolidated balance sheet were relatively consistent with the December 31, 2005 balance sheet categories, subject to certain exceptions explained below. Our cash balances decreased \$53 million or 28% from December 31, 2005, due primarily to cash used during the year for increased working capital requirements and investments in capital expenditures. Accounts receivable grew \$41 million or 3%, which is less than our increase in revenues, and inventory was up less than 1%. Accounts payable decreased \$63 million or 7% from the prior year, due primarily to the termination of extended terms with certain suppliers during 2006, resulting in the decrease in days payables outstanding. Total debt outstanding at December 31, 2006 was unchanged from December 31, 2005.

Results of Operations

Our results of operations are summarized for the three years ended December 31, 2006, 2005 and 2004, as follows:

(in thousands, except per share data)

<i>Year ended December 31,</i>	2006	2005	2004
Net Sales	\$10,457,942	\$9,783,050	\$9,097,267
Gross Profit	3,275,495	3,064,086	2,829,723
Net Income	475,405	437,434	395,552
Diluted Earnings Per Share	2.76	2.50	2.25

Net Sales

Consolidated net sales for the year ended December 31, 2006 totaled \$10.5 billion, another record sales level for the Company and a 7% increase from 2005. Again in 2006, each of our four business segments showed progress in revenues and contributed to our overall sales growth. We attribute this improvement to the ongoing good health of the national economy, strong end markets and effective growth initiatives. For the year, prices were up approximately 2% in the Automotive segment, 3% in the Industrial and Office segments and 7% in the Electrical segment.

Net sales for the year ended December 31, 2005 totaled \$9.8 billion, an 8% increase from 2004. Similar to 2006, all of the business segments contributed to our sales growth in 2005, as our internal initiatives, healthy economy and positive trends in the industries we serve enhanced the sales volume in each of our four groups. Prices were up approximately 2% in the Automotive segment, 3% in the Office and Electrical segments and 6% in the Industrial segment in 2005.

Automotive Group

Net sales for the Automotive Group ("Automotive") increased by 3% to \$5.2 billion in 2006. After achieving sales increases of 5% in both the first and second quarters, our sales growth slowed to 1% growth in the third quarter, followed by a 2% increase in the fourth quarter. Automotives' sales initiatives, including the addition of 64 net new NAPA AUTO PARTS stores and the continued expansion of NAPA AutoCare programs, were somewhat impacted by the effect of higher gasoline prices on vehicle miles driven and aftermarket product demand. Both of these factors influenced our sales trends for the year. Additionally, our core NAPA sales increase of 5% was offset by the sales decrease at Johnson Industries, which was downsized in 2005.

Automotive sales were \$5.0 billion in 2005, an increase of 6% over 2004. Among the quarters in 2005, sales increases over the same period of the prior year ranged from an increase of 4% in the first quarter to 8% in the third quarter, our strongest period for the year. The continued effectiveness of our growth initiatives in this group, as well as positive industry trends, helped produce these results. As in 2006, stronger growth in our core NAPA operations was offset by a decrease in sales at Johnson Industries, where we sold eight of twelve operations during 2005.

Industrial Group

Net sales for Motion Industries, our Industrial Group ("Industrial"), were \$3.1 billion in 2006, an increase of 11% compared to 2005, and our third consecutive year of 11% sales growth. In 2006, this group recorded steady progress throughout the year, with double-digit growth in each quarter. Industrial expanded its distribution network during the year by opening 10 new locations and by adding another 31 locations via two acquisitions. U.S. industrial production and capacity utilization indices also showed continued strength for the manufacturing sector in 2006, and based on current indices, the outlook remains positive for this sector in 2007.

Net sales in 2005 were \$2.8 billion, an 11% increase compared to 2004. In 2005, this group had double-digit growth in each quarter except in the fourth quarter when sales increased 9%. Over the three-year period ended December 31, 2006, Industrial has benefited from a combination of price increases common in the industry as well as stronger sales volume.

Office Group

Net sales for S.P. Richards, our Office Products Group ("Office"), were \$1.8 billion, an increase of 7% compared to the prior year. Among our business groups, Office is our most steady performer from year to year, and in 2006, product and customer expansion efforts and the continued development of effective marketing programs and dealer services helped to drive this group's progress. Although its rate of sales growth decreased during the year, we were encouraged by the Office group's performance in 2006. Sales increased by 13% in the first quarter, 6% in the second quarter, 5% in the third quarter and 4% in the fourth quarter.

Net sales in 2005 were \$1.7 billion, up 8% over 2004. This represents a solid increase for the Office group and reflects the success of its ongoing business expansion strategy. Among the quarters, revenues grew stronger over the year, with sales increasing 6% in

the first quarter, 8% in the second and third quarters and 10% in the fourth quarter.

Electrical Group

Net sales for EIS, our Electrical and Electronic Group ("Electrical"), increased by 20% to \$408 million in 2006. The strong performance at Electrical reflects the continued manufacturing expansion in the U.S., as well as this group's commitment to ongoing sales initiatives. In 2006, Electrical completed phase one of a sales process restructuring program developed to improve customer contact and maximize customer growth. For the year, sales were up 13% in the first quarter, 24% in the second quarter, 23% in the third quarter and 17% in the fourth quarter.

Net sales were up 2% to \$342 million in 2005. Electrical's strongest performance was in the fourth quarter, after generally flat results over the first three quarters of the year. EIS sold its Circuit Supply division in April of 2005, which impacted its overall growth rate. The ongoing Electrical operations were up 9% for the year, reflecting the continued strength in the manufacturing sector, which began to show improvement late in 2005.

Cost of Goods Sold

Cost of goods sold was \$7.2 billion and \$6.7 billion in 2006 and 2005, respectively, representing 68.7% of net sales in both years. After improving gross margins in each of the previous two years, our ongoing gross margin growth initiatives were offset in 2006 by increasing competitive pricing pressures in the markets we serve. Our initiatives to enhance our pricing strategies, promote and sell higher margin products, and minimize material acquisition costs lessened the effect of these negative margin pressures in 2006.

Cost of goods sold in 2005 was \$6.7 billion or 68.7% of net sales compared to \$6.3 billion or 68.9% in 2004. The decrease in cost of goods sold as a percent of net sales reflects the success of our initiatives implemented to improve gross margins. These initiatives were initially developed to offset the usual competitive pricing pressures as well as lower levels of vendor discounts and volume incentives earned over the prior few years, especially in Industrial. Each of our business segments also experienced vendor price increases in 2005, and by working with our customers we were able to pass some of these along to them, particularly in Industrial.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

2006

Operating Expenses

Selling, administrative and other expenses ("SG&A") increased to \$2.4 billion in 2006, representing 22.8% of sales and down slightly from 22.9% of sales in 2005. SG&A expenses as a percentage of net sales reflect the benefits of our cost control initiatives. Our cost management initiatives continue to emphasize continuous improvement programs designed to optimize our utilization of people and systems. We were pleased with the success of our initiatives and expect our SG&A expenses as a percentage of sales to show progress in the foreseeable future. Depreciation and amortization expense in 2006 was \$73 million, up 12% from 2005, which relates to the increase in capital expenditures in the current year. The provision for doubtful accounts was \$16 million in 2006, consistent with our bad debt expense in 2005.

In 2005, SG&A increased to \$2.2 billion, or 22.9% of net sales, a slight increase from 22.8% of sales in 2004. Depreciation and amortization expense in 2005 was \$66 million, up 5% from 2004, and corresponds to the increase in capital expenditures in 2005 relative to the prior year. The provision for doubtful accounts was \$16 million in 2005, down from \$21 million in the prior year. This was due to our improved collections on accounts receivable balances relative to 2004, when the Company incurred unusually high bad debt losses.

Non-Operating Expenses

Non-operating expenses for the Company consist primarily of interest. Interest expense was \$32 million, \$34 million and \$39 million in 2006, 2005 and 2004, respectively. The decrease in interest expense in 2006 is primarily due to the termination of an interest rate swap agreement.

In 2005, the decrease in interest expense from the prior year relates to the repayment of borrowings during 2004 to its current level.

In "Other", interest income net of minority interests increased in both 2006 and 2005 due to the change in interest income earned on the Company's cash balances.

Operating Profit

Operating profit was \$846 million in 2006, an increase of 7.4% from \$788 million in 2005. Operating profit as a percentage of net sales, which we refer to as operating margin, was 8.1% in 2006, reflecting no change from our operating margin achieved in 2005 and 2004. Our constant operating margin over the last three years is primarily the result of specific short-term margin issues in Automotive, which offset the benefits of our overall improvement in gross margin and SG&A expense as a percentage of net sales over these periods. We discuss these issues further below. We remain optimistic that our margins will show improvement in the year ahead.

Automotive Group

Automotive operating margins decreased to 7.7% in 2006 from 7.9% in 2005. During 2006, the Company recorded non-recurring costs associated with certain closing and consolidation expenses at Johnson Industries and our re-manufacturing operations. At Johnson Industries, we sold or closed eight of twelve locations during 2005, resulting in selling and closure costs in that year, and we incurred additional costs to downsize these operations in 2006. At our re-manufacturing operations, we incurred costs during the year related to certain facility consolidations.

Automotive operating margins decreased to 7.9% in 2005 from 8.4% in 2004. Despite showing progress in our core NAPA operations, Automotive was challenged with specific issues at Johnson Industries, as discussed above, and, within the re-manufacturing operations, we made some price adjustments to certain product lines to drive sales growth, resulting in lower margins for this group relative to the prior year. We consider the issues reviewed for 2005 and 2006 to be short-term challenges for this group and believe our Automotive operating margins will show improvement in the year ahead.

Industrial Group

Industrial operating margins increased to 8.3% in 2006 from 7.7% in 2005. This represents the third consecutive year of margin improvement for Industrial and reflects the effectiveness of our sales and operating initiatives, as well as the relative strength of the industries served by Industrial over these periods. Industrial operating margins increased to 7.7% in 2005 from 6.9% in 2004. This was the largest margin gain among our business segments in 2005 and reflects the strong performance at Industrial for the year.

Office Group

Operating margins in Office were 9.4% in 2006, down slightly from 9.5% in 2005. Office continues to generate industry leading operating margins despite competitive pricing pressures in the industry. These pressures are offset by ongoing product and customer expansion efforts and the continued development of effective marketing programs and dealer services. Office operating margins were 9.5% in 2005, down from 9.8% in 2004. The success of this Group's sales initiatives was offset by pricing pressures, which resulted in the decrease in operating margin in 2005.

Electrical Group

Operating margins in Electrical increased to 5.5% in 2006 from 5.1% in 2005. This represents the third consecutive year of margin improvement for Electrical and reflects the continued strength in the manufacturing sector of the economy, combined with Electrical's successful growth strategy during this three year period. Operating margins in Electrical increased to 5.1% in 2005 from 4.4% in 2004. We are encouraged by the ongoing progress we see in Electrical.