

*AutoZoners always put customers first!
We know our parts and products.
Our stores look great!
We've got the best merchandise at the right price.*

AutoZone Pledge, est. 1986



Dear Customers, AutoZoners, and Stockholders:

Fiscal 2006 was another record year for AutoZone. We increased sales to nearly \$6 billion and increased earnings per share to \$7.50, both 4% increases over the previous year.

We also invested more than \$260 million to update our existing store base, open 204 new stores, and improve our technology infrastructure.

More importantly, fiscal 2006 repositioned the Company to succeed for the future. We began the year having completed extensive consumer research. This research confirmed what we have always known. The most compelling reason we give our customers to shop at AutoZone is our continuing passion for providing trustworthy advice. We were reminded we must have the right merchandise, at the right price, at the right time in order to deepen our relationship with our customers. It was clear to us our focus for the upcoming year and beyond would be on the basics. The year's initiatives would focus on AutoZone's Pledge which was written before AutoZone was a public company. Long before there were 3,800 stores across 48 states, Puerto Rico, and Mexico. It was written in 1986 when we had just celebrated our 300th store opening, and we were determined to establish guiding principles that we believed would clearly articulate our commitment to our customers. Therefore, for 2006, we re-committed ourselves to this Pledge and established the following key initiatives:

- 1) Improve the customers' shopping experience by optimizing the number of both off-shelf merchandise placements and sales floor product placements

- 2) Add clarity to our offering by reducing the amount of non-automotive related items in our stores
- 3) Focus on providing our customers with the broadest offering of parts and accessories to meet their ever expanding needs
- 4) Renew the emphasis on training our AutoZoners—including a specific emphasis on our Culture
- 5) Focus on building "our brands" by expanding coverage under the Duralast family of brands
- 6) Reposition our Commercial business for profitable future growth
- 7) Expand our presence in Mexico and Puerto Rico

How the year began

The year began with a severe challenge. One week into the new fiscal year, the Gulf Coast was hit with two major hurricanes. Both "Katrina" and "Rita" caused large scale closures for a period of time to many of our locations, destroying 13 AutoZone stores. Even worse, over one hundred sixty AutoZoners lost their homes in the storms. From those disasters, we rallied together as an organization. We utilized our "AutoZoner Assistance Fund" to raise money for those who were in need. The way our fellow AutoZoners pulled together from across the entire company, exemplified the spirit and determination that is at the core of everything we do.



Bill Rhodes—President and CEO, Customer Satisfaction

1.&2. Improve the shopping experience by reducing non-automotive items and ensuring our store product placements were optimized

We began the year determined to improve our store presentation. First, we removed and deemphasized our offering of non-automotive items in our stores. We focused our off-shelf promotional presentations on core automotive items that were relevant to virtually every customer. This effort reinforced to our customers that AutoZone was their vehicle solutions provider.

Then, over a short twelve week period, our organization came together to complete one of the single largest store initiatives in our Company's history, resetting over 3,200 stores. Championed by our field organization, these resets were absolutely essential to improving the customer shopping experience. These resets provided a consistent offering to our customers across the nation and ensured our products were placed in the optimal most convenient location for our customers. This effort was critical for us to fulfill our Pledge's promise that "Our stores look great!"

3. Focus on providing our customers with the broadest offering of parts and accessories

We have continued our focus on providing our customers with the broadest offering of parts and accessories to meet their ever expanding needs. In fact, in the second half of 2006, we significantly intensified our efforts in this area. During the spring of 2006, we launched new merchandise assortment planning software designed to improve in-stock levels. This software allows us to leverage tremendous amounts of data from across all our stores. It provides us with invaluable information allowing us to further tailor our product assortment in every individual store. As we've rolled out new product assortments, we've continued to listen to our customers and AutoZoners and identified additional opportunities for improvement. We continue to refine this effort and believe our new approach will lead to significant improvements in our ability to meet our customers' needs for both Retail and Commercial.

4. Renewed emphasis on training—Energizing Our Culture

AutoZone has a unique and powerful culture. During 2006, we renewed our emphasis on our culture by making sure all 53,000 plus AutoZoners embraced it and exemplified it in every customer interaction. Our culture uses routine practices to constantly remind each of us that customer satisfaction is paramount. One of these practices is WITTDJR (What It Takes To Do the Job Right). This practice instills in our AutoZoners the need to make sure our customers have everything they need to "Do the Job Right." From suggesting to our customers the need to change their air filter on a regular maintenance interval to making sure they have brake fluid and brake parts cleaner when they are completing a

brake job, we owe this to our customers. Some consider this focus to be a related selling practice and it is. But more importantly it is about making sure our customers have the tools, products, knowledge and advice to successfully complete the job.

We teach these practices to our AutoZoners during their first day on the job and we reinforce them through numerous other initiatives including our WITTDJR meetings. These meetings are a critical element in building our culture, and in 2006, we increased the frequency and focus of these meetings. We have been very pleased with our AutoZoners' commitment to our cultural practices.

During 2006, we also began routinely measuring the effectiveness of our initiatives through the use of customer satisfaction surveys conducted at the store level. This powerful, consistent feedback has helped us quantify our improvements in customer service and identify areas for continued focus. Over the course of the year, we have seen consistent increases in customer satisfaction scores. Our customers are telling us we're on the right track.

5. Focus on "Our Brands"

We have been extremely successful over the years at both establishing and building brands in an automotive aftermarket industry that didn't necessarily have significant product brands. Over time, we've built brands like Duralast and Valucraft into major names in the industry. In fact, we believe Duralast, with over \$1.3B in sales, has become one of the largest brands in the entire aftermarket parts industry. While we believe establishing these brands has been a major part of our sales success, it has also helped us to establish a more effective import initiative. By controlling the brand, we believe we can manage both cost and quality more effectively from multiple vendors, located in multiple countries, across many merchandise categories. Both our Retail and Commercial customers are telling us the Duralast products meet or exceed their needs while providing them with a good value. This is a relatively new initiative that we believe will continue to gain traction over time. We are pleased with our progress to date, and we will expand our brands across existing and new merchandise categories for many years to come.

6. Reposition the Commercial Business for profitable future growth

With over \$700 million in sales this past year, our Commercial business team enjoyed one of their most profitable years. However, we still continue to learn a great deal. Although our Commercial business has grown to be a key contributor to our success, today our market share represents less than 1.5% of an estimated \$53 billion dollar* industry! We've learned over the years growing this business is not difficult; however, growing it profitably is more

challenging. Early on we rapidly grew sales without the commensurate increase in profitability. Our objective is to do both. We started with the rollout of our personal digital assistant devices (PDAs). We placed these handheld units in every one of our 2,100 Commercial Program locations, and we began accumulating actionable information. We time stamped every segment of our commercial transactions and soon developed customer-level key performance indicators. We've taken several hundred Commercial programs and rolled a new test built on the learnings from our PDAs, customer feedback and additional smaller tests. From these learnings, we began testing in certain Commercial stores a new way of doing business. We've focused on adding the appropriate merchandise coverage and delivery capabilities to those customers most capable to grow their business with AutoZone. While these test stores' early successes have been promising, we continue to monitor their results and refine our approach as additional programs are added. We're building our program right for the future, and we are very encouraged by our initial results.

7. Continue to expand our presence in Mexico and Puerto Rico

With 100 stores open in Mexico and 12 in Puerto Rico at fiscal year end, we couldn't be prouder of our wonderful AutoZoners in these stores. Starting with our first store opened in Mexico in 1998 and in Puerto Rico in 2005, we continue to believe growth exists in both markets for years to come. However, we will continue to be cautious making sure we grow prudently and profitably, as we expand our infrastructure capabilities in these locations, concurrent with our store expansion plans.

The Future

In retrospect, 2006 was a solid year for AutoZone. We exit the year a much stronger, more engaged organization than we were just twelve short months ago. As we conclude 2006 and launch 2007, we celebrate our many accomplishments and highlight those critical areas for continued improvement. Most importantly, we are committed to a consistent plan and approach. Our operating plan theme for 2006 was "Live the Pledge." This year's theme is "Living the Pledge." This minor change in theme subtly highlights and recognizes the improvements we have made while at the same time reinforces to all of us the tremendous importance of getting the basics right.

We promise we will continue to be efficient stewards of your capital. We will maintain our financial disciplines and focus on those initiatives that exceed our after-tax return on invested capital hurdle. This disciplined approach allowed us to make considerable investments in our business during 2006 while simultaneously returning nearly \$580 million to our stockholders through our ongoing share repurchase program. These combined results highlight the power of our model and the discipline of our AutoZoners.

While we are proud of the successes we had this past year, we are not satisfied. We have to continue to go the extra mile to help our customers. As we work toward this objective, we'd like to extend our sincere gratitude to our AutoZoners, customers, and suppliers for their many valuable contributions.

The most critical element to our success is our AutoZoners. They deliver the exceptional customer service every day that is our key point of differentiation. During 2006, they recommitted themselves to our culture and delivered superior customer service. We thank our AutoZoners for their passion, commitment and dedication to our terrific organization and its customers.

Our past success and future triumphs will be built on exceeding customers' expectations, and we are determined to do that by focusing on the basics. We have to make sure we're doing the right things every day to win our customers' business.

In summary, AutoZone continues to be a leader in an exciting and fast growing industry. We have a clear plan for the future, and an experienced team to execute it. We look forward to updating you on our continued success well into the future.

Sincerely,

Bill Rhodes
President and CEO
Customer Satisfaction

*2006/2007 AAIA Factbook

