Management's Discussion and Analysis of Operations and Financial Condition

Anheuser-Busch Companies and Subsidiaries

Introduction

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity, and cash flows of Anheuser-Busch Companies, Inc., for the three-year period ended December 31, 2004. This discussion should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements included in this annual report.

This discussion contains forward-looking statements regarding the company's expectations concerning its future operations, earnings and prospects. On the date the forward-looking statements are made, the statements represent the company's expectations, but the company's expectations concerning its future operations, earnings and prospects may change. The company's expectations involve risks and uncertainties (both favorable and unfavorable) and are based on many assumptions that the company believes to be reasonable, but such assumptions may ultimately prove to be inaccurate or incomplete, in whole or in part. Accordingly, there can be no assurances that the company's expectations and the forward-looking statements will be correct. Important factors that could cause actual results to differ (favorably or unfavorably) from the expectations stated in this discussion include, among others, changes in the pricing environment for the company's products; changes in U.S. demand for malt beverage products, including as a result of changes in U.S. demand for other alcohol beverages; changes in consumer preference for the company's malt beverage products; regulatory or legislative changes, including changes in beer excise taxes at either the federal or state level and changes in income taxes; changes in the litigation to which the company is a party; changes in raw materials prices; changes in packaging materials costs; changes in interest rates; changes in foreign currency exchange rates; unusual weather conditions that could impact beer consumption in the United States; changes in attendance and consumer spending patterns for the company's theme park operations; changes in demand for aluminum beverage containers; changes in the company's international beer business or in the beer business of the company's international equity partners; changes in the company's credit rating resulting from future acquisitions or divestitures; and the effect of stock market conditions on the company's share repurchase program. Anheuser-Busch disclaims any obligation to update any of these forward-looking statements.

Objectives

Anheuser-Busch remains focused on its three core objectives designed to enhance shareholder value:

- Increasing domestic beer segment volume and per barrel profitability that, when combined with continued market share growth, will provide the base for long-term double-digit earnings per share growth and improvement in return on capital employed.
- Increasing international beer segment profit growth. Anheuser-Busch has made significant marketing investments to build recognition of its Budweiser brands outside the United States and owns and operates breweries in China, including Harbin Brewery Group, acquired in 2004, and in the United Kingdom. The company also has a 50% equity position in Grupo Modelo, Mexico's largest brewer and producer of the Corona brand, and a 9.9% equity position in Tsingtao, the largest brewer in China and producer of the Tsingtao brand, with an agreement to eventually acquire a 27% economic interest.
- Continued growth in profit and free cash flow in the packaging and entertainment segments. Packaging operations provide significant efficiencies, cost savings, and quality assurance for domestic beer operations. Entertainment operations enhance the company's corporate image by showcasing Anheuser-Busch's heritage, values and commitment to quality and social responsibility to approximately 20 million visitors annually.

Operating Results

Anheuser-Busch achieved increased sales and earnings for 2004, with consolidated net sales increasing 5.6% and reported earnings per share increasing 11.7%. All major business segments contributed to the sales and profit growth for the year. Earnings per share for 2004 benefited from certain one-time items: a $.015 per share gain in the first quarter from the sale of commodity hedges; a $.018 per share gain in the fourth quarter on sale of the company's equity investment in Compañía Cervecerías Unidas S.A. (CCU); and a fourth-quarter deferred income tax benefit of $.012 per share related to the company's Modelo investment, from a reduction in Mexican corporate income tax rates. None of these one-time items impact sales, gross profit, or operating income. Excluding these items, earnings per share increased 10.1% versus 2003.

Anheuser-Busch had another year of solid growth in earnings per share and expects earnings per share growth in the 6% to 9% range for 2005 compared with 2004, excluding the one-time items in 2004 and including the impact of expensing stock options, as shown below. The company will begin expensing stock options when it adopts FAS 123R, "Share-Based Payment," effective January 1, 2005, and will retrospectively apply the standard to all prior periods. Anheuser-Busch continues to target double-digit earnings per share growth over the longer term.

	Earnings Per Share		
	Projected 2005	2004	Increase
Excluding one-time items		$2.73	
Adoption of FAS 123R		(.15)	
Basis for comparison	$2.74 to $2.81	$2.58	6% to 9%

Comparisons of key operating results for the last three years are summarized in the following tables. Effective in the first quarter of 2002, the company ceased amortizing all goodwill when it adopted FAS No. 142, "Goodwill and Other Intangible Assets." Operating results for 2004, 2003 and 2002 are therefore presented on a consistent basis; they do not reflect any goodwill amortization expense.

Under FAS 142, Anheuser-Busch was not permitted to restate the results of operations for 2001 to exclude the earnings impact of goodwill amortization. The inclusion of goodwill amortization expense in 2001 results makes direct comparisons between 2002 and 2001 difficult. For the clearest understanding of the company's operations, all discussion of operating results for 2002 versus 2001 is therefore based on the 2001 results provided on a comparable basis, excluding the impact of goodwill amortization.

Comparison of Operating Results

Year Ended December 31 (in millions, except per share)

	2004	2003	2004 vs. 2003	
Gross sales	**$ 17,160**	$ 16,320	▲ $840	▲ 5.1%
Net sales	**$ 14,934**	$ 14,147	▲ $787	▲ 5.6%
Income before income taxes	**$ 2,999**	$ 2,824	▲ $175	▲ 6.2%
Equity income, net of tax	**$ 404**	$ 345	▲ $ 59	▲ 17.2%
Net income	**$ 2,240**	$ 2,076	▲ $164	▲ 7.9%
Diluted earnings per share	**$ 2.77**	$ 2.48	▲ $ .29	▲ 11.7%

	2003	2002	2003 vs. 2002	
Gross sales	$ 16,320	$ 15,687	▲ $633	▲ 4.0%
Net sales	$ 14,147	$ 13,566	▲ $581	▲ 4.3%
Income before income taxes	$ 2,824	$ 2,624	▲ $200	▲ 7.7%
Equity income, net of tax	$ 345	$ 352	▼ $ 7	▼ 1.9%
Net income	$ 2,076	$ 1,934	▲ $142	▲ 7.4%
Diluted earnings per share	$ 2.48	$ 2.20	▲ $ .28	▲ 12.7%

Comparison of Operating Results (continued)

Year Ended December 31 (in millions, except per share)

			2002 vs. 2001	
	2002	2001	Reported Basis	Comparable Basis*
Gross sales	$ 15,687	$ 14,973	▲ 4.8%	▲ 4.8%
Net sales	$ 13,566	$ 12,912	▲ 5.1%	▲ 5.1%
Income before income taxes	$ 2,624	$ 2,378	▲ 10.3%	▲ 9.6%
Equity income, net of tax	$ 352	$ 254	▲ 38.3%	▲ 28.2%
Net income	$ 1,934	$ 1,705	▲ 13.4%	▲ 11.1%
Diluted earnings per share	$ 2.20	$ 1.89	▲ 16.4%	▲ 14.0%

* Excludes goodwill amortization in 2001.

Provided in the table below for informational purposes are certain 2001 operating measures presented on an as-reported basis, which includes goodwill amortization expense, and on the comparable basis excluding goodwill amortization, which is used throughout this discussion (in millions, except per share).

	2001	2001	% Change 2002 vs. 2001	
	Reported Basis	Comparable Basis	Reported Basis	Comparable Basis
Cost of sales	$ 7,950.4	$ 7,938.9	▲ 2.3%	▲ 2.4%
Gross profit margin	38.4%	38.5%	▲ 1.7pts.	▲ 1.6pts.
Marketing, distribution and administrative expenses	$ 2,255.9	$ 2,254.2	▲ 8.8%	▲ 8.9%
Operating income	$ 2,723.0	$ 2,736.2	▲ 9.4%	▲ 8.9%
Income before income taxes	$ 2,377.6	$ 2,393.5	▲ 10.3%	▲ 9.6%
Domestic beer segment income before income taxes	$ 2,667.1	$ 2,671.7	▲ 9.5%	▲ 9.3%
International beer segment income before income taxes	$ 54.4	$ 55.6	▲ 39.9%	▲ 36.9%
Packaging segment income before income taxes	$ 107.5	$ 108.3	▲ 43.3%	▲ 42.2%
Equity income, net of tax	$ 254.4	$ 274.3	▲ 38.3%	▲ 28.2%
Net income	$ 1,704.5	$ 1,740.3	▲ 13.4%	▲ 11.1%
Diluted earnings per share	$ 1.89	$ 1.93	▲ 16.4%	▲ 14.0%

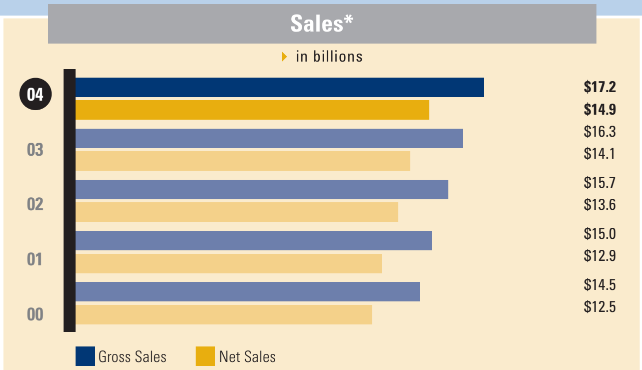
Sales

Revenue per barrel reflects the net average sales price the company obtains from wholesaler customers for its products. The higher the net revenue per barrel, the greater the company's gross profit dollars and gross profit margin, with revenue per barrel increases having nearly twice the impact on profits as comparable percentage increases in beer volume. Revenue per barrel is calculated as net sales generated by the company's domestic beer operations on barrels of beer sold, determined on a U.S. GAAP basis, divided by the volume of beer shipped from the company's breweries.

Anheuser-Busch strives to obtain price increases that approximate, or are slightly less than, increases in the U.S. Consumer Price Index (CPI) over time. On a constant dollar basis, beer is more affordable today than it was 10 years ago, and the company believes that its pricing strategy allows for continuing future moderate price increases. The company also believes that significant excise tax increases, although not expected, could disrupt the current favorable industry pricing environment because tax increases could trigger retail beer price increases in excess of the CPI. The cost of such increases would be borne directly by consumers.

Anheuser-Busch reports domestic beer sales volume based on beer sales to the company's network of independent wholesalers. Higher beer sales-to-wholesalers volume will increase gross profit dollars and potentially increase gross profit margin. Wholesaler sales-to-retailers volume is a leading indicator of demand for the company's products at the retail level. Higher wholesaler sales-to-retailers require increased beer sales-to-wholesalers to meet ongoing demand.

Domestic beer volume represents Anheuser-Busch brands produced and shipped within the United States. International beer volume consists of brands produced overseas by company-owned operations in China and the United Kingdom and under various license and contract-brewing agreements, plus exports from the company's U.S. breweries to markets around the world. Worldwide beer volume is composed of domestic volume and international volume. International equity partner brands volume represents the company's ownership percentage share of volume in its foreign equity partner Grupo Modelo, reported on a one-month-lag basis, and it also includes Anheuser-Busch's pro rata share in the beer volume of CCU for all years shown. The company sold its equity interest in CCU in November 2004. Total brands combines worldwide volume with international equity partner brands volume.



* The difference between gross sales and net sales represents beer excise taxes.

Worldwide Beer Volume

The company's reported beer volume for the three years ended December 31, 2004, is summarized in the following table (millions of barrels):

	2004	2003	Change
Domestic	**103.0**	102.6	▲ 0.4%
International	**13.8**	8.4	▲ 64.8%
Worldwide A-B brands	**116.8**	111.0	▲ 5.3%
International equity partner brands	**19.3**	18.8	▲ 2.7%
Total brands	**136.1**	129.8	▲ 4.9%

	2003	2002	Change
Domestic	102.6	101.8	▲ 0.8%
International	8.4	8.0	▲ 5.0%
Worldwide A-B brands	111.0	109.8	▲ 1.1%
International equity partner brands	18.8	18.1	▲ 4.0%
Total brands	129.8	127.9	▲ 1.5%

	2002	2001	Change
Domestic	101.8	99.7	▲ 2.1%
International	8.0	7.5	▲ 5.4%
Worldwide A-B brands	109.8	107.2	▲ 2.3%
International equity partner brands	18.1	17.2	▲ 5.3%
Total brands	127.9	124.4	▲ 2.8%

Sales — 2004 vs. 2003

Anheuser-Busch achieved improvement in both gross and net sales in 2004, increasing to $17.2 billion and $14.9 billion, respectively. The difference between gross and net sales represents beer excise taxes of $2.23 billion. Gross sales for the year increased $840 million, or 5.1%, and net sales improved $787 million, or 5.6%. These increases were driven primarily by a 3% increase in domestic beer segment sales, due to higher revenue per barrel and higher volume, with the increase in revenue per barrel generating $323 million in net sales improvement, and beer volume gains contributing $43 million of the increase. The company has led the U.S. brewing industry in sales volume and market share since 1957.

The company also reported improved sales from all other major business segments. International beer segment sales increased $173 million due to volume gains in Canada, China, and the United Kingdom and the impact of Harbin in the second half of the year. Packaging segment sales increased $172 million primarily due to higher soft drink can volume and pricing and increased sales by the company's aluminum recycling operations. Entertainment segment sales were up $65 million due to higher admissions pricing and increased in-park spending. Entertainment sales were adversely impacted by the series of hurricanes in Florida in the second half of the year.

As a result of the continuing favorable pricing environment, domestic beer revenue per barrel increased 2.5% versus 2003. The gross margin impact of the increase in domestic beer revenue per barrel was offset by the impact of higher sales and costs from the company's commodity-based can manufacturing and aluminum recycling operations. For the year, consolidated gross margin declined 40 basis points versus 2003. Domestic beer gross profit margin increased 20 basis points for the year.

Consistent with the company's practice of implementing moderate annual price increases in two phases, Anheuser-Busch completed the first stage of its pricing plan for 2005 in October 2004. The success of these pricing actions contributed to the company's full-year revenue per barrel results. As planned, the second phase of the 2005 pricing initiatives, implemented the first week of February 2005, has been successful. As in the past, the revenue enhancement initiatives have been tailored to specific markets, brands and packages.

Domestic beer sales-to-wholesalers increased 0.4% in 2004, to 103.0 million barrels. This increase was led by continued growth of the Michelob ULTRA and Bud Light brands. Wholesaler sales-to-retailers declined 0.3% versus 2003. Both sales-to-retailers and sales-to-wholesalers were adversely impacted during the year by abnormally wet weather in many key markets, especially during the key summer selling season. This was coupled with a general slowdown in consumer spending during the year, particularly among lower-income consumers.

The company's domestic market share (excluding exports) for the full year 2004 was 49.6%, compared to 2003 market share of 49.7%. Domestic market share is based on estimated U.S. beer industry sales using information provided by the Beer Institute and the U.S. Department of Commerce.

International beer volume increased 5.4 million barrels, or 65%, to 13.8 million barrels in 2004 due to volume growth in the company's three largest markets, Canada, China and the United Kingdom, and the addition of Harbin volume. Excluding 5.2 million barrels of Harbin volume, international volume grew 3.2% for the year. The growth in international volume drove the 5.3% increase in worldwide volume, to 116.8 million barrels. International equity partner volume grew to 19.3 million barrels, 2.7% versus 2003, as a result of Grupo Modelo volume improvement. Equity partner volume growth was adversely impacted by the sale of CCU in November 2004. Total brands volume increased 4.9% for the year versus 2003.

Sales — 2003 vs. 2002

The company reported gross sales of $16.3 billion and net sales of $14.1 billion in 2003, representing increases of 4%, or $633 million, and 4.3%, or $581 million, respectively, compared with 2002. Both increases were principally due to a $410 million, or 3.9%, increase in domestic beer segment net sales, resulting from 3.1% higher domestic revenue per barrel and a 0.8% increase in beer volume. The increase in revenue per barrel generated $324 million in net sales improvement; beer volume gains contributed $86 million of the increase.

In addition to domestic beer sales increases, international beer net sales increased $55 million, primarily due to volume growth in China and Canada. Packaging segment sales increased $30 million due to higher can pricing. Entertainment sales increased $65 million on increased ticket prices, higher in-park spending, and slightly higher attendance in 2003. The difference between gross and net sales represents beer excise taxes of $2.17 billion.

The 3.1% growth in domestic revenue per barrel enhanced both gross and operating profit margins. For the full year 2003, gross margin increased 20 basis points to 40.3%, while operating margin increased 60 basis points to 22.6%. Consumers trading up to the super-premium Michelob family enhanced the company's revenue per barrel results.

Domestic beer sales-to-wholesalers volume increased 0.8%, to 102.6 million barrels for 2003. These results are due to Michelob ULTRA and increased Bud Light sales volume. Wholesaler sales-to-retailers volume accelerated through the second half of 2003, increasing 1.7% in the fourth quarter, and was up 0.9% for the year. The company's domestic market share (excluding exports) for the full year 2003 was approximately 49.7%, compared with 49% for 2002.

Worldwide Anheuser-Busch beer sales volume increased 1.1% for the year to 111.0 million barrels and total volume increased 1.5%, to 129.8 million barrels. International Anheuser-Busch brand beer volume for the year was up 5% versus 2002, to 8.4 million barrels, principally due to increased beer volume in China.

Sales — 2002 vs. 2001

Gross sales were $15.7 billion and net sales were $13.6 billion in 2002, representing increases of 4.8%, or $714 million, and 5.1%, or $655 million, respectively, compared with 2001. The increases in gross and net sales were principally due to a $570 million, or 5.7% increase in domestic beer segment net sales resulting from higher domestic revenue per barrel and higher domestic beer sales volume. Revenue per barrel generated $354 million in net sales improvement, while higher beer volume contributed $216 million of the increase.

International beer net sales increased $43 million, primarily due to volume growth in China. Packaging segment net sales were up $24 million due to higher soft drink can prices and increased volume. Entertainment segment net sales increased $11 million due to higher ticket prices and increased in-park spending, partially offset by slightly lower attendance. The difference between gross and net sales represents beer excise taxes of $2.12 billion.

Domestic beer revenue per barrel grew 3.5% for 2002, reflecting a favorable domestic pricing environment and the introductions of Michelob ULTRA and Bacardi Silver. Excluding favorable mix, domestic revenue per barrel increased 2.8% for the year. The increases in revenue per barrel enhanced both gross and operating profit margins, which improved 160 basis points and 80 basis points, respectively, in 2002 versus the prior year.

Domestic beer sales-to-wholesalers volume increased 2.1% versus 2001, to 101.8 million barrels. This increase was led by Bud family sales, as well as the introductions of Bacardi Silver and Michelob ULTRA. Wholesaler sales-to-retailers volume was up 1.6% for the year. The company's domestic market share for 2002 (excluding exports) was 49% versus 2001 market share of 48.7%.

Worldwide Anheuser-Busch beer sales volume increased 2.3% in 2002, to 109.8 million barrels. Total beer sales volume was 127.9 million barrels in 2002, up 2.8% versus 2001. International Anheuser-Busch brand beer volume for 2002 was 8.0 million barrels, an increase of 5.4% versus 2001. During 2002, Canada, China, and the United Kingdom all experienced volume growth.

Cost of Sales

The company continuously strives to reduce costs throughout its system. Brewery modernizations have yielded long-term savings through reduced beer packaging and shipping costs and reduced maintenance costs. The company's focused production methods and wholesaler support distribution centers concentrate small-volume brand and package production at three breweries to create production efficiencies, reduce costs, and enhance responsiveness to changing consumer brand and package preferences. The company also works to reduce distribution costs for its products through better systemwide coordination with its network of independent wholesalers.

Cost of sales was $9.0 billion for 2004, an increase of $533 million, or 6.3%, compared with 2003. The increase in cost of sales is due to higher costs for all of the company's major business segments. The increase in domestic beer costs is due to increased costs for brewing and packaging materials, costs associated with increased beer volume, and higher utility costs. International beer experienced higher costs associated with increased beer volume plus the impact of incremental cost of sales associated with Harbin volume. Packaging operations incurred higher aluminum costs and entertainment operations incurred higher park operating expenses, including hurricane cleanup costs in the third quarter. Consolidated gross profit margin decreased 40 basis points, to 39.9%, due primarily to a 20 basis point gross margin increase from domestic beer operations being more than offset by higher sales and costs from the company's commodity-based can manufacturing and aluminum recycling operations.

Cost of sales was $8.4 billion in 2003, an increase of $318 million, or 3.9%, compared with 2002. The increase is due to higher costs in the domestic beer segment, attributable to costs associated with higher beer sales volume, higher production costs primarily resulting from increased brewing and packaging materials, and higher utilities costs. Brewing and packaging materials costs and utilities were higher in the second half of 2003 than experienced in the first half of the year. Cost of sales for international beer operations also increased due to costs associated with increased beer volume, while theme park and packaging operations and the company's commodity recycling business all experienced increased cost of sales. Gross profit as a percentage of net sales was 40.3% for the year, an increase of 20 basis points versus 2002.

Cost of sales was $8.13 billion in 2002, an increase of $192 million, or 2.4% versus 2001. The increase in 2002 was due primarily to higher domestic beer segment costs, driven by costs associated with higher beer volume of $78 million, partially offset by lower brewing materials, aluminum and energy costs. Cost of sales also increased in the international beer segment, due to costs associated with increased beer volume and in the packaging and entertainment businesses. Gross profit as a percentage of sales was 40.1%, an increase of 160 basis points versus 2001, reflecting higher domestic beer margins generated by improved pricing and favorable costs.

Marketing, Distribution and Administrative Expenses

Advertising and promotional activities for its beer brands and theme park operations are important elements of Anheuser-Busch's strategy, and represent significant annual expenditures. The company employs a variety of national, regional and local media outlets in its promotional efforts, including television, radio, print and outdoor advertising, and event sponsorships.

Marketing, distribution and administrative expenses were $2.59 billion in 2004, an increase of $92 million, or 3.7%, compared with 2003. The increase is principally due to increased international beer marketing and distribution costs, higher entertainment advertising costs, increased marketing costs associated with the Olympics, higher domestic beer distribution costs from owning an additional wholesale operation, and higher corporate expenses due primarily to higher employee benefits costs.

Marketing, distribution and administrative expenses for 2003 were $2.50 billion, an increase of $43 million, or 1.7%, compared with 2002. This increase is principally due to marketing costs related to Michelob ULTRA, increased company-owned wholesale beer distribution costs, higher international beer marketing costs in Europe and China, and increased theme park advertising costs. Partially offsetting these increases were lower domestic beer segment legal costs and reduced administrative expenses for the entertainment segment.

Marketing, distribution and administrative expenses of $2.46 billion in 2002 represent an increase of $201 million versus 2001 expenses, or 8.9%. The increase is due to higher domestic beer marketing costs for the Bud and Michelob families, introductory costs and ongoing support for Michelob ULTRA and Bacardi Silver, increased distribution costs due to the acquisition of a beer wholesaler in California, higher litigation costs, and a $20 million contribution to the company's charitable foundation.

Operating Income

Operating income represents the measure of the company's financial performance before net interest cost, other non-operating items and equity income. Operating income for 2004 was $3.4 billion, an increase of $162 million, or 5.1%, versus 2003. This increase is due to improved results from all business segments in 2004. Operating margin for the year was 22.5%, a decline of 10 basis points compared with 2003, primarily resulting from higher sales and costs in aluminum can and recycling operations.

Operating income was $3.20 billion in 2003 and $2.98 billion in 2002, representing increases versus the prior year of $219 million, or 7.4%, in 2003, and $244 million, or 8.9%, in 2002. Operating margins were 22.6% and 22.0% for 2003 and 2002, respectively. Margin growth in 2002 compares to 2001 results, which were higher than normal due to inclusion of the $17.8 million gain on the sale of SeaWorld Cleveland. Increases in operating income and margins for 2003 and 2002 are due to higher domestic beer margins and improved operating results from all other business segments.

Interest Expense Less Interest Income

Interest expense less interest income was $422.2 million for 2004, $399.8 million for 2003, and $367.4 million for 2002, representing increases of 5.6%, 8.8%, and 2.0%, respectively, compared with prior years. These increases primarily result from higher average outstanding debt balances compared with prior years, partially offset by lower interest rates for all three years. See the Liquidity and Financial Condition section of this discussion for additional information regarding the company's leverage philosophy and specific changes in the company's debt portfolio.

Interest Capitalized

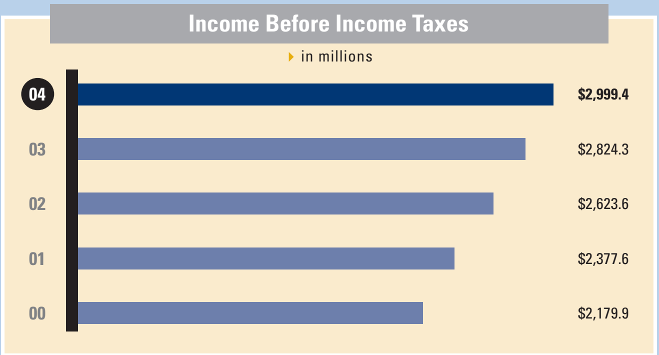
Interest capitalized was $21.9 million in 2004, $24.4 million in 2003, and $17.7 million in 2002. The amount of interest capitalized fluctuates depending on construction-in-progress balances, which are impacted by the amount and timing of capital spending, the timing of project completion dates, and by market interest rates.

Other Income/Expense, Net

Other income/expense, net includes earnings from the company's limited partnership equity investments in beer wholesalers, in addition to other items of a nonoperating nature that do not have a material impact on the company's consolidated results of operations, either individually or in total. The company had consolidated net other income of $38.7 million in 2004 and $400,000 in 2003, and net other expense of $6.4 million in 2002.

Other income for 2004 includes the one-time pretax gain of $19.5 million ($.015 per share) in the first quarter from the sale of commodity derivatives that had been in place for future years. The hedges were originally placed using estimates of costs to be contained in the renewal of supply contracts. Anheuser-Busch lowered its cost estimates during the first quarter after completing negotiations, resulting in significant hedge ineffectiveness in compliance with FAS 133. Because of the hedge ineffectiveness, the company sold the hedges and realized the ineffective portion of the gain, which is reported as a corporate item for business segment reporting purposes. Also in the first quarter 2004, the company sold two beer wholesaler partnerships and recorded a $19.1 million pretax gain, which is included in domestic beer results for segment reporting. In November 2004, the company recorded a $13.4 million pretax gain ($.018 per share) on the sale of its investment in CCU. This gain is recognized in international beer for segment reporting.

In 2003, the company recognized a $6 million gain from the sale of a company-owned beer wholesalership in Washington state, and also incurred offsetting amounts related to expenses associated with the early call of higher-interest-rate debt and a gain from the receipt of proceeds from an insurance company.



Income Before Income Taxes

2004 vs. 2003

Income before income taxes for 2004 was $3.0 billion, an increase of $175 million, or 6.2%, versus 2003. This increase reflects improved results for all of the company's operating segments.

Pretax income for the domestic beer segment was up 5% for the full year, reflecting higher revenue per barrel and higher beer sales volume. International beer segment pretax income improved 44% for the full year versus 2003, primarily due to volume and profit growth in China, Canada, and the United Kingdom; the impact of Harbin in the second half of the year; and the gain on the sale of CCU. Packaging segment pretax profits were up 5% for the full year 2004 versus 2003, primarily due to higher soft drink can volume and pricing and improved results from the company's aluminum recycling operation. Entertainment segment pretax income increased 6% compared with the full year 2003, primarily due to higher admissions pricing and increased in-park spending. Entertainment results include the impact of the series of hurricanes in Florida during the third quarter.

2003 vs. 2002

Income before income taxes of $2.8 billion in 2003 represented an increase of $200 million, or 7.7%, versus 2002. The increase for 2003 is primarily due to increased domestic beer segment pretax results, along with improved profit contribution from all of the company's remaining business segments.

Domestic beer segment pretax income was up 6.8%, reflecting higher revenue per barrel and increased beer volume. International beer segment pretax income increased 19%, primarily due to volume and profit growth in China. Packaging segment pretax profits were up 1% in 2003, primarily due to improved profits in the company's can, bottle and label manufacturing operations. Entertainment segment income before income taxes increased 6.4% compared with 2002, primarily due to higher admissions pricing and increased in-park spending.

2002 vs. 2001

Income before income taxes was $2.62 billion in 2002, an increase of $230 million, or 9.6% versus 2001. The 2002 increase is due to higher results from all business segments.

Domestic beer pretax income for the year was up 9.3%, to $2.92 billion, reflecting higher revenue per barrel and increased beer volume. International beer segment pretax income increased 37% for 2002, primarily due to volume and profit growth in China. Packaging segment pretax profits were up 42%, primarily due to higher soft drink can prices and volume, along with a profit contribution from the company's bottle manufacturing operation in 2002 compared with a loss in the 2001 start-up year. Entertainment segment pretax profits for the year were up 3.8% compared with 2001. This comparison includes the $17.8 million pretax gain on the sale of the company's SeaWorld Cleveland theme park in 2001.

Equity Income, Net of Tax

Equity income was $404.1 million for 2004, up $59 million, or 17.2%, versus 2003 due to the benefit of price increases implemented by Grupo Modelo, volume growth, and the $18 million one-time benefit from the reduction in Mexican corporate income tax rates. The tax rate benefit is partially offset by $8 million of incremental U.S. deferred income taxes in the consolidated income tax provision. Equity income results for 2003 include a $5.5 million after-tax gain representing Anheuser-Busch's equity share of CCU earnings from the sale of a brewery in Croatia.

Equity income of $344.9 million in 2003 decreased $7 million versus 2002, primarily due to a $17 million one-time deferred income tax benefit included in 2002 Modelo equity income, partially offset by a $6.5 million charge in 2002 related to a brewery operation restructuring. The deferred tax benefit, which resulted from lower Mexican statutory income tax rates enacted in the first quarter of 2002, was largely offset by higher U.S. deferred income taxes included in the 2002 consolidated income tax provision. Equity income growth from Modelo for 2003 was also dampened by lower export volume growth, Modelo not raising prices, and a weaker peso. As noted, Anheuser-Busch's equity share of CCU earnings for 2003 benefited from the after-tax gain on the sale of a brewery in Croatia.

Equity income increased 28.2%, to $351.7 million, for 2002 versus 2001. The increase is primarily due to Modelo's underlying volume and earnings growth. As noted previously, 2002 results include the net favorable impact of the Modelo tax rate benefit and brewery restructuring charge.

Income Taxes

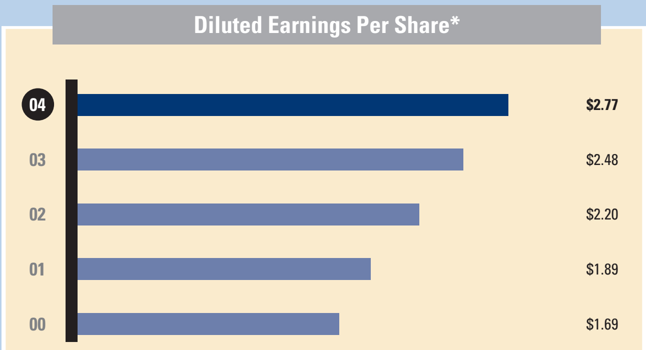
Anheuser-Busch's effective tax rate of 38.8% for 2004 increased 10 basis points versus the 2003 rate of 38.7%. The rate for 2004 includes the impact of the incremental U.S. deferred income taxes related to the Mexican corporate tax rate reduction previously discussed. The 2003 effective rate decreased 100 basis points versus the 39.7% rate in 2002. The decrease results from a more favorable foreign tax credit position in 2003, and an unusually high effective rate in 2002 due to higher U.S. deferred income tax expense to offset a 2002 Mexican income tax rate benefit included in equity income. The rate in 2002 was 70 basis points higher than 2001, due to the incremental U.S. deferred taxes in 2002 and higher foreign taxes, partially offset by the write-off in 2001 of goodwill associated with the sale of SeaWorld Cleveland. See Note 11 for additional information.

Net Income and Diluted Earnings Per Share

Anheuser-Busch generated net income of $2.2 billion for 2004, an increase versus 2003 of $164 million, or 7.9%. Diluted earnings per share were $2.77 in 2004, an increase of 11.7%, or $.29, compared with 2003 results. Diluted earnings per share benefit from the company's ongoing share repurchase program. The company repurchased 33.2 million common shares in 2004, 39.4 million shares in 2003, and 40.7 million shares in 2002. As shown below, diluted earnings per share, excluding the one-time gain on commodity hedges, the gain on the sale of CCU, and the Mexican income tax rate benefit, increased 10.1% versus 2003 (in millions, except per share).

	Income before Income Taxes	Provision for Income Taxes	Equity Income	Net Income	Earnings Per Share Three Decimals	Earnings Per Share Two Decimals
Reported	$2,999.4	$(1,163.2)	$404.1	$2,240.3	$2.771	$2.77
Commodity hedge gain	(19.5)	7.4		(12.1)	(.015)	
Gain on sale of CCU	(13.4)	(1.3)		(14.7)	(.018)	
Benefit from Mexican tax rate reduction		8.0	(18.0)	(10.0)	(.012)	
Excluding one-time items	$2,966.5	$(1,149.1)	$386.1	$2,203.5	$2.725	$2.73
Percentage increase versus 2003				6.1%		10.1%

The company earned net income of $2.1 billion in 2003, an increase of $142 million, or 7.4%, over 2002. Net income of $1.93 billion in 2002 represented an increase of $193 million, or 11.1%, over 2001. Earnings per share were $2.48 in 2003, an increase of $.28, or 12.7%, compared with 2002. Earnings per share of $2.20 for 2002 reflected an increase of $.27 per share, or 14%, versus 2001. Earnings per share for 2002 included a two-thirds cent negative impact from Modelo's brewery restructuring.

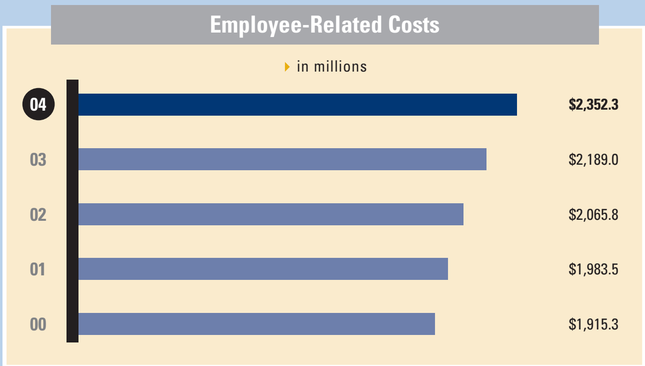


*On a comparable basis, which excludes goodwill amortization, diluted earnings per share for 2001 and 2000 would have been $1.93 and $1.72, respectively.

Employee-Related Costs

Employee-related costs were $2.35 billion in 2004, an increase of 7.5% versus 2003 costs. Employee-related costs totaled $2.19 billion in 2003, an increase of 6.0% versus 2002 costs of $2.07 billion, which had increased 4.2% versus 2001. The changes in employee-related costs primarily reflect normal increases in salaries, wages and benefit levels plus the acquisition of Harbin in 2004. Salaries and wages comprise the majority of employee-related costs and totaled $1.75 billion in 2004, $1.68 billion in 2003, and $1.63 billion in 2002, representing increases versus prior year of 4.0%, 2.8% and 1.7%, respectively. The remainder of employee-related costs consists of pension benefits, life insurance, health care benefits, and payroll taxes.

The company had 31,435 full-time employees at December 31, 2004, including 8,077 Harbin employees. Full-time employees numbered 23,316 and 23,176 at the end of 2003 and 2002, respectively.



Other Taxes

In addition to income taxes, the company is significantly impacted by other federal, state and local taxes, most notably beer excise taxes. Tax expense related to 2004 operations, not including the many indirect taxes included in materials and services purchased, totaled $3.63 billion, an increase of 3.2% versus total taxes in 2003 of $3.52 billion. These amounts highlight the burden of taxation on the company and the brewing industry in general. Tax expense in 2003 increased 3.4% compared with total taxes in 2002 of $3.41 billion.

Proposals to increase excise taxes on beer are addressed by the company and the brewing industry every year, and there has been added pressure recently to increase taxes to help offset state budget deficits. Anheuser-Busch understands that spending cuts or temporary tax increases may be necessary for states to address budget concerns; however, the company believes that states should accomplish this objective in the most efficient and least harmful way possible. The company does not believe excise taxes, which are regressive and primarily burden working men and women, are the solution. To ensure its views on this important matter are known, company and industry representatives meet proactively on an ongoing basis with legislators and administration officials from various states to present arguments against increases in beer excise taxes.

Return on Capital Employed

Value for shareholders is created when companies earn rates of return in excess of their cost of capital. Anheuser-Busch views the rate of return on capital employed to be a key performance measure because it gauges how efficiently the company is deploying its capital assets. Also, increases in the rate are often considered by the investment community to be a strong driver of stock price, especially in conjunction with earnings per share growth.

The company's rate of return on capital employed was 18.4% in both 2004 and 2003. Return on capital employed in 2004 excluding the impact of Harbin was 19.0%, a 60 basis point increase versus 2003. Return on capital employed is computed as net income for the year plus after-tax net interest (interest expense less interest capitalized), divided by average net investment. Net investment is defined as total assets less nondebt current liabilities. The return on capital employed ratio measures after-tax performance; therefore net interest cost is tax-effected in the computation for consistency. For 2004 and 2003, after-tax net interest expense was $251 million and $234 million, respectively, calculated as pretax net interest expense of $405 million and $377 million, respectively, less income taxes applied at 38%. Return on capital employed in 2004 excluding Harbin is calculated as shown below (in millions).

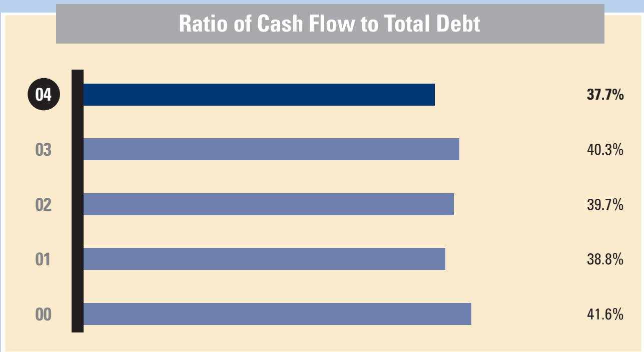
Net income before interest expense	$ 2,491.4
Less: Harbin	(5.2)
Excluding Harbin	$ 2,486.2
Average net assets	$13,518.4
Less: Harbin	(412.9)
Excluding Harbin	$13,105.5
Return on capital employed excluding Harbin	19.0%

Liquidity and Financial Condition

Anheuser-Busch's strong financial position allows it to pursue its growth strategies while providing substantial direct returns to shareholders. Accordingly, the company has established well-defined priorities for its available cash:

- Reinvest in core businesses to achieve profitable growth. To enhance shareholder value, the company will continue to make investments to improve efficiency and add capacity as needed in its existing operations, and intends to make selected equity investments in leading international brewers in higher-growth beer markets.
- Make substantial cash payments directly to shareholders through consistent dividend growth and the repurchase of common shares. The company has paid cash dividends each year since 1933, and it has repurchased approximately 3% of outstanding shares annually for over 10 years. In July 2003, Anheuser-Busch announced a change in the company's dividend policy in reaction to the reduction in the federal income tax rate on corporate dividends enacted that year. It is the company's intent to increase dividends per share in line with the company's diluted earnings per share growth, versus a prior policy of increasing dividends per share somewhat less than the growth in earnings per share.

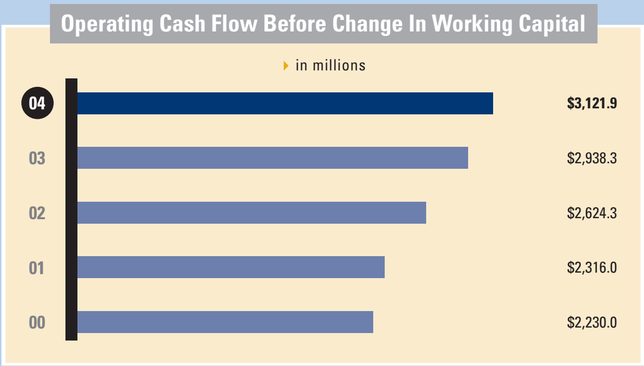
The company considers its ratio of cash flow to total debt to be the most important measure of ongoing liquidity, and currently targets a ratio toward the upper end of the 30% to 40% range, in order to maintain its strong credit ratings of A1 and A+, from Moody's and Standard & Poor's, respectively. Based on its specific financial position and risk tolerance, Anheuser-Busch believes a strong Single A rating strikes the best balance between a low cost-of-capital and maintaining adequate financial flexibility. The company's ratio of cash flow to total debt was 37.7% in 2004, 40.3% in 2003 and 39.7% in 2002.



Sources and Uses of Cash

The company's primary source of liquidity is cash provided by operations. Principal uses of cash are capital expenditures, share repurchases, dividends, and business investments. Information on the company's cash flows, by category, is presented in the consolidated statement of cash flows.

Cash generated by each of the company's business segments is projected to exceed funding requirements for that segment's anticipated capital expenditures. Corporate spending on share repurchases and dividend payments, plus possible additional investments in international brewers, will require external financing while the company maintains its target cash flow to total debt ratio. The use of debt financing lowers the company's overall cost of capital and the nature, extent and timing of external financing will vary depending on the company's evaluation of existing market conditions and other economic factors. The company uses its share repurchase program to manage its leverage position, and typically operates at a working capital deficit as it manages its cash flows. The company had working capital deficits of $151 million, $227 million, and $283 million at December 31, 2004, 2003, and 2002, respectively.



Off-Balance-Sheet Obligations, Commitments and Contingencies

Anheuser-Busch has a long history of paying dividends and expects to continue paying dividends each year. The company also has an active common share repurchase program and anticipates continued share repurchase in the future. However, Anheuser-Busch has no commitments or obligations related to dividends, or for the repurchase or pledging of common shares. The company has cash commitments in the normal course of business, including operating leases. The company has no off-balance-sheet obligations structured to avoid disclosure of assets or liabilities.

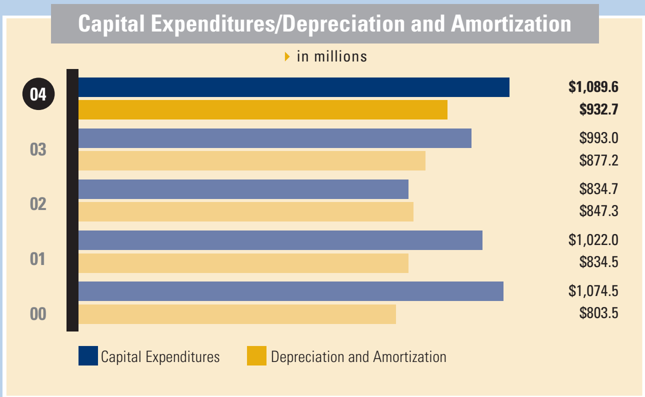
The 9% debentures due 2009 (included in debt on the consolidated balance sheet) permit holders to require repayment of the debt prior to its maturity after a decline in the company's credit rating below investment grade. The credit downgrade must be preceded by a change in control. The total outstanding balance for this debt at December 31, 2004, is $350 million. The 5.35% notes due 2023 permit beneficiaries of deceased note owners to require repayment of the debt at any time prior to maturity, subject to an annual limit of $25,000 per decedent and a cap on aggregate redemptions of $3.6 million per year. The company redeemed $1.9 million and $130,000 of these notes in 2004 and 2003, respectively. The company's fixed charge coverage ratio was 7.8X for the years ended December 31, 2004 and 2003, and was 7.6X for 2002. The company's future cash commitments are shown below, as of December 31, 2004 (in millions).

	2005	2006 and 2007	2008 and 2009	2010 and Thereafter	Total
Capital expenditures	$ 304	$ 44	$ —	$ —	$ 348
Interest payments	426	834	807	4,843	6,910
Operating leases	38	55	31	289	413
Brewing and packaging materials	370	239	231	538	1,378
Unfunded benefit payments	71	205	133	375	784
Maturities of long-term debt	112	471	747	6,949	8,279
	$1,321	$1,848	$1,949	$12,994	$18,112

Capital Expenditures

During the next five years, the company will continue capital expenditure programs designed to take advantage of growth and productivity improvement opportunities for its beer, packaging and entertainment operations. The company has a formal and intensive review procedure for the authorization of capital expenditures, with the most important financial measure of acceptability for a discretionary capital project being whether its projected discounted cash flow return on investment exceeds the company's cost of capital.

Capital expenditures totaled $1.1 billion in 2004, $993 million in 2003, and $835 million in 2002. The increase in 2003 spending corresponds with a decline in 2002 spending (versus 2001) and is attributable to the deferral of spending from 2002. Capital expenditures over the past five years totaled $5.0 billion. The company expects capital expenditures in 2005 in the range of $1.0 billion to $1.1 billion and is projecting capital spending during the five-year period 2005-2009 of approximately $4.8 billion. See Note 16 for information on capital expenditures by business segment.

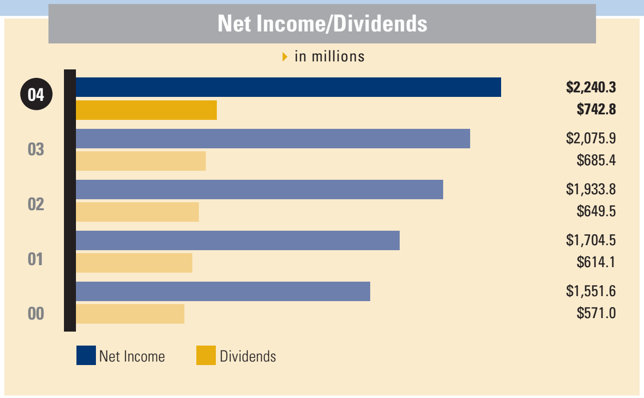


Share Repurchase

The company spent $1.70 billion, $1.96 billion, and $2.03 billion to repurchase Anheuser-Busch common shares in 2004, 2003, and 2002, respectively. From an economic perspective, the company's share repurchase program represents an effective cash flow and opportunity cost offset to stock option grants, because the market value increase of repurchased shares directly offsets the increase in the in-the-money value of outstanding options. Anheuser-Busch has historically repurchased significantly more shares each year than it has issued under stock option plans, with average net repurchases of 2% to 3% of outstanding shares each year. Additionally, assuming the company borrows each year to repurchase shares, the cash tax benefits the company receives related to the exercise of stock options has historically exceeded the related after-tax interest cost on such borrowing. See Note 13 for details of common stock activity.

Dividends

Dividends are paid in the months of March, June, September and December of each year. Cash dividends paid to shareholders were $742.8 million in 2004, $685.4 million in 2003, and $649.5 million in 2002. In the third quarter of 2004, effective with the September dividend, the board of directors increased the quarterly dividend rate from $.22 to $.245 per share. This increased annual dividends to $.93 per share, a 12.0% increase compared with $.83 per share in 2003. The dividend rate in 2003 reflected an increase of 10.7% compared with the rate of $.75 per share in 2002. Quarterly dividends per share for the first and second halves of the year, respectively, were $.22 and $.245 for 2004, $.195 and $.22 for 2003, and $.18 and $.195 for 2002.



Pension Contributions

The company made accelerated contributions to its pension plans totaling $187 million, $75 million, and $201 million, respectively, in 2004, 2003, and 2002. Projections indicated that Anheuser-Busch would have been required to contribute these amounts in future years, but the company chose to make the contributions early in order to enhance the funded status of the plans.

Financing Activities

The company uses Securities and Exchange Commission (SEC) shelf registration statements to provide flexibility and efficiency when obtaining long-term financing. At December 31, 2004, a total of $1.75 billion of SEC registered debt was available for issuance. The company's debt balance increased a total of $993.2 million in 2004, compared with a total increase of $682.2 million in 2003. Details of debt increases and decreases follow. The ESOP debt guarantee expired March 31, 2004.

Increases In Debt

Description	Amount (in millions)	Interest Rate (fixed unless noted)
2004		
U.S. Dollar Notes	**$ 800.0**	**$550.0 at 5.0%; $250.0 at 4.7%**
Commercial Paper, Net	**637.8**	**1.40% wtd. avg., floating**
Chinese Renminbi-Denominated Bank Loans	**118.4**	**4.7% to 8.35%**
Industrial Revenue Bonds	**1.0**	**5.875%**
Other, net	**6.5**	**Various**
	$1,563.7	
2003		
U.S. Dollar Notes	$1,280.0	$180.0 at 5.35%; $400.0 at 5.05%; $300.0 at 4.95%; $200.0 at 4.625%; $200.0 at 4.5%
Commercial Paper, Net	113.5	1.08% wtd. avg., floating
Other, net	4.6	Various
Issuance discounts	(6.2)	N/A
	$1,391.9	

Decreases In Debt

Description	Amount (in millions)	Interest Rate (fixed unless noted)
2004		
Euro Notes	**$ 251.0**	**$200.0 at 6.5%; $51.0 at 4.6%**
U.S. Dollar Notes	**251.9**	**$250.0 at 7.1%; $1.9 at 5.35%**
ESOP Note	**46.3**	**8.25%**
Chinese Renminbi-Denominated Bank Loans	**4.8**	**5.57% wtd. avg.**
Other, net	**16.5**	**Various**
	$ 570.5	
2003		
U.S. Dollar Notes	$450.0	6.75%
U.S. Dollar Debentures	200.0	7.375%
ESOP Note	44.0	8.25%
Other, net	15.7	Various
	$709.7	

In addition to long-term debt, Anheuser-Busch issues commercial paper as a source of shorter-term financing. Commercial paper activity is supported by the company's committed $2 billion short-term bank revolving credit agreement that expires in 2008. This standby credit agreement, which has never been used, provides Anheuser-Busch with an immediate and continuing source of liquidity. See Note 8 for additional information.

Commercial paper borrowings generally fluctuate in conjunction with the seasonality of operations and the timing of long-term debt issuance, with the company experiencing its strongest cash flows in the second and third quarters of the year, and relatively lower cash flows in the first and fourth quarters. Peak commercial paper borrowings of $1.2 billion and $694 million occurred in October 2004 and April 2003, respectively. Lowest commercial paper borrowings were $254 million in June 2004 and zero in June 2003. Average outstanding commercial paper balances were $756 million during 2004 and $373 million during 2003.

Common Stock

At December 31, 2004, registered common stock shareholders numbered 54,654, compared with 56,094 at the end of 2003. The company's common stock is listed on the New York Stock Exchange under the symbol BUD. The closing price of the company's common stock at December 31, 2004 and 2003 was $50.73 and $52.68, respectively. Comparative 2004 and 2003 high and low quarterly closing prices for BUD are provided in the following table.

Price Range of Anheuser-Busch Common Stock (BUD)

	2004		2003	
Quarter	High	Low	High	Low
First	$54.01	$49.94	$50.27	$45.92
Second	$54.22	$50.52	$53.69	$46.45
Third	$54.29	$49.45	$52.29	$49.34
Fourth	$51.07	$49.83	$52.90	$48.69

Critical Accounting Policies

The SEC has defined a critical accounting policy as a policy for which there is a choice among alternatives available under U.S. generally accepted accounting principles (GAAP), and for which choosing a legitimate alternative would yield materially different results. Outlined below are the accounting policies that Anheuser-Busch believes are key to a full understanding of the company's operations and financial results. All the company's accounting policies are in compliance with U.S. GAAP.

Revenue Recognition

The company's revenue recognition policies are simple, straightforward and comply with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." The company recognizes revenue only when title transfers or services have been rendered to unaffiliated customers, based on negotiated arrangements and normal industry practices. As such, alternative recognition and accounting methods are not available to the company.

Equity Method Accounting

Anheuser-Busch applies the equity method of accounting whenever it can exert significant influence on an investee company, typically 20% to 50% owned investments. Equity accounting involves recognizing the company's pro rata share of the net earnings of investee companies in the income statement. Cash is received and recognized only when distributed by the investee company. As an equity investor, Anheuser-Busch does not control the amount or timing of cash distributions by investees. In 2004, Anheuser-Busch recognized equity income of $404.1 million and received cash distributions from investees of $179.0 million. In 2003, equity income was $344.9 million and cash received was $169.2 million. Consolidation of the company's equity investees would not be appropriate because Anheuser-Busch does not have effective control of these entities. Therefore, alternative accounting methods are not available.

Derivatives

The company's use of derivative financial instruments is limited to highly correlated hedges of either firm commitments or anticipated transactions that expose Anheuser-Busch to cash flow or fair value fluctuations in the ordinary course of business. Company policy expressly prohibits active trading or speculating with derivatives. Accordingly, all the company's derivative holdings are designated as hedges and qualify for hedge accounting under FAS 133, "Accounting for Derivatives and Related Hedging Activity." Since company policy is to only use derivatives that will qualify for hedge accounting under FAS 133, the accounting alternative to using hedge accounting would be to voluntarily forgo using hedge accounting, which could introduce volatility into the company's quarterly and annual earnings based on the changes in the market values of the derivatives.

Advertising and Promotional Costs

Advertising and promotional activities are a key element of the company's strategy, and represent significant annual costs incurred by the company. Advertising production costs are accumulated and expensed the first time the advertisement is shown, while advertising media costs are expensed as incurred. Both of these approaches are acceptable under GAAP and the company applies each consistently, based on the nature of the spending. Applying either method exclusively would not materially alter the timing of expense recognition.

Sales promotion costs are recognized as a reduction of net sales when incurred, as required by GAAP. There are no alternative accounting methods available.

Pension Costs

Anheuser-Busch provides pension plans covering substantially all of its regular employees. The accounting for the majority of these plans under FAS 87, "Employer's Accounting for Pensions," requires that the company use three key assumptions when computing estimated annual pension expense. These assumptions are the long-term rate of return on plan assets, the discount rate applied to the projected pension benefit obligation, and the long-term growth rate for salaries.

Of the three key assumptions, only the discount rate is determined by observable market pricing, and it is based on interest rates for high-quality, long-term corporate debt. The discount rate used to value the company's pension obligation at any year-end is used for expense calculations the next year — e.g., the December 31, 2004, rate is being used for 2005 expense calculations. For the rates of return on plan assets and salary growth, the company uses estimates based on experience as well as future expectations. Due to the long-term nature of pension liabilities, Anheuser-Busch attempts to choose rates for these assumptions that will have long-term applicability. See Note 6 for information on the impact of a 1% change in key pension assumptions.

Retiree Medical Costs

Anheuser-Busch provides health care coverage for most of its retirees after they achieve certain age and years of service requirements. Under FAS 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," the company is required to estimate the discount rate and future health care cost inflation rate in order to determine annual retiree health care expense and value the related health care liability on the balance sheet. The company uses health care inflation rates recommended by its actuarial consultants each year. See Note 6 for information on the impact of a 1% change in the assumed discount rate and health care inflation rate on annual retiree medical expense and the company's accrued health care liability.

Risk Management

Through its operations, Anheuser-Busch is exposed to foreign currency exchange, interest rate, and commodity price risks. These exposures primarily relate to beer sales to foreign customers, foreign currency denominated capital purchases, royalty receipts from foreign license and contract brewers, acquisition of raw materials from both domestic and foreign suppliers, and changes in interest rates. The company uses derivative financial instruments, including forward exchange contracts, futures contracts, swaps, and purchased options and collars to manage certain of these exposures. Changes in underlying market conditions during 2004, including changes in interest rates, U.S. dollar foreign currency exchange rates, and certain commodity prices, have not had a material impact on Anheuser-Busch's risk profile. There have been no significant changes in the types of derivative instruments used to hedge the company's exposures.

Anheuser-Busch has well-established policies and procedures governing the use of derivatives. The company hedges only firm commitments or anticipated transactions in the ordinary course of business and corporate policy prohibits the use of derivatives for speculation, including the sale of freestanding instruments. The company neither holds nor issues financial instruments for trading purposes. Specific hedging strategies used depend on several factors, including the magnitude and volatility of the exposure, the cost and availability of appropriate hedging instruments, the anticipated time horizon, the commodity basis exposure, the opportunity cost, and the nature of the underlying hedged item. The company's overall risk management goal is to strike a balance between managing its exposures to market volatility while obtaining the most favorable transaction costs possible. The company monitors the effectiveness of its hedging structures, based either on cash offset between changes in the value of the underlying hedged exposure and changes in the fair value of the derivative, or by measuring the ongoing correlation between the price of the underlying hedged exposure and the pricing upon which the derivative is based. The fair value of derivatives is the amount the company would pay or receive if terminating any contracts.

Derivatives are either exchange-traded instruments that are highly liquid, or over-the-counter instruments transacted with highly rated financial institutions. Bilateral collateral posting arrangements are in place with all over-the-counter derivatives counterparties. Counterparties are required to post collateral to Anheuser-Busch when they reach specified unfavorable fair-value thresholds, which are based on their credit ratings from Moody's and Standard & Poor's, respectively, as follows (in millions):

Counterparties rated at least A2 or A	$30
Counterparties rated A3 and A-	$15
Counterparties rated below A3 or A-	$0

The same collateral posting thresholds apply to Anheuser-Busch and its credit ratings, if the fair value position is unfavorable to the company. All collateral is cash, U.S. Treasury securities, or letters of credit. At December 31, 2004, the company held zero counterparty collateral and had none outstanding. Given the company's derivatives portfolio, current market prices for derivatives held and the company's credit rating, material funding needs arising from the company's collateral arrangements are not expected.

Following is a sensitivity analysis indicating potential unfavorable changes in the fair value of the company's derivative holdings under certain market movements for the last two years, as discussed below (in millions).

	2004	2003
Foreign Currency Risk — Forwards and Options	$0.4	$0.4
Interest Rate Risk — Interest Rate Swaps	$0.2	$0.5
Commodity Price Risk — Futures, Swaps and Options	$9.3	$4.5

The company uses value-at-risk (VAR) analysis for foreign currency and interest rate derivatives exposures, and sensitivity analysis for commodity price exposures. VAR forecasts fair value changes using a Monte Carlo statistical simulation model that incorporates historical correlations among various currencies and interest rates. The VAR model assumes that the company could liquidate its currency and interest rate positions in a single day (one-day holding period). The volatility figures provided represent the maximum one-day loss the company could experience on each portfolio at a 95% confidence level, based on market history and current conditions. Sensitivity analysis reflects the impact of a hypothetical 10% adverse change in the market price for the company's underlying price exposures.

The volatility of foreign currencies, interest rates, and commodity prices is dependent on many factors that cannot be forecasted with accuracy. Therefore, changes in fair value over time could differ substantially from the illustration. Additionally, the preceding derivatives volatility analysis ignores changes in the value of the underlying hedged transactions, although the company expects offsetting impacts between changes in derivative values and changes in the pricing of the underlying hedged transactions. The average daily change in fair value for interest rate swaps in 2004 was $200,000, with a computed one-day high of $6.2 million and a one-day low of zero. The average daily change in fair value for foreign exchange derivatives in 2004 was $110,000, with a computed one-day high of $420,000 and a one-day low of zero. Average daily changes for foreign exchange derivatives are computed as the monthly variance in fair value divided by the number of business days in the month.

Anheuser-Busch's exposure to interest rate volatility related to its outstanding debt is low, because the company predominantly issues fixed-rate debt. At December 31, 2004, fixed-rate debt with an average maturity of 16 years represented 84% of the company's outstanding debt. Assuming the percentage of floating-rate debt at year-end remains constant in 2005, and including the impact of existing fixed-to-floating interest rate swaps, an immediate 100 basis points (1.0 percentage point) increase in interest rates would result in incremental interest expense of approximately $13 million over the course of the full year.

Other Matters

Fair Value of Modelo Investment

The economic benefit of the company's Modelo investment can be measured in two ways: through equity income, which represents Anheuser-Busch's pro rata share in the net earnings of Modelo, and by the excess of the fair market value of the investment over its cost. The excess of fair value over the company's cost, based on Grupo Modelo's closing stock price on the Mexican stock exchange at December 31, 2004, was $4.2 billion. Although this amount is appropriately not reflected in the company's income statement or balance sheet, it represents economic value to Anheuser-Busch and its shareholders.

Agreement With Teamsters

In December 2003, employees represented by the International Brotherhood of Teamsters overwhelmingly approved a new five-year labor contract covering approximately 7,500 employees at the company's 12 U.S. breweries. The contract agreement, which runs through February 28, 2009, calls for wage increases of $.65 per hour in year one, $.60 per hour in years two, three and four, and $.55 cents per hour in year five. The agreement maintains a health care package with no employee-paid premiums in company-sponsored plans and also includes total pension increases of 14% for defined benefit plans. By ratifying the contract on the first vote and having results submitted to the company by December 2, 2003, the Teamsters-represented employees received a renewal of Anheuser-Busch's commitment to keep all 12 breweries open throughout the life of the new agreement, provided there are no new or increased federal or state excise taxes or other unforeseen extraordinary events which negatively impact the company's business. Concurrent with the contract signing, the company recognized in the fourth quarter 2003 a $7 million expense related to a one-time signing bonus and accelerated merit increase.

Wholesaler Acquisition

In October 2003, the company purchased the assets of a beer wholesale operation in Pomona, Calif. for $84 million in Anheuser-Busch common stock and cash. Included in the purchase were cash and other working capital of $22 million, fixed and other long-term assets of $21 million, and product distribution rights of $41 million. See Notes 5 and 9 for additional information.

Certifications and Governance

The company has included the required CEO and CFO certifications regarding the quality of the company's public disclosure as exhibits to its 2004 annual report on Form 10-K filed with the SEC. Also, a CEO certification regarding the company's compliance with corporate governance listing standards has been submitted to the New York Stock Exchange, as required by its listing rules. Available free of charge on the company's Web site, www.anheuser-busch.com, are charters for all standing committees of the board of directors (including audit, compensation and corporate governance); codes of business conduct for directors, officers and employees; and Anheuser-Busch's corporate governance guidelines.

Environmental Issues

The company is strongly committed to environmental protection. Its Environmental Management System provides specific guidance for how the environment must be factored into business decisions and mandates special consideration of environmental issues in conjunction with other business issues when any of the company's facilities or business units plan capital projects or changes in processes. Anheuser-Busch also encourages its suppliers to adopt similar environmental management practices and policies.

The company is subject to federal, state and local environmental protection laws and regulations and is operating within such laws or is taking action aimed at assuring compliance with such laws and regulations. Compliance with these laws and regulations is not expected to materially affect the company's competitive position. It is the opinion of management that potential costs, either individually or in the aggregate, related to any federal or state designated cleanup sites for which Anheuser-Busch has been identified as a Potentially Responsible Party will not materially affect the company's financial position, results of operations, or liquidity.