1. Summary of Significant Accounting Policies

Principles and Policies

This summary of the significant accounting principles and policies of Anheuser-Busch Companies, Inc., and its subsidiaries is provided to assist in evaluating the company's consolidated financial statements. These principles and policies conform to U.S. generally accepted accounting principles. The company is required to make certain estimates in preparing the financial statements that impact the reported amounts of certain assets, liabilities, revenues and expenses. All estimates are based on the company's best information at the time and are in conformity with U.S. generally accepted accounting principles. Actual results could differ from the estimates, and any such differences are recognized when incurred.

Principles of Consolidation

The consolidated financial statements include the company and all its subsidiaries. The company consolidates all majority-owned and controlled subsidiaries, uses the equity method of accounting for investments in which the company is able to exercise significant influence, and uses the cost method for all other equity investments. All significant intercompany transactions are eliminated. Minority interests in the company's consolidated China subsidiaries are not material.

Revenue Recognition

The company's revenue recognition practices comply with Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." The company recognizes revenue only when legal title transfers or services have been rendered to unaffiliated customers. For malt beverages shipped to independent wholesalers, title transfers on shipment of product from the company's breweries. For company-owned beer wholesalers, title transfers when products are delivered to retail customers. The company does not recognize any revenue when independent wholesalers sell the company's products to retail customers. For cans and lids, title transfers on customer receipt. Entertainment operations recognize revenue when customers actually visit a park location, rather than when advance or season tickets are sold.

Foreign Currency

Financial statements of foreign subsidiaries where the local currency is the functional currency are translated into U.S. dollars using period-end exchange rates for assets and liabilities and average exchange rates during the period for revenues and expenses. Cumulative translation adjustments associated with net assets are reported in nonowner changes in equity and are not recognized in the income statement until the investment is sold.

Exchange rate gains or losses related to foreign currency transactions are recognized in the income statement as incurred, in the same financial statement caption as the underlying transaction, and are not material for any year shown.

Valuation of Securities

For investments accounted for under the cost basis, Anheuser-Busch applies FAS 115, "Accounting for Certain Investments in Debt and Equity Securities." Under FAS 115, the company classifies its investments as "available for sale" and adjusts the carrying values of those securities to fair market value each period. Market valuation gains or losses are deferred in non-owner changes in equity and are not recognized in the income statement until the investment is sold.

Cash

Cash includes cash in banks, demand deposits, and investments in short-term marketable securities with original maturities of 90 days or less.

Inventories

Inventories are valued at the lower of cost or market. The company uses the last-in, first-out method (LIFO) valuation approach to determine cost primarily for domestic production inventories, and uses average cost valuation primarily for international production and retail merchandise inventories. LIFO was used for approximately 71% of total inventories at December 31, 2004, and 76% of inventories at December 31, 2003. Average cost was used for the remainder. Had average cost been used for all inventories at December 31, 2004, and 2003, the value of total inventories would have been $126.0 million and $110.0 million higher, respectively.

Fixed Assets

Fixed assets are carried at original cost less accumulated depreciation, and include expenditures for new facilities as well as those that increase the useful lives of existing facilities. The cost of routine maintenance, repairs, and minor renewals is expensed as incurred. Depreciation expense is recognized using the straight-line method based on the following weighted-average useful lives: buildings, 25 years; production machinery and equipment, 15 years; furniture and fixtures, 10 years; computer equipment, 3 years. When fixed assets are retired or sold, the book value is eliminated and any gain or loss on disposition is recognized in cost of sales. The components of plant and equipment as of December 31 are summarized below (in millions):

	2004	2003
Land	$ 278.9	$ 278.8
Buildings	4,750.6	4,546.1
Machinery and equipment	11,907.4	11,208.0
Construction in progress	475.6	488.3
Plant and equipment, at cost	17,412.5	16,521.2
Accumulated depreciation	(8,565.1)	(8,022.3)
Net plant and equipment	$ 8,847.4	$ 8,498.9

Intangible Assets

Anheuser-Busch's intangible assets consist of trademarks, beer distribution rights, and goodwill.

Trademarks include purchased trademarks, brand names, logos, slogans, or other recognizable symbols associated with the company's products. Trademarks are not amortized because they have indefinite lives. Domestic beer distribution rights are associated with company-owned beer wholesale operations and represent the exclusive ability to sell the company's products in defined geographic areas. The carrying values of these rights have indefinite lives and are not being amortized, primarily due to the company's intent to operate its wholesalerships in perpetuity and the lives not being contractually or statutorily limited. International distribution rights relate to operations in the United Kingdom and China and are being amortized over their respective useful lives. The company analyzes its trademarks and product distribution rights for potential impairment annually, based on projected future cash flows and observation of independent beer wholesaler exchange transactions.

The company recognizes the excess of the cost of acquired businesses over the fair value of net assets as goodwill. Goodwill related to consolidated businesses is included in intangible assets on the balance sheet. Goodwill associated with the company's equity investments in Grupo Modelo and CCU (prior to the sale of CCU in 2004) is included in investments in affiliated companies. Goodwill is reviewed for impairment at least annually, with ongoing recoverability based on applicable operating unit performance and consideration of significant events or changes in the overall business environment.

Anheuser-Busch performs impairment analyses at the business unit level for consolidated goodwill and at the investee level for equity-method goodwill. Impairment testing for consolidated goodwill is a two-step process. The first step is a comparison of the fair value of the business, determined using future cash flow analysis, to its recorded amount on the balance sheet. If the recorded amount exceeds the fair value, the second step quantifies any impairment write-down by comparing the current implied value of goodwill and the recorded goodwill balance. Recoverability testing for equity investment goodwill is based on impairment analysis of the entire equity investment, using a combination of future cash flow analysis and consideration of pertinent business and economic factors.

An analysis completed upon the adoption of FAS 142 found no impairment of any intangible assets. A review of intangible assets completed in the fourth quarter of 2004 found no impairment as of December 31, 2004. See Note 5 for additional information on changes in the balances of intangible assets.

Delivery Costs

Pass-through finished goods delivery costs reimbursed by customers are reported in sales, while an offsetting expense is included in cost of sales.

Delivery costs incurred by company-owned beer wholesalers are included in marketing, distribution and administrative expenses. These costs are considered marketing-related because in addition to product delivery, drivers provide several customer service functions to retailers.

Advertising and Promotional Costs

Advertising production costs are deferred and expensed the first time the advertisement is shown. Advertising media costs are expensed as incurred. Advertising costs are recognized in marketing, distribution and administrative expenses and totaled $806.7 million in both 2004 and 2003, and $821.7 million in 2002. Sales promotion costs are recognized as a reduction of net sales when incurred, and totaled $535.7 million in 2004, $511.8 million in 2003, and $543.5 million in 2002.

Financial Derivatives

Anheuser-Busch uses financial derivatives to mitigate the company's exposure to volatility in commodity prices, interest rates, and foreign currency exchange rates. The company hedges only exposures in the ordinary course of business and company policy prohibits holding or trading derivatives for profit. All derivatives held by the company are designated as hedges at inception, with an expectation they will be highly effective in offsetting the associated underlying price exposures. The company requires liquidation of derivative positions whenever it is determined that an underlying transaction will not occur, with related gains or losses recognized in the income statement on liquidation. Commodity derivatives outstanding at December 31, 2004, all have initial terms of two years or less, and all hedged transactions are expected to occur within that timeframe.

The company accounts for its derivatives in accordance with FAS No. 133, "Accounting for Derivative Instruments and Hedging Activity," which requires all derivatives to be carried on the balance sheet at fair value and meet certain documentary and analytical requirements to qualify for hedge accounting treatment. All of the company's derivative positions qualify for hedge accounting under FAS 133. The company bases the fair values of its derivatives on market observation or dealer quotation.

Under FAS 133, derivatives are classified either as fair value hedges or cash flow hedges, depending on the nature of the underlying exposure. Fair value hedges are accounted for by recognizing the changes in fair value for both the derivative and the underlying hedged exposure in earnings each period. For cash flow hedges, changes in fair value are reported in non-owner changes in equity until the underlying transaction occurs, if they are effective in offsetting price changes in the underlying exposure. Whether classified as fair value or cash flow, a fully effective hedge will therefore result in zero net earnings impact. To the extent that either type of hedge is not fully effective at offsetting price change in the underlying exposure, there could be net earnings impact. The company's interest rate hedges are fair value hedges, while commodity price hedges and most foreign currency denominated hedges are classified as cash flow hedges.

Option premiums paid to counterparties are initially recorded as assets and subsequently adjusted to fair value each period, with the effective portion of the change in fair value reported in nonowner changes in equity until the underlying transaction occurs. Amounts receivable from, or owed to, derivatives counterparties are included in current assets and current liabilities, respectively.

See Note 3 for additional information on underlying hedge categories, notional and fair values of derivatives, types of derivatives used, and gains and losses from hedging activity.

Stock-Based Compensation

The company accounts for employee stock options in accordance with FAS 123, "Accounting for Stock-Based Compensation." Under FAS 123, the company elects to recognize no compensation expense related to employee stock options, since options are always granted with an exercise price equal to the market price of the company's stock on the day of grant. See Note 7 for information regarding the company's stock option plans, options outstanding, and options exercisable.

Because of its election to not recognize compensation expense for stock options, the company makes pro forma disclosures of net income and diluted earnings per share as if compensation expense had been recognized, based on the fair value of stock options on the grant date. Had employee compensation expense been recognized based on the fair value methodology prescribed by FAS 123, the company's net income and earnings per share for the three years ended December 31 would have been impacted as shown in the following table (in millions, except per share). The fair value disclosed is required to be based on a theoretical option-pricing model. In actuality, because the company's employee stock options are not traded on an exchange, employees can receive no value nor derive any benefit from holding stock options under these plans without an increase in the market price of Anheuser-Busch stock. Such an increase in stock price benefits all shareholders.

	2004	2003	2002
Reported net income	**$2,240.3**	$2,075.9	$1,933.8
Pro forma stock option expense	**(121.6)**	(113.4)	(93.1)
Adjusted net income	**$2,118.7**	$1,962.5	$1,840.7
Reported basic earnings per share	**$ 2.80**	$ 2.51	$ 2.23
Pro forma stock option expense	**(.15)**	(.14)	(.11)
Adjusted basic earnings per share	**$ 2.65**	$ 2.37	$ 2.12
Reported diluted earnings per share	**$ 2.77**	$ 2.48	$ 2.20
Pro forma stock option expense	**(.15)**	(.14)	(.11)
Adjusted diluted earnings per share	**$ 2.62**	$ 2.34	$ 2.09

The fair value of stock options granted, which is hypothetically amortized to compensation expense over the vesting period to determine the earnings impact illustrated above, has been estimated on the date of grant using a binomial (lattice method) option-pricing model for 2004 and the Black-Scholes option-pricing model for 2003 and 2002. The assumptions used in applying these models follow:

	2004	2003	2002
Expected life of option	**5.5 yrs.**	7 yrs.	7 yrs.
Risk-free interest rate	**3.7%**	4.0%	4.1%
Expected volatility of Anheuser-Busch stock	**22%**	22%	23%
Expected dividend yield on Anheuser-Busch stock	**1.8%**	1.7%	1.6%

The fair value of options granted during 2004, 2003 and 2002 determined using either the binomial or Black-Scholes model, as noted above, is as follows (in millions, except per option):

	2004	2003	2002
Fair value of each option granted	**$10.49**	$13.58	$13.86
Total number of options granted	**14.1**	14.4	14.2
Total fair value of options granted	**$147.9**	$195.6	$196.8

The binomial option-pricing model was selected for the valuation of 2004 options because it accommodates several inputs in order to take into account multiple option exercise patterns, and essentially computes a distinct value for each pattern. Anheuser-Busch therefore believes the binomial model is a better measure of stock option value than Black-Scholes. For illustrative purposes, the expected life, risk-free rate, and fair value per option shown above are weighted averages computed from the distinct exercise patterns.

In December 2004, the Financial Accounting Standards Board issued a revised and renamed standard — FAS 123R, "Share-Based Payment." The revised standard, which is effective for Anheuser-Busch in the third quarter of 2005, eliminates the disclosure-only election under FAS 123 and requires the recognition of compensation expense for stock options and all other forms of equity compensation based on the fair value of the instruments on the date of grant. Early adoption of the new rules is encouraged, and Anheuser-Busch has elected to adopt FAS 123R as of January 1, 2005. In order to enhance comparability among all years presented and to provide the fullest understanding of the impact expensing stock options has on the company, Anheuser-Busch will retrospectively apply the new standard to all prior period results on adoption. As required by FAS 123R, prior-period results will reflect the net income and earnings per share impacts previously disclosed under pro forma reporting requirements. The company estimates that the impact on 2005 net income and earnings per share of expensing stock options will approximate the 2004 impact shown previously. For financial reporting purposes, stock option expense will be included in the marketing, distribution and administrative line item in the income statement and classified as a corporate expense for segment reporting.

Research and Development Costs and Start-Up Costs

Research and development costs and plant start-up costs are expensed as incurred, and are not material for any year presented.

Computer Systems Development Costs

The company capitalizes computer systems development costs that meet established criteria, and amortizes those costs to expense on a straight-line basis over five years. Systems development costs not meeting the proper criteria for capitalization, including systems reengineering costs, are expensed as incurred.

Income Taxes

The provision for income taxes is based on the income and expense amounts reported in the consolidated statement of income. The company utilizes federal, state and foreign income tax laws and regulations to reduce current cash taxes payable. Deferred income taxes are recognized for the effect of temporary differences between financial reporting and tax filing in accordance with the requirements of FAS No. 109, "Accounting for Income Taxes." See Note 11 for additional information on the company's provision for income taxes, deferred income tax assets and liabilities, and effective tax rate.

Issuance of Stock by Equity Investees

The company has elected to treat issuances of common stock by equity investees as Anheuser-Busch equity transactions per SEC Staff Accounting Bulletin No. 51, and therefore recognizes no gain or loss when shares are issued.

2. International Equity Investments

Grupo Modelo

From 1993 to 1998, Anheuser-Busch accumulated a 50.2% direct and indirect equity interest in Diblo, S.A. de C.V. (Diblo), the operating subsidiary of Grupo Modelo, S.A. de C.V. (Modelo), Mexico's largest brewer and producer of the Corona brand, for a total cost of $1.6 billion. The company holds nine of 19 positions on Modelo's board of directors (with the Controlling Shareholders Trust holding the other 10 positions) and also has membership on the audit committee. Anheuser-Busch does not have voting or other effective control of either Diblo or Modelo and consequently accounts for its investment using the equity method. The carrying amount of the Modelo investment was $2,686.2 million and $2,350.9 million, respectively, at December 31, 2004 and 2003.

Included in the carrying amount of the Modelo investment is goodwill of $525.1 million and $514.9 million, respectively, at December 31, 2004 and 2003. Effective with the adoption of FAS 142 in January 2002, the company ceased amortization of Modelo-related goodwill. Changes in goodwill during 2004 and 2003 are due to changes in exchange rates between the U.S. dollar and Mexican peso. Dividends received from Grupo Modelo in 2004 totaled $170.2 million, compared to $118.3 million in 2003 and $40.5 million in 2002. Dividends are paid based on a free-cash-flow distribution formula in accordance with the investment agreement between the companies and are recorded as a reduction in the carrying value of the company's investment.

During June and July 2004 (Anheuser-Busch's third quarter, based on its one-month-lag reporting for Grupo Modelo), Modelo received a $251.0 million capital infusion in certain subsidiaries in exchange for equity in those subsidiaries. Anheuser-Busch recognized its share of the capital infusion as an equity transaction and reported an $85.4 million increase in its Grupo Modelo investment and a $74.0 million increase in capital in excess of par value, net of deferred income taxes of $11.4 million.

Summary financial information for Grupo Modelo as of and for the two years ended December 31 is presented in the following table (in millions). The amounts represent 100% of Grupo Modelo's consolidated operating results and financial position based on U.S. generally accepted accounting principles, and include the impact of Anheuser-Busch's purchase accounting adjustments.

	2004	2003
Cash	**$ 1,419.6**	$ 1,044.7
Other current assets	**$ 719.4**	$ 744.7
Noncurrent assets	**$ 4,041.3**	$ 3,700.1
Current liabilities	**$ 406.0**	$ 382.1
Noncurrent liabilities	**$ 356.9**	$ 330.4
Gross sales	**$ 4,220.8**	$ 3,909.0
Net sales	**$ 3,862.6**	$ 3,594.6
Gross profit	**$ 2,092.3**	$ 1,959.1
Minority interest	**$ 3.5**	$ 4.6
Net income	**$ 788.1**	$ 651.0

Tsingtao

In April 2003, the company announced a strategic alliance with Tsingtao Brewery Company, Ltd., the largest brewer in China, and the producer of the Tsingtao brand. During 2003 and 2004, Anheuser-Busch invested $182 million under its agreement with Tsingtao in three convertible bonds featuring mandatory conversion into equity within seven years. The first bond was converted in July 2003, which increased the company's economic and voting stake in Tsingtao from 4.5% to 9.9%. Anheuser-Busch accounts for its investment on the cost basis, as it is currently unable to exercise significant influence over Tsingtao's business policies and operations. When additional bonds are converted and the company's voting stake in Tsingtao reaches 20%, Anheuser-Busch will gain an additional seat on the board of directors, to two of 11, and representation on related board committees, and believes it will then be able to exercise significant influence. The company anticipates adopting the equity method of accounting at that time. When all bonds are converted, the company's economic ownership interest will increase to 27% of Tsingtao while its voting interest will remain at 20%.

In the fourth quarter 2003, the company loaned Tsingtao $15 million for a term of five years at an annual interest rate of 1%. The loan provided Tsingtao with funding to reacquire minority interests in three of its brewery subsidiaries.

CCU

In 2001, the company purchased a 20% equity interest in Compañía Cervecerías Unidas S.A. (CCU), the largest brewer in Chile, for $321 million. CCU imports and distributes Budweiser in Chile. Through board of directors representation and membership on the audit committee, Anheuser-Busch believed it exercised significant influence over CCU and therefore accounted for its CCU investment using the equity method. Prior to 2001, Anheuser-Busch owned a 10.8% direct equity interest in the Argentine subsidiary of CCU, for a total cost of $23.9 million. The 20% acquisition of CCU in 2001 increased Anheuser-Busch's direct and indirect interest in CCU-Argentina to 28.6%, and the company began applying equity accounting at that time. CCU-Argentina brews Budweiser under license for Argentina, Chile, Brazil, and other Latin American markets.

In November 2004, Anheuser-Busch sold its entire 20% equity stake in CCU for $302.5 million, and recognized a pretax gain of $13.4 million, which is reported in the income statement in other income and included in international beer for business segment reporting. Due to favorable tax circumstances, the after-tax gain on the CCU sale was $14.7 million, or $.018 per share. The sale of CCU reduced the company's investment in CCU-Argentina to its original 10.8%, which will now be accounted for on the cost basis because Anheuser-Busch can no longer exercise significant influence. The company will continue its partnerships with CCU to produce and distribute Budweiser in Chile and Argentina. The carrying value of the CCU investments was $215.7 million at December 31, 2003, including goodwill of $126.0 million. Dividends received from CCU totaled $8.8 million in 2004, $50.9 million in 2003, and $6.2 million in 2002.

3. Derivatives and Other Financial Instruments

Derivatives

Under FAS 133, Anheuser-Busch appropriately defers the recognition of most unrealized derivatives gains or losses until the related underlying hedged transactions occur. Gains and losses that relate to any portion of a hedge that is not 100% effective at offsetting price movements in the hedged exposure are immediately recognized in the income statement.

The following table shows (in millions) derivatives gains and losses deferred as of December 31, 2004, 2003 and 2002. The amounts shown for 2003 and 2002 were recognized in the income statement the next year. For the gains and losses deferred as of December 31, 2004, the majority are expected to be recognized in cost of sales in 2005, when the underlying transaction occurs. However, the amounts ultimately recognized may differ, favorably or unfavorably, from those shown because many of the company's derivative positions are not yet settled and therefore remain subject to ongoing market price fluctuations in 2005. The company had deferred option premium costs of $6.5 million, $26.2 million, and $9.5 million at the end of 2004, 2003, and 2002, respectively.

Also shown below are net amounts recognized in earnings as ineffective during the year. The gain for 2004 includes $19.5 million reported in other income related to the sale of commodity hedges 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 negotiating the agreements, resulting in significant hedge ineffectiveness in compliance with FAS 133. Due to the hedge ineffectiveness, the company sold these hedges and recorded the ineffective portion of the gain.

	2004	2003	2002
Deferred gains	$ 2.8	$ 86.0	$ 20.5
Deferred losses	(4.9)	(26.2)	(19.4)
Net deferred gains/(losses)	$ (2.1)	$ 59.8	$ 1.1
Net ineffective gains/(losses) recognized in earnings	$26.5	$ 1.3	$ (0.4)

The table below summarizes the notional transaction amounts and fair values for the company's outstanding derivatives, by risk category and instrument type, at December 31 (in millions). Because the company hedges only with derivatives that have high correlation with the underlying transaction pricing, changes in derivatives fair values and the underlying prices are expected to essentially offset.

	2004		2003	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Foreign Currency:				
Forwards	$114.7	$ 0.7	$ 87.3	$ 1.0
Options	151.0	3.8	161.2	5.4
	265.7	4.5	248.5	6.4
Interest Rate:				
Swaps	150.0	5.6	401.0	19.2
Commodity Price:				
Swaps	22.0	(2.9)	235.5	28.5
Futures and forwards	14.6	(0.9)	21.5	1.2
Options	58.3	2.4	461.4	54.0
	94.9	(1.4)	718.4	83.7
Total outstanding derivatives	$510.6	$ 8.7	$1,367.9	$109.3

Anheuser-Busch's primary foreign currency exposures are to transactions and investments denominated in Mexican and Argentine pesos, Chinese renminbi, Canadian dollars, British pounds sterling, and euros. Hedged commodity exposures include aluminum, rice, corn, natural gas, and diesel fuel. The primary foreign currency exposures are long, meaning the company generates a surplus of these currencies, while the commodity exposures are short, meaning the company must acquire additional quantities to meet its operating needs.

Concentration of Credit Risk

The company does not have a material concentration of credit risk.

Nonderivative Financial Instruments

Nonderivative financial instruments included in the balance sheet are cash, accounts receivable, accounts payable, and long-term debt. Accounts receivable include allowances for doubtful accounts of $12.5 million and $6.6 million, at December 31, 2004 and 2003, respectively. The fair value of long-term debt, excluding commercial paper, and estimated based on future cash flows discounted at interest rates currently available to the company for debt with similar maturities and characteristics, was $7.7 billion and $7.2 billion at December 31, 2004 and 2003, respectively.

4. Harbin Group Acquisition

During the second quarter 2004, the company initiated a tender offer for all the outstanding shares of Harbin Brewery Group, the fourth-largest brewer in China, and completed the purchase by the end of July 2004. Anheuser-Busch began including operating results for Harbin in the company's consolidated results on a one-month-lag basis beginning with the third quarter of 2004. Harbin results are not material to the company's operations for any period shown.

Anheuser-Busch paid a total of $694 million for one billion outstanding shares representing 100% of Harbin, with the purchase price allocated as shown below (in millions).

Description	Allocation
Working capital deficit	$ (27.9)
Property, plant and equipment	173.1
Identifiable intangible assets	59.8
Goodwill	613.8
Long-term debt assumed	(118.4)
Net other liabilities	(6.6)
	$ 693.8

An independent appraiser performed the valuation of acquired assets and liabilities. Identifiable intangible assets consist of trademarks valued at $44.4 million and a wholesaler distribution network valued at $15.4 million. The Harbin debt assumed is a portfolio of small-scale renminbi-denominated loans with a weighted average interest rate of 5.57% and maturities ranging from 2005 through 2009, with the majority due in 2005. None of the Harbin goodwill is deductible for tax purposes.

5. Intangible Assets

Upon adoption of FAS 142 in 2002, the company reclassified out of goodwill, purchased beer distribution rights that met specific criteria for distinct asset recognition. The company also reclassified into goodwill certain miscellaneous intangible assets that did not meet the criteria for separate asset recognition. The following table shows the activity in goodwill and beer distribution rights since the adoption of FAS 142 (in millions).

	Trademarks	Goodwill	Beer Distribution Rights
Balance at December 31, 2001	$ —	$1,256.9	$ —
Reclassification on adoption of FAS 142	—	(151.4)	158.9
Domestic beer wholesaler acquisition	—	—	13.6
Amortization of international distribution rights	—	—	(0.8)
Foreign currency translation and other	—	(80.1)	2.0
Balance at December 31, 2002	—	1,025.4	173.7
Domestic beer wholesaler acquisition	—	—	47.3
Domestic beer wholesaler disposition	—	—	(1.0)
Amortization of international distribution rights	—	—	(0.8)
Foreign currency translation and other	—	(35.5)	2.1
Balance at December 31, 2003	—	989.9	221.3
Domestic beer wholesaler acquisition	**—**	**—**	**10.6**
Disposition of domestic beer wholesaler equity investment	**—**	**—**	**(40.1)**
Domestic beer wholesaler purchase price allocation	**—**	**21.2**	**—**
Harbin acquisition	**44.4**	**613.8**	**15.4**
CCU disposition	**—**	**(126.0)**	**—**
Amortization of international distribution rights	**—**	**—**	**(1.8)**
Foreign currency translation and other	**—**	**10.3**	**1.5**
Balance at December 31, 2004	**$44.4**	**$1,509.2**	**$206.9**

The international beer distribution rights have a combined gross cost of $45.5 million and a remaining unamortized balance of $37.1 million at December 31, 2004. Rights in the United Kingdom are being amortized over a contractual life of 32 years, through 2029 while the rights in China are being amortized over seven years, through 2011. The company expects amortization expense of approximately $3 million per year related to international distribution rights over the next five years.

6. Retirement Benefits

Pension Plans

The company has pension plans covering substantially all of its regular employees. Total pension expense for the three years ended December 31 is presented in the following table (in millions). Contributions to multiemployer plans in which the company and its subsidiaries participate are determined in accordance with the provisions of negotiated labor contracts, based on employee hours or weeks worked. Pension expense recognized for multiemployer and defined contribution plans equals required cash contributions for all years shown.

	2004	2003	2002
Single-employer defined benefit plans	**$118.6**	$ 73.7	$43.5
Multiemployer plans	**16.8**	16.8	16.9
Defined contribution plans	**18.9**	18.4	17.8
Total pension expense	**$154.3**	$108.9	$78.2

Net annual pension expense for single-employer defined benefit plans was composed of the following for the three years ended December 31 (in millions):

	2004	2003	2002
Service cost (benefits earned during the year)	**$ 86.6**	$ 74.7	$ 66.7
Interest cost on projected benefit obligation	**159.2**	151.9	143.6
Assumed return on plan assets	**(189.2)**	(188.9)	(194.5)
Amortization of prior service cost and net actuarial losses	**62.0**	36.0	27.7
Net annual pension expense	**$ 118.6**	$ 73.7	$ 43.5

The key actuarial assumptions used in determining the annual pension expense and funded status for single-employer defined benefit plans for the three years ended December 31 follow. The measurement date for the company's pension accounting is October 1.

	2004	2003	2002
Annual expense:			
Discount rate	**6.25%**	6.75%	7.25%
Long-term rate of return on plan assets	**8.50%**	8.50%	9.25%
Wtd. avg. rate of compensation increase	**4.25%**	4.25%	4.75%
Funded status:			
Discount rate	**6.0%**	6.25%	6.75%
Wtd. avg. rate of compensation increase	**4.25%**	4.25%	4.75%

Following is a summary of the impact on 2005 annual pension expense of a 1% change in actuarial assumptions (in millions). Brackets indicate annual pension expense would be reduced. Modification of these assumptions does not impact the company's pension funding requirements.

Assumption	2005 Rate	Impact of 1% Increase	Impact of 1% Decrease
Long-term asset return	8.50%	$(23.1)	$ 23.1
Discount rate	6.0%	$(28.1)	$ 30.5
Salary growth rate	4.25%	$ 21.0	$(18.6)

The following table provides a reconciliation between the funded status of single-employer defined benefit plans and the prepaid pension cost asset recorded on the balance sheet for the two years ended December 31 (in millions):

	2004	2003
Funded status — plan assets (less than) projected benefit obligation	**$ (705.9)**	$(640.5)
Unrecognized net actuarial loss	**1,087.3**	964.2
Unamortized prior service cost	**146.4**	113.2
Prepaid pension cost asset	**$ 527.8**	$ 436.9

The following tables present changes in the projected benefit obligation, changes in the fair value of plan assets, and a comparison of plan assets and the accumulated benefit obligation for single-employer defined benefit plans for the two years ended December 31 (in millions):

	2004	2003
Projected benefit obligation, beginning of year	**$2,575.6**	$2,323.6
Service cost	**86.6**	74.7
Interest cost	**159.2**	151.9
Plan amendments	**56.1**	13.3
Actuarial loss	**183.4**	175.4
Foreign currency translation	**4.1**	4.0
Benefits paid	**(171.0)**	(167.3)
Projected benefit obligation, end of year	**$2,894.0**	$2,575.6

	2004	2003
Fair value of plan assets, beginning of year	**$1,935.1**	$1,731.7
Actual return on plan assets	**211.8**	272.6
Employer contributions	**210.0**	95.7
Foreign currency translation	**2.2**	2.4
Benefits paid	**(171.0)**	(167.3)
Fair value of plan assets, end of year	**$2,188.1**	$1,935.1

	2004	2003
Plans with assets in excess of accumulated benefit obligation:		
Accumulated benefit obligation	**$ —**	$ (91.6)
Plan assets	**—**	94.6
Assets exceeding accumulated benefit obligation	**—**	3.0
Plans with accumulated benefit obligation in excess of assets:		
Accumulated benefit obligation	**(2,622.0)**	(2,250.1)
Plan assets	**2,150.8**	1,840.5
Accumulated benefit obligation exceeding assets	**(471.2)**	(409.6)
Net excess accumulated benefit obligation	**$ (471.2)**	$ (406.6)

Recognition of a minimum pension liability in nonowner changes in equity is necessary whenever the accumulated pension benefit obligation exceeds plan assets. Recording a minimum pension liability has no impact on the results of operations or cash flows. Summarized in the following table are the components of the company's minimum pension liability for the two years ended December 31 (in millions):

	2004	2003
Minimum pension liability — domestic plans	$(961.7)	$(807.9)
Minimum pension liability — equity investments	(42.4)	(31.9)
Intangible asset — unrecognized prior service costs	150.8	112.2
Deferred income taxes	336.3	274.6
Net minimum pension liability	$(517.0)	$(453.0)

Required funding for the company's defined benefit pension plans is determined in accordance with guidelines set forth in the federal Employee Retirement Income Security Act (ERISA). The company will make required pension contributions totaling $64 million for all plans in 2005. Additional contributions to enhance the funded status of pension plans can be made at the company's discretion, and Anheuser-Busch made accelerated contributions of $187 million, $75 million and $201 million in 2004, 2003 and 2002, respectively. Following is information regarding the allocation of the company's pension plan assets as of December 31, 2004 and 2003, target allocation for 2005, and weighted-average expected long-term rates of return by asset category.

Asset Category	Percentage of Plan Assets at Dec. 31, 2003	Percentage of Plan Assets at Dec. 31, 2004	Target Asset Allocation for 2005	Wtd Avg Expected Long-Term Rate of Return
Equity securities	69%	69%	68%	10.0%
Debt securities	27%	27%	27%	5.0%
Real estate	4%	4%	5%	7.0%
Total	100%	100%	100%	8.5%

Target asset allocations are intended to achieve a desired total asset return over the long term, with an acceptable level of risk in the shorter term. Risk is measured in terms of likely volatility of annual investment returns, pension expense, and funding requirements. Expected returns, risk, and correlation among asset classes are based on historical data and investment advisor input.

The assumed rate of return is consistent with Anheuser-Busch's long-term investment return objective, which enables the company to provide competitive and secure employee retirement pension benefits. The company desires to minimize unfunded pension liabilities, while balancing expected long-term returns and short-term volatility.

The company assumes prudent levels of risk to meet overall pension investment goals. Risk levels are managed through formal and written investment guidelines. Portfolio risk is managed by having well-defined long-term strategic asset allocation targets. The company avoids tactical asset allocation and market timing and has established disciplined rebalancing policies to ensure asset allocations remain close to targets. The company's asset allocations are designed to provide broad market diversification, which reduces exposure to individual companies, industries and sectors of the market and reduces overhead costs. With the exception of the U.S. government and its agencies, investment exposure to any single entity is limited to a maximum 5% of any single fund. Pension assets do not include any direct investment in Anheuser-Busch debt or equity securities.

Options and futures are used to hedge exposure to foreign currency denominated stocks and securitize cash in investment portfolios. By policy, derivatives used must be simple structures with high liquidity and be either exchange-traded or executed with highly-rated counterparties. Leveraged transactions, short selling, illiquid derivative instruments, and margin transactions are prohibited.

Postretirement Health Care and Insurance Benefits

The company provides certain health care and life insurance benefits to eligible retired employees. Participants must have 10 years of continuous service after reaching age 45 to become eligible for retiree health care benefits. Employees become eligible for full retiree health care benefits after achieving specific age and total years of service requirements, based on hire date.

Net periodic postretirement benefits expense for company health care and life insurance plans was comprised of the following for the three years ended December 31 (in millions). During 2004, Anheuser-Busch began recognizing the estimated impact of the Medicare Prescription Drug Improvement and Modernization Act of 2003, which provides federal payments to sponsors of retiree health care plans, such as Anheuser-Busch. As a result of the Act, the company's accumulated postretirement benefits obligation was reduced $40.1 million on adoption, which is accounted for as an actuarial gain and amortized over the remaining service life of participating employees. Additionally, applying the Act reduced retiree health care expense by $7.3 million in 2004.

	2004	2003	2002
Service cost	$ 22.3	$ 19.7	$ 19.8
Interest cost on accumulated postretirement benefits obligation	34.8	37.9	33.0
Amortization of prior service benefit	(11.4)	(11.5)	(11.6)
Amortization of actuarial loss/(gain)	4.2	2.3	(3.6)
Net periodic postretirement benefits expense	$ 49.9	$ 48.4	$ 37.6

The following table summarizes the components of postretirement benefits obligations for all company single-employer defined benefit health care and life insurance plans for the two years ended December 31 (in millions). As of December 31, 2004 and 2003, $46.8 million and $41.6 million, respectively, of the company's total postretirement benefits liability was classified as current. Postretirement benefits obligations are not prefunded, and there are no assets associated with the plans.

	2004	2003
Accumulated postretirement benefits obligation, beginning of year	$ 600.4	$478.5
Service cost	22.3	19.7
Interest cost	34.8	37.9
Actuarial loss	3.8	111.1
Benefits paid	(60.9)	(46.8)
Accumulated postretirement benefits obligation, end of year	600.4	600.4
Unrecognized prior service benefits	16.5	28.2
Unrecognized net actuarial losses	(115.9)	(116.6)
Total postretirement benefits liability	$ 501.0	$512.0

The key actuarial assumptions used to determine net postretirement benefits expense and the accumulated postretirement benefits obligation for the three years ended December 31 are provided in the table below. For actuarial purposes, the initial health care inflation rate is assumed to decline ratably to the future rate and then remain constant thereafter. The measurement date for the company's retiree health care accounting is December 31.

	2004	2003	2002
Discount rate	6.0%	6.25%	7.25%
Initial health care inflation rate	9.7%	10.45%	11.3%
Future health care inflation rate	5.0%	5.0%	5.5%
Year health care trend rate assumed to become constant	2012	2012	2011

Following is a summary of the impact on net periodic postretirement benefits expense and the accrued postretirement benefits liability of a hypothetical 1% change in the assumed health care inflation rate (in millions). Brackets indicate a reduction in expense or liability.

	1% Increase	1% Decrease
Net periodic postretirement benefits expense	$ 7.1	$ (6.0)
Accrued postretirement benefits liability	$52.2	$(45.6)

Estimated Future Retirement Benefits Payments

Retirement benefits expected to be paid in future years, based on employee data and plan assumptions, as of December 31, 2004 follow (in millions). The amounts shown below for pensions include payments related to supplemental executive retirement plans of $11 million, $3 million, $82 million, $3 million, and $6 million for the years 2005 through 2009, respectively, and a total of $50 million for 2010-2014. Payments under the executive retirement plans and health care plans are unfunded and therefore constitute future cash commitment of the company.

	Pensions	Health Care
2005	$ 167.1	$ 60.4
2006	$ 166.1	$ 59.6
2007	$ 258.3	$ 60.4
2008	$ 185.5	$ 61.2
2009	$ 203.8	$ 62.3
2010-2014	$1,196.4	$325.1

7. Stock Option Plans

Under the terms of the company's stock option plans, officers, certain other employees, and nonemployee directors may be granted options to purchase the company's common stock at a price equal to the market price on the date the option is granted. Options generally vest over three years and have a maximum term of 10 years. At December 31, 2004, 2003, and 2002, a total of 95 million, 100 million, and 89 million shares, respectively, were designated for future issuance of common stock under existing stock option plans.

The company's stock option plans provide for accelerated exercisability on the occurrence of certain events relating to a change in control, merger, sale of substantially all company assets, or complete liquidation of the company.

The income tax benefit related to the exercise of employee stock options (recognized as a reduction of current taxes payable and an increase in capital in excess of par value) was $41.6 million, $41.3 million, and $77.1 million for the years ended December 31, 2004, 2003, and 2002, respectively.

Presented below is a summary of stock option activity and pricing for the years shown (options in millions):

	Options Outstanding	Wtd. Avg. Exercise Price	Options Exercisable	Wtd. Avg. Exercise Price
Balance, Dec. 31, 2001	68.9	$33.63	44.1	$27.71
Granted	14.2	$49.93		
Exercised	(8.8)	$20.15		
Cancelled	(0.2)	$43.61		
Balance, Dec. 31, 2002	74.1	$38.33	44.0	$33.09
Granted	14.4	$52.23		
Exercised	(5.0)	$22.54		
Cancelled	(0.1)	$45.15		
Balance, Dec. 31, 2003	83.4	$41.67	55.2	$37.43
Granted	**14.1**	**$50.30**		
Exercised	**(5.5)**	**$26.15**		
Cancelled	**(0.2)**	**$48.13**		
Balance, Dec. 31, 2004	**91.8**	**$43.93**	**64.1**	**$40.92**

Nonemployee directors may elect to receive their annual retainer in shares of Anheuser-Busch common stock, in lieu of cash. If all nonemployee directors eligible to own the company's common stock elected to receive their 2005 annual retainer in shares, the total number of shares issued would be 14,193, based on the closing price for the company's common stock at December 31, 2004.

The following table provides additional information regarding options outstanding and options that were exercisable as of December 31, 2004 (options in millions):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number	Wtd. Avg. Remaining Life	Wtd. Avg. Exercise Price	Number	Wtd. Avg. Exercise Price
$10-19	**1.3**	**1 yr**	**$16.18**	**1.3**	**$16.18**
$20-29	**13.5**	**3 yrs**	**$25.43**	**13.5**	**$25.43**
$30-39	**9.1**	**4.5 yrs**	**$37.84**	**9.1**	**$37.84**
$40-49	**39.5**	**6.5 yrs**	**$47.25**	**35.0**	**$46.91**
$50-54	**28.4**	**9 yrs**	**$51.28**	**5.2**	**$52.18**
$10-54	**91.8**	**6.5 yrs**	**$43.93**	**64.1**	**$40.92**

8. Debt

The company uses SEC shelf registrations for debt issuance efficiency and flexibility, and currently has $1.75 billion in registered debt available for issuance. Gains or losses on debt redemptions (either individually or in the aggregate) were not material for any year presented. The company has the ability and intent to refinance its entire debt portfolio on a long-term basis and therefore classifies all debt as long-term.

Debt at December 31 consisted of the following (in millions):

	2004	2003
U.S. dollar notes due 2006 to 2023, interest rates from 4.375% to 7.5%	**$3,478.0**	$2,929.9
U.S. dollar debentures due 2009 to 2043, interest rates from 5.95% to 9.0%	**2,950.0**	2,950.0
Commercial paper, interest rates of 2.18% and 1.0%, respectively, at year-end	**1,164.2**	526.4
Industrial revenue bonds due 2006 to 2038, interest rates from 4.6% to 7.4%	**271.8**	270.8
Medium-term notes due 2010, interest rate 5.625%	**200.0**	200.0
Chinese renminbi-denominated bank loans due 2005 to 2009, interest rates from 4.7% to 8.35%	**113.6**	—
U.S. dollar EuroNotes due 2006, interest rate 4.51%	**100.0**	351.0
ESOP note guarantee due 2004, interest rate 8.25%	**—**	46.3
Miscellaneous items	**23.4**	33.5
Unamortized debt discounts	**(22.4)**	(22.5)
Total debt	**$8,278.6**	$7,285.4

The fixed interest rates on the company's EuroNotes and 5.6% U.S. dollar notes (total notional value of $150.0 million and $401.0 million in 2004 and 2003, respectively) were swapped to LIBOR-based floating rates when issued. The weighted-average effective interest rates for this debt were 1.35% and 1.11% during 2004 and 2003, respectively. Year-end rates were 2.28% and 1.00%, respectively.

The weighted-average interest rates for commercial paper borrowings during 2004, 2003, and 2002 were 1.40%, 1.08%, and 1.98%, respectively. The company has in place a single, committed $2 billion revolving credit agreement that expires in August 2008, to support the company's commercial paper program. The agreement is syndicated among 15 banks, has no financial covenants, and does not designate a material adverse change as a default event or an event prohibiting a borrowing. Credit rating triggers in the agreement pertain only to annual fees and the pricing of any potential borrowing, not to the availability of funds. There have been no borrowings under the agreement for any year shown. Annual fees for the agreement were $1.2 million for all years presented. Commercial paper borrowings up to $2 billion are classified as long-term, as they are supported on a long-term basis by the revolving credit agreement. Any commercial paper borrowings in excess of $2 billion will be classified as short-term.

9. Supplemental Cash Flow Information

Accounts payable include $111 million of outstanding checks at both December 31, 2004 and 2003. Supplemental cash flows information for the three years ended December 31 is presented in the following table (in millions).

	2004	2003	2002
Cash paid during the year:			
Interest, net of interest capitalized	**$ 390.3**	$ 369.0	$ 343.0
Income taxes	**$ 962.3**	$ 952.2	$ 788.7
Excise taxes	**$2,229.1**	$2,169.4	$2,119.5
Noncash investing activity:			
Issuance of treasury stock related to wholesaler acquisition [1]	**$ —**	$ 72.6	$ —
Change in working capital:			
(Increase)/decrease in current assets:			
Accounts receivable	**$ (26.7)**	$ (39.0)	$ (9.5)
Inventories	**(102.8)**	(23.9)	28.2
Other current assets	**(21.6)**	(60.5)	53.3
Increase/(decrease) in current liabilities:			
Accounts payable	**101.1**	107.1	41.6
Accrued salaries, wages and benefits	**2.5**	1.4	31.7
Accrued taxes	**(10.2)**	(17.9)	19.9
Other current liabilities	**18.4**	(21.1)	(42.0)
Derivatives fair value adjustment	**(91.3)**	77.2	17.7
Working capital adjustment for acquisition	**(51.0)**	9.3	—
Net (increase)/decrease in working capital	**$ (181.6)**	$ 32.6	$ 140.9

Note 1: Recorded as a reduction in treasury stock for the company's average cost of the shares ($28.5) and an increase in capital in excess of par value for the remainder ($44.1).

10. Accumulated Nonowner Changes In Shareholders Equity

The components of accumulated nonowner changes in shareholders equity, net of applicable taxes, as of December 31 are summarized below (in millions):

	2004	2003
Foreign currency translation losses	**$(566.5)**	$(669.4)
Deferred hedging gains/(losses)	**(1.3)**	59.8
Deferred securities valuation gains	**95.9**	172.3
Net minimum pension liability	**(517.0)**	(453.0)
Accumulated nonowner changes in shareholders equity	**$(988.9)**	$(890.3)

In 2004, the company began providing deferred income taxes for unrealized gains/(losses) on securities valuation and unrealized hedging gains included in nonowner changes in equity. As of December 31, 2004, the company had provided deferred tax liabilities of $54.0 million and deferred tax assets of $0.8 million, respectively, for these items.

11. Income Taxes

Following are the components of the provision for income taxes for the three years ended December 31 (in millions):

	2004	2003	2002
Current tax provision:			
Federal	**$ 772.6**	$ 813.1	$ 747.5
State	**170.0**	142.6	128.5
Foreign	**33.5**	8.1	5.3
Total current provision	**976.1**	963.8	881.3
Deferred tax provision:			
Federal	**168.7**	112.1	141.4
State	**18.4**	17.0	19.0
Foreign	**—**	0.4	(0.2)
Total deferred provision	**187.1**	129.5	160.2
Total tax provision	**$1,163.2**	$1,093.3	$1,041.5

The deferred income tax provision results from temporary differences between financial reporting and income tax filing for the basis of assets and liabilities, and in the timing of recognition of certain income and expense items. The primary temporary differences relate to depreciation on fixed assets, accelerated pension contributions, and accrued U.S. taxes on equity income, net of applicable foreign tax credits.

The company's deferred income tax liabilities and deferred income tax assets as of December 31, 2004 and 2003, are summarized by category below (in millions). Deferred income tax liabilities result primarily from income tax deductions being received prior to expense recognition for financial reporting purposes. Deferred income tax assets relate primarily to expenses being recognized for financial reporting purposes that are not yet deductible for income tax purposes, and to the recognition of minimum pension liabilities. Valuation allowances of $32.2 million and $19.9 million have been provided for deferred income tax assets for which realization is uncertain as of December 31, 2004 and 2003, respectively. Deferred income taxes are not provided on undistributed earnings of foreign subsidiaries that are considered to be permanently reinvested outside the United States. Cumulative foreign earnings considered permanently reinvested totaled $187.9 million and $169.1 million, respectively, at December 31, 2004 and 2003.

	2004	2003
Deferred income tax liabilities:		
Fixed assets	**$1,902.6**	$1,795.6
Accelerated pension contributions	**221.3**	168.5
Accrued net U.S. taxes on equity earnings	**162.3**	124.1
Other	**211.7**	140.0
Total deferred income tax liabilities	**2,497.9**	2,228.2
Deferred income tax assets:		
Minimum pension obligation	**324.4**	264.4
Postretirement benefits	**199.7**	205.6
Spare parts and production supplies	**74.8**	72.5
Compensation-related obligations	**74.9**	67.1
Accrued liabilities and other	**152.6**	156.5
Total deferred income tax assets (1)	**826.4**	766.1
Net deferred income taxes	**$1,671.5**	$1,462.1

Note 1: Deferred income tax assets of $55.7 million are classified as current at December 31, 2004, in the balance sheet line item other current assets.

A reconciliation between the U.S. federal statutory income tax rate and Anheuser-Busch's effective income tax rate for the three years ended December 31 is presented below.

	2004	2003	2002
Federal statutory tax rate	**35.0%**	35.0%	35.0%
State taxes, net of federal benefit	**3.9**	3.7	3.6
Impact of foreign operations	**0.6**	0.7	1.5
Other items, net	**(0.7)**	(0.7)	(0.4)
Effective tax rate	**38.8%**	38.7%	39.7%

In October 2004, the American Jobs Creation Act was signed into law. The Act will provide annual income tax deductions on income related to domestic manufacturing activities, with deduction levels phased in through 2010 and remaining constant thereafter. The company anticipates an income tax benefit under this provision of the Act in the range of $20 million to $25 million in 2005. The Act also creates a temporary opportunity to repatriate income reinvested in overseas operations at substantially reduced income tax rates. Uncertainty remains regarding implementation of this provision and the company has not yet completed its evaluation. The company's evaluation is expected to be complete in mid-2005. The reduced income tax rates for repatriated earnings may also apply to certain dividends received from Modelo.

During 2004, Anheuser-Busch identified a $25.9 million balance sheet reclassification related to the spin-off of its Campbell Taggart bakery subsidiary in 1996. At June 30, 2004, the company increased its deferred income tax liability by $25.9 million and decreased retained earnings by the same amount. The reclassification had no impact on the company's results of operations, total assets, or cash flows.

12. Contingencies

In January 1997, Maris Distributing Company, Inc., a former Anheuser-Busch wholesaler in Florida, initiated litigation against the company alleging breach of contract and 12 other claims. Anheuser-Busch terminated its distribution agreement with Maris Distributing in March 1997. During the course of litigation, nine claims were resolved in favor of Anheuser-Busch and a defamation claim brought by Maris was mistried. In August 2001, a jury rendered a verdict against the company in the amount of $50 million on two remaining claims. The court subsequently awarded plaintiffs an additional $22.6 million in accumulated prejudgment interest on the jury award, which continues to accrue at a rate that is fixed annually. Prejudgment interest is now approximately $35 million. Anheuser-Busch continues to believe it acted appropriately in terminating the distribution agreement of Maris Distributing. In May 2003, the Court of Appeals remanded the case to the trial court for resolution of issues relating to the defamation claim. In September 2003, the trial court determined that Maris Distributing's amended defamation claim could proceed. The trial of the defamation claim is scheduled to begin August 1, 2005. Anheuser-Busch is vigorously contesting that claim. The appeals of the 2001 verdict cannot be heard by the Court of Appeals until matters relating to the defamation claim are resolved. The company continues to vigorously contest the verdict. However, resolution is not expected to occur quickly and the ultimate impact of this matter on the company's financial position, results of operations, or cash flows cannot presently be predicted. The company's results do not include any expense related to the Maris Distributing judgment or interest for any period shown.

The company and certain of its subsidiaries are involved in additional claims and legal proceedings in which monetary damages and other relief is sought. The company is vigorously contesting these claims; however resolution is not expected to occur quickly, and the ultimate outcome cannot presently be predicted. It is the opinion of management that the ultimate resolution of these claims, legal proceedings, and other contingencies, either individually or in the aggregate, will not materially affect the company's financial position, results of operations or liquidity.

13. Preferred and Common Stock

Common Stock Activity

Common stock activity for the three years ended December 31 is summarized below (in millions of shares):

	2004	2003	2002
Common Stock:			
Beginning common stock	**1,457.9**	1,453.4	1,445.2
Shares issued under stock plans	**5.1**	4.5	8.2
Common stock	**1,463.0**	1,457.9	1,453.4
Treasury Stock:			
Beginning treasury stock	**(644.8)**	(606.8)	(566.1)
Treasury stock acquired	**(33.2)**	(39.4)	(40.7)
Treasury stock issued	**—**	1.4	—
Cumulative treasury stock	**(678.0)**	(644.8)	(606.8)
Net common stock outstanding	**785.0**	813.1	846.6

Earnings Per Share of Common Stock

Earnings per share are computed by dividing net income by weighted-average common shares outstanding for the period. Basic earnings per share are computed using an unadjusted weighted-average number of shares of common stock. Diluted earnings per share are computed using the weighted-average number of shares of common stock, plus an adjustment for the dilutive effect of unexercised in-the-money stock options.

A reconciliation between basic and diluted weighted-average common shares outstanding for the three years ended December 31 follows (millions of shares). There were no adjustments to net income for any year shown for purposes of calculating earnings per share.

	2004	2003	2002
Basic weighted average shares outstanding	**798.9**	826.2	866.0
Stock option shares	**9.6**	10.8	12.9
Diluted weighted average shares outstanding	**808.5**	837.0	878.9

Common Stock Repurchase

The board of directors has approved resolutions authorizing the company to repurchase shares of its common stock. At December 31, 2004, approximately 44 million shares remained available for repurchase under a March 2003 board authorization totaling 100 million shares.

The company repurchased 33.2 million common shares in 2004, 39.4 million shares in 2003, and 40.7 million shares in 2002, for $1,699.5 million, $1,958.9 million, and $2,027.0 million, respectively.

Preferred Stock

At December 31, 2004 and 2003, 40 million shares of $1.00 par value preferred stock were authorized and unissued.

14. Employee Stock Ownership Plans

In 1989, the company added Employee Stock Ownership Plans (ESOPs) to its existing Deferred Income Stock Purchase and Savings Plans (401(k) plans), in which most regular employees were eligible for participation. The ESOPs expired in March 2004. The ESOPs initially borrowed $500 million for a 15-year term at an interest rate of 8.25% and used the proceeds to buy approximately 45.4 million shares of common stock from the company at a then market price of $11.03 per share. The ESOPs purchased an additional 400,000 shares from the company using proceeds from the sale of spin-off-related Earthgrains shares in 1996. All shares were allocated to participants over the 15-year life of the ESOPs.

Cash contributions and expense recognition related to the ESOPs were determined by several factors, including the market price of Anheuser-Busch common stock, number of shares allocated to participants, debt service requirements, dividends on unallocated shares and the company's matching contribution. ESOP expense was allocated to operating expense and interest expense based on the ratio of principal and interest payments on the underlying debt. Company cash contributions were made to the ESOPs in March and September to correspond with debt service requirements. A summary of cash contributions and dividends on unallocated ESOP shares for the three years ended December 31 is presented below (in millions):

	2004	2003	2002
Cash contributions	**$36.6**	$10.2	$6.1
Dividends	**$ 0.2**	$ 1.7	$3.7

Total ESOP expense for the three years ended December 31 is presented below (in millions):

	2004	2003	2002
Operating expense	**$50.7**	$15.1	$13.3
Interest expense	**0.2**	1.9	2.7
Total ESOP expense	**$50.9**	$17.0	$16.0

2004 operating expense includes $47.5 million in cash contributions made by the company to its 401(k) plans subsequent to the March 31, 2004, expiration of the ESOPs.

15. Quarterly Financial Data (unaudited)

Following is selected quarterly information for 2004 and 2003 (in millions, except per share).

Year ended December 31, 2004

	Net	Gross	Net	Earnings per Share	
	Sales	Profit	Income	Basic	Diluted
1st Qtr	**$ 3,477.0**	**$1,403.7**	**$ 549.9**	**$ .68**	**$ .67**
2nd Qtr	**4,010.0**	**1,678.8**	**673.5**	**.84**	**.83**
3rd Qtr	**4,080.1**	**1,718.8**	**684.4**	**.86**	**.85**
4th Qtr	**3,367.1**	**1,150.4**	**332.5**	**.42**	**.42**
Annual	**$14,934.2**	**$5,951.7**	**$2,240.3**	**$2.80**	**$2.77**

Year ended December 31, 2003

	Net	Gross	Net	Earnings per Share	
	Sales	Profit	Income	Basic	Diluted
1st Qtr	$ 3,280.6	$1,306.2	$ 484.8	$ .58	$ .57
2nd Qtr	3,770.2	1,580.3	632.6	.76	.75
3rd Qtr	3,880.5	1,676.4	664.3	.81	.80
4th Qtr	3,215.4	1,134.7	294.2	.36	.36
Annual	$14,146.7	$5,697.6	$2,075.9	$2.51	$2.48

16. Business Segments

The company categorizes its operations into five business segments: domestic beer, international beer, packaging, entertainment, and other.

The domestic beer segment consists of the company's U.S. beer manufacturing and company-owned beer wholesale sales operations, including vertically integrated rice, barley and hops operations.

The international beer segment consists of the company's export sales and overseas beer production and marketing operations, which include company-owned operations in China and the United Kingdom, administration of contract and license brewing arrangements, and equity investments. Principal foreign markets for sale of the company's products are China, the United Kingdom, Canada, and Ireland. The company attributes foreign sales based on the domicile of the purchaser of the product.

The packaging segment is composed of the company's aluminum beverage can and lid manufacturing, aluminum recycling, label printing, and glass manufacturing operations. Cans and lids are produced for both the company's domestic beer operations and external customers in the U.S. soft drink industry.

The entertainment segment consists of the company's SeaWorld, Busch Gardens and other adventure park operations.

The other segment is comprised of the company's real estate development and transportation businesses.

Following is Anheuser-Busch business segment information for 2004, 2003 and 2002 (in millions). Intersegment sales are fully eliminated in consolidation. No single customer accounted for more than 10% of sales. General corporate expenses, including net interest expense, are not allocated to the operating segments.

2004	Domestic Beer	Int'l Beer	Pkg.	Enter.	Other	Corp. & Elims (1)	Consol.
Income Statement Information:							
Gross sales	$13,371.6	1,015.1	2,276.8	989.3	75.4	(568.0)	$17,160.2
Net sales - intersegment	$ —	—	880.1	—	4.0	(884.1)	$ —
Net sales - external	$11,350.8	809.9	1,396.7	989.3	71.4	316.1	$14,934.2
Depreciation and amortization	$ 679.9	35.0	83.9	91.8	5.3	36.8	$ 932.7
Income before income taxes	$ 3,279.4	130.9	163.9	172.7	(2.0)	(745.5)	$ 2,999.4
Equity income, net of tax	$ —	404.1	—	—	—	—	$ 404.1
Net income	$ 2,033.2	485.3	101.6	107.1	(1.2)	(485.7)	$ 2,240.3
Balance Sheet Information:							
Total assets	$ 7,850.1	4,683.9	800.8	1,378.9	215.8	1,243.9	$16,173.4
Equity method investments	$ —	2,686.2	—	—	—	—	$ 2,686.2
Goodwill	$ 21.2	1,177.8	21.9	288.3	—	—	$ 1,509.2
Foreign-located fixed assets	$ —	451.5	—	—	—	—	$ 451.5
Capital expenditures	$ 799.9	56.6	56.3	131.9	10.2	34.7	$ 1,089.6

2003	Domestic Beer	Int'l Beer	Pkg.	Enter.	Other	Corp. & Elims (1)	Consol.
Income Statement Information:							
Gross sales	$12,997.5	797.0	2,093.6	923.9	74.4	(566.2)	$16,320.2
Net sales - intersegment	$ —	—	869.2	—	4.3	(873.5)	$ —
Net sales - external	$10,984.4	636.6	1,224.4	923.9	70.1	307.3	$14,146.7
Depreciation and amortization	$ 642.3	24.6	79.2	87.3	4.9	38.9	$ 877.2
Income before income taxes	$ 3,118.7	90.8	155.5	162.8	(12.0)	(691.5)	$ 2,824.3
Equity income, net of tax	$ —	344.9	—	—	—	—	$ 344.9
Net income	$ 1,933.6	401.2	96.4	100.9	(7.4)	(448.8)	$ 2,075.9
Balance Sheet Information:							
Total assets	$ 7,804.7	3,517.9	782.4	1,341.9	202.9	1,039.7	$14,689.5
Equity method investments	$ —	2,566.6	—	—	—	—	$ 2,566.6
Goodwill	$ —	679.7	21.9	288.3	—	—	$ 989.9
Foreign-located fixed assets	$ —	250.1	—	—	—	—	$ 250.1
Capital expenditures	$ 744.9	39.0	42.6	127.9	4.0	34.6	$ 993.0

2002	Domestic Beer	Int'l Beer	Pkg.	Enter.	Other	Corp. & Elims (1)	Consol.
Income Statement Information:							
Gross sales	$12,562.9	713.6	2,072.0	858.6	92.8	(613.1)	$15,686.8
Net sales - intersegment	$ —	—	877.3	—	18.1	(895.4)	$ —
Net sales - external	$10,574.1	582.0	1,194.7	858.6	74.7	282.3	$13,566.4
Depreciation and amortization	$ 615.3	22.1	82.5	84.9	5.5	37.0	$ 847.3
Income before income taxes	$ 2,919.2	76.1	154.0	153.0	(3.4)	(675.3)	$ 2,623.6
Equity income, net of tax	$ —	351.7	—	—	—	—	$ 351.7
Net income	$ 1,809.9	398.9	95.5	94.9	(2.1)	(463.3)	$ 1,933.8
Balance Sheet Information:							
Total assets	$ 7,559.1	3,182.3	830.1	1,298.2	210.2	1,039.6	$14,119.5
Equity method investments	$ —	2,640.1	—	—	—	—	$ 2,640.1
Goodwill	$ —	715.2	21.9	288.3	—	—	$ 1,025.4
Foreign-located fixed assets	$ —	225.5	—	—	—	—	$ 225.5
Capital expenditures	$ 670.7	28.2	31.9	72.2	3.4	28.3	$ 834.7

Note 1: Corporate assets principally include cash, marketable securities, deferred charges, and certain fixed assets. Eliminations impact only gross and intersegment sales. External net sales reflects the reporting of pass-through delivery costs reimbursed by customers of $312.0 million, $298.9 million, and $282.3 million in 2004, 2003, and 2002, respectively.