

This is what we believe.

After nearly a decade of growing quarterly earnings, it would be easy to forget that Anheuser-Busch is no stranger to challenge. But we have not forgotten. We view challenges as opportunities to apply our focus and ingenuity and grow stronger for the future.

2005 was a challenging year. As it began, our domestic market share was declining. Hard liquor and wine were increasing their share of the alcohol beverage market at the expense of beer. Rising prices for energy and raw materials were reducing our margins.

These challenges affected our financial performance. Operating income and earnings per share both declined. Our share of beer shipments fell. And our total return to shareholders for the year was behind the S&P 500 Index.

However, it is important to note that we essentially maintained our share of the market at the retail and consumer levels and our wholesalers significantly reduced their inventories. Our total shareholder return has matched the S&P 500 for the past five years and we outperformed the index over the past 10- and 20-year periods. And we gained share in supermarkets in the second half of the year.

Aggressive action

The real test of a company is not whether it encounters challenges, but what it does to respond to challenges. Anheuser-Busch has taken aggressive action on several fronts to restore our volume and profit growth momentum. These actions included:

- Collapsing the price umbrella by reducing our price premium relative to major domestic competitors.
- Innovating in both products and packaging.
- Realigning the marketing support behind our major brands.
- Achieving almost \$100 million in incremental productivity savings in our breweries.
- Gaining significant efficiencies through information technology initiatives and centralization of administrative functions.
- Reducing cost by eliminating 2005 bonuses for corporate and U.S. beer business employees.
- Freezing officers' salaries for the year 2006.
- Offsetting some of the rising costs of health care with an employee contribution.

Anheuser-Busch remains the most profitable brewer in the world by a substantial margin. Our operating cash flow was \$2.7 billion. At year's end, roughly half of all beers in America were brewed by Anheuser-Busch. More servings of

beer are consumed by Americans than wine and hard liquor combined. We are on the offensive and making progress.

Innovating in products and packaging

During 2005, we used our ingenuity and resources to bring new interest and excitement to the beer industry by launching more than 30 new products, in test markets or nationally. The innovations were led by the national introduction of Budweiser Select, which rivals Michelob ULTRA among the most successful launches in our history. Budweiser Select and Bud Light paced the growth of our franchise Budweiser brand family. Less than a year after its rollout, Budweiser Select ranks among the top 15 domestic brands.

In 2006, we will continue our innovation, introducing new products such as Michelob ULTRA Amber, a low-carbohydrate beer with brilliant amber color and a rich, full taste that is unique in the light beer category.

In the past year, we created more than 200 new packaging options, including the sophisticated applied plastic labels on Bud Light and Budweiser Select, popular 16-ounce aluminum bottles for most of our premium and high-end brands, and new shrink-wrap labels with high-impact graphics for new products and promotional packages.

We expanded our marketing activities with new advertising, increased media spending in support of the Bud family and enhanced promotional activities in on-premise retail accounts to reach contemporary adult consumers. We sharpened the marketing focus for our trademark brands and committed more resources to key market segments.

Finally, we narrowed the price gap between our brands and our main competitors. While this move put pressure on earnings, our innovations and enhanced marketing brought a turnaround in sales-to-retailer trends in the second half of 2005.

LEFT

Patrick T. Stokes
President and CEO

RIGHT

August A. Busch III
Chairman of
the Board



Sales-to-retailers increased 0.8 percent since July 1, 1.8 percent since Labor Day and 2.7 percent in the fourth quarter. Our November sales-to-retailers volume was the best in our history. We are well-positioned for sales and revenue growth and we successfully implemented price increases and discount reductions on the majority of our volume early in 2006.

With this initial progress, we have set two objectives for our domestic beer business in 2006: to stimulate growth in the beer category and to make Anheuser-Busch brands the preferred choice for more drinking occasions.

Beer is clearly America's alcohol beverage of choice. Beer represents 57 percent of all alcohol beverage servings, not far from the all-time high of 61 percent in the mid-'90s. Hard liquor has recovered slightly from the bottom of a 25-year decline. Wine continues to grow slowly from a much smaller base.

As noted, beer outsells liquor and wine combined. In fact, with roughly half of the domestic beer business, Anheuser-Busch beers nearly match the sales of all hard liquors combined. Our beers alone outsell all the wine in the United States by almost a two-to-one margin. Still, even a small shift in consumer preference is a cue for us to take action from our position as the leader of the domestic industry.

Many contemporary adult consumers have tried hard liquor because they are looking for variety and new experience. By introducing new products, new tastes and new packages, we have responded to this interest. Products like Tilt and B^E, with caffeine, ginseng and guarana, encourage consumers to look at beer in a new light. Other new products, still in test markets, seek to further expand the beer category. By driving growth in the beer industry as a whole, we increase the opportunities for growth in our own business.

Anheuser-Busch is passionate about beer, and we are channeling our dedication to lead a new effort to elevate the image of beer. One of beer's advantages over other alcohol beverages is its social value — authentic and unpretentious. With a lower concentration of alcohol than either



WATER DONATION Houston brewery employee Sammie Hopkins loads water bound for the Astrodome and Hurricane Katrina victims.

wine or liquor, beer is more suitable for more occasions. And because of its standard alcohol content and serving sizes, it allows consumers to be aware of their consumption. Finally, no other alcohol beverage refreshes like beer.

The health benefits of beer received increasing attention during 2005, helping dispel the fallacy that wine is healthy but beer is not. Several news media wrote about various medical studies that show the moderate consumption of all types of alcohol can help prevent heart disease and diabetes, and can improve cognitive thinking.

The scale and resources of Anheuser-Busch create a unique set of competitive advantages over any other brewer, enabling us to successfully meet the challenges before us.

Anheuser-Busch sells 2.5 times as much beer as our nearest competitor in the United States. We are 4 times as large as the third-ranked brewer. This allows us to maintain the leading share of voice with our advertising, including a powerful array of major sports marketing and media properties. But we are still able to keep the lowest media cost per barrel.

Our strategic system of 12 breweries in the United States gives us advantages in freight, freshness and flexibility. Our beer at retail is at least two weeks fresher than competing major brewers.

We have a strong network of wholesalers. Nearly 70 percent of our volume is sold through wholesalers who handle our beer brands exclu-

sively. Anheuser-Busch wholesalers run successful businesses in local communities across America and they are focused on our mutual success. In 2006, we will work to strengthen this partnership by providing additional growth opportunities in more segments of the industry.

With Budweiser and Bud Light as the top two beer brands in the world, Anheuser-Busch has seven of the top 15 brands in domestic supermarkets. We also captured five medals at the Great American Beer Festival®. Anheuser-Busch was also named "Large Company Brewer of the Year" at the nation's largest beer festival.

Growing internationally

Our international beer business continues to deliver on its strong growth potential. Over the last five years, the international beer segment contributed an average of three points to our annual consolidated earnings per share growth. The segment continues to grow at a double-digit rate.

The largest contributor to our international profits is our 50 percent ownership of Mexico's leading brewer, Grupo Modelo, which has a 56 percent share of the beer market in Mexico. Modelo imports Anheuser-Busch brands into Mexico, and Anheuser-Busch also benefits from Corona's standing as the leading import beer brand in the United States.

China is the world's largest and fastest-growing beer market. Anheuser-Busch has been an active participant there since we first

invested in Tsingtao, China's largest brewer, in 1993. In 2002, we formed a strategic alliance, and in 2005 we increased our economic ownership of Tsingtao to 27 percent. We have a formalized best practices exchange with Anheuser-Busch executives working side by side in Tsingtao's corporate headquarters, and both companies benefit from our close relationship.

Budweiser celebrated its 10th anniversary in China in 2005 and leads the super-premium segment of the market with a share of about 50 percent. Budweiser has been consistently profitable in China since 2001, and we have more than recouped our startup investment. Budweiser and Tsingtao are the only two beer brands with national distribution in China.

In 2004, we acquired China's fifth-largest brewer, Harbin, which has the leading share of the market in the northeast region of the country. Sales of Harbin premium beer have increased 15 percent annually over the past three years. We are working together to expand the scale and geography of Harbin's business within China.

Anheuser-Busch's total volume, including our equity share of Modelo's and Tsingtao's volume, was 148.3 million barrels, an increase of 9 percent versus 2004. Global sales volume of Anheuser-Busch brands and our partners Modelo and Tsingtao gives us participation in global volume of more than 190 million barrels. Budweiser is the leading beer in Canada, the leading premium packaged lager in bars and restaurants in the United Kingdom, and a competitive presence in key beer markets around the world.

Entertaining families

Busch Entertainment Corporation turned in record earnings while entertaining 21 million guests during 2005. Admission fees and guest spending both increased. New large-scale attractions opened in 2005 at our Busch Gardens parks in Williamsburg, Va., and Tampa, Fla. A new Shamu show, more powerful than ever, will debut at each SeaWorld park in 2006. These new attractions will help drive additional growth in the future. In addition, we extended our "Here's to the Heroes" program and provided free admission to our parks

to more than 900,000 servicemen and servicewomen and their families.

Producing high-quality packaging

Our packaging business was negatively affected by higher energy costs. But the higher costs helped our aluminum recycling business, by bringing more aluminum to recyclers and increasing demand for recycled metal. We continued to recycle more aluminum cans than we use for our beer. We completed the rollout of the "lid of the future" for beer cans in 2005, which reduces the amount of material required. This new-generation product will be extended to soft-drink customers in 2006.

Supporting communities

Anheuser-Busch continued to build on our long-standing record of helping the communities where we do business. Hurricanes Katrina and Rita had a devastating impact on the Gulf Coast of the United States. One of the primary needs in a natural disaster is safe, pure drinking water, and we met that need quickly for people in the stricken regions. Our packaging group and four of our breweries supplied 9.4 million cans of drinking water to relief agencies following hurricanes and other natural disasters in 2005. This is the equivalent of a bumper-to-bumper convoy of semi-trailer trucks 2 miles long. Since 1988, Anheuser-Busch has supplied more than 59 million cans of drinking water to those in need.

Anheuser-Busch, and our foundation, distributors and employees also donated \$3.8 million to the American Red Cross for Hurricane Katrina disaster relief. The value of materials donated totaled another \$1 million. SeaWorld provided temporary housing for dolphins and sea lions displaced by the storm. SeaWorld San Antonio offered free admission to storm victims from Louisiana, Alabama and Mississippi.

Our community commitment doesn't stop at the U.S. border. When an upstream chemical spill forced the Chinese cities of Harbin and Songjiang to temporarily shut down their municipal water systems, we supplied safe well water at the gates of our breweries and circulated tanker trucks

through the cities. An additional 35,000 cases of bottled water were delivered to Harbin from our Budweiser brewery 1,250 miles away in Wuhan.

Promoting responsibility

Closer to home, Anheuser-Busch proudly celebrated two important milestones in 2005.

The first was that the company and its wholesalers surpassed the \$500 million mark in our collective efforts to fight drunk driving and underage drinking and to promote responsible consumption and respect for the law. The second milestone was celebrating our 20th anniversary of bringing these important messages to the public via broadcast television advertising.

Back in 1985, Anheuser-Busch became the first alcohol beverage maker to use national television to encourage adults to "Know When To Say When." In 2005, we introduced a new TV spot commemorating this important event in our company's history and encouraging parents to join us in the fight against underage drinking. Today, Anheuser-Busch continues to lead the alcohol beverage industry in promoting responsibility and fighting alcohol abuse, and our commitment will continue in the future as we share the message that *Responsibility Matters*.

Anheuser-Busch has been the leader of the U.S. brewing industry since 1957, so 2006 will mark our 50th consecutive year of leadership. Year in and year out, decade after decade, our beers have remained America's favorites. With more than 150 years of history, your company has withstood the test of time. We intend to emerge from the current challenges even stronger and better prepared for success in the future.



Patrick T. Stokes
President and CEO



August A. Busch III
Chairman of the Board

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