Management's Discussion and Analysis of Operations and Financial Condition

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, 2005. This discussion should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements included in this annual report.

Objectives

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

- Increasing domestic beer segment volume and per barrel profitability which, when combined with market share growth, will provide the basis for 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, 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 27% equity position in Tsingtao, the largest brewer in China and producer of the Tsingtao brand.
- Continued growth in pretax profit and free cash flow from 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 21 million visitors annually.

Comparison of Operating Results

Anheuser-Busch had a challenging year in its domestic beer business and as a result, the company's net sales and diluted earnings per share results were disappointing. Consolidated net sales increased 0.7% for the full year 2005, while reported diluted earnings per share declined 15.2%. However, as the company moves into 2006, it is encouraged with its progress to enhance domestic beer volume and market share growth, including introduction of new products and packaging, increased domestic marketing initiatives, stepped-up on-premise sales activities and tactical price promotions. Due to these efforts, wholesaler sales-to-retailers (selling day adjusted) were up 0.8% in the second half of 2005 and were up 1.8% from Labor Day through the end of 2005. Additionally, IRI data shows Anheuser-Busch increased its market share in supermarkets in the second half of the year. The company is pleased with this progress and anticipates sales and earnings growth in 2006 using the following basis of comparison for 2005.

	2005 Diluted Earnings Per Share
Excluding one-time items (see page 32)	$2.43
Pro forma stock compensation expense (see page 47)	(.12)
Excluding one-time items and including stock compensation expense	$2.31

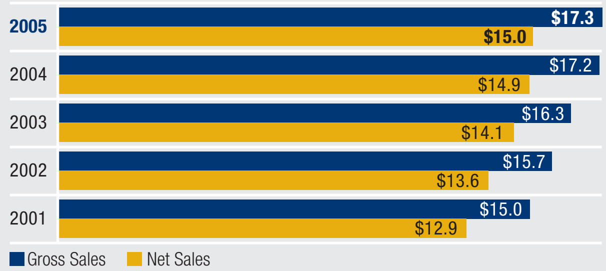
Comparisons of key operating results for the last three years are summarized in the following tables. Results shown below include the impact of one-time items in both 2005 and 2004 that make direct comparisons between those years, and also between 2004 and 2003, difficult. The one-time items in 2005 are the settlement of litigation involving a domestic beer wholesaler, settlement of certain tax matters in Chile related to the sale of the company's investment in Compañía Cervecerías Unidas S.A. (CCU), income tax reform legislation in the state of Ohio and a gain on the sale of the company's interest in the Port Aventura theme park in Spain. In 2004 the company recorded one-time gains related to the sale of commodity hedges and the sale of the company's equity investment in CCU, plus a deferred income tax benefit related to the company's Grupo Modelo equity investment from a reduction in Mexican corporate income tax rates. Excluding these one-time items, which the company believes better illustrates underlying 2005 and 2004 results, diluted earnings per share decreased 11% in 2005 versus 2004, and increased 10.1% in 2004 versus 2003. See complete discussion and quantitative analysis on pages 30 through 32.

	2005	2004	2005 vs. 2004	
Gross sales	**$ 17,254**	$ 17,160	▲ $ 94	▲ 0.5 %
Net sales	**$ 15,036**	$ 14,934	▲ $ 102	▲ 0.7 %
Income before income taxes	**$ 2,192**	$ 2,999	▼ $ (807)	▼ (26.9)%
Equity income, net of tax	**$ 498**	$ 404	▲ $ 94	▲ 23.3 %
Net income	**$ 1,839**	$ 2,240	▼ $ (401)	▼ (17.9)%
Diluted earnings per share	**$ 2.35**	$ 2.77	▼ $ (.42)	▼ (15.2)%

	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 %

SALES*
(in billions)



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

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 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 this long-term 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 industry pricing environment because tax increases could trigger retail beer price increases significantly 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.

WORLDWIDE BEER VOLUME

The company's reported beer volume for the three years ended December 31, 2005, is summarized in the following table (millions of barrels).

	2005	2004	Change
Domestic	**101.1**	103.0	▼ (1.8)%
International	**20.8**	13.8	▲ 50.8%
Worldwide A-B brands	**121.9**	116.8	▲ 4.4%
International equity partner brands	**26.4**	19.3	▲ 36.6%
Total brands	**148.3**	136.1	▲ 9.0%

	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%

Worldwide Anheuser-Busch beer volume is composed of domestic volume and international volume. Domestic beer volume represents the company's 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. International equity partners volume represents the company's ownership percentage share of volume in its foreign equity partners Grupo Modelo and Tsingtao reported on a one-month-lag basis, and also includes Anheuser-Busch's pro rata share in the beer volume of CCU for 2004 and 2003.

Total brands combines worldwide Anheuser-Busch brands volume with international equity partners volume.

SALES – 2005 VS. 2004

Gross and net sales increased slightly in 2005, to $17.3 billion and $15.0 billion, respectively. The difference between gross and net sales represents beer excise taxes of $2.2 billion. For the year, gross sales increased $94 million, or 0.5%, and net sales improved $102 million, or 0.7%, on sales improvement in international beer, packaging and entertainment operations, partially offset by lower domestic beer sales. The company has led the U.S. brewing industry in sales volume and market share since 1957.

International beer sales were up $123 million, or 15.2% due primarily to higher beer volume in China (including Harbin), Canada and Mexico. Commodity-based packaging operations sales were up $116 million, or 8.3% on higher aluminum prices and increased volume. Entertainment segment sales increased $96 million, or 9.7% from higher attendance, increased pricing and increased in-park spending. Domestic beer segment net sales decreased 2.5%, or $285 million. $206 million of the decrease is due to a 1.8% decline in beer sales volume, while $79 million stems from slightly lower revenue per barrel, which decreased 0.5% for the year. The domestic beer business is currently implementing previously announced revenue enhancement initiatives. The combination of moderate price increases and discount reductions will cover the majority of the company's domestic volume. As in the past, pricing initiatives are tailored to specific markets, brands and packages.

Domestic beer sales-to-wholesalers declined 1.8% while wholesaler sales-to-retailers increased 0.2% (selling day adjusted). Sales-to-retailers results have been led by the Budweiser Family, particularly from the February introduction of Budweiser Select. Wholesaler inventories were reduced significantly during 2005, ending the year over two days lower than the end of 2004.

The company's estimated domestic market share (excluding exports) for 2005 was 48.8%, compared with 2004 market share of 49.6%. Domestic market share is based on estimated U.S. beer industry shipment volume using information provided by the Beer Institute and import data from the U.S. Department of Commerce. Anheuser-Busch's shipment-based market share performance was adversely impacted by the company's wholesaler inventory reduction. As noted, the company gained market share at the consumer level in supermarkets in the second half of 2005, according to IRI data.

International beer volume increased 50.8%, or 7.0 million barrels for 2005 due primarily to increased volume for China Budweiser operations, Canada and Mexico, and the impact of the Harbin Brewery acquisition in mid-2004. International volume excluding the impact of Harbin increased 324,000 barrels, or 3.8% for the year. The increase in international beer volume drove a worldwide Anheuser-Busch brands volume increase of 4.4% for 2005, to 121.9 million barrels. Equity partners' brands volume grew 7.1 million barrels, or 36.6% in 2005 due to Modelo volume growth and the addition of Tsingtao equity volume beginning in May 2005, partially offset by the loss of volume from the sale of CCU in the fourth quarter 2004. Total brands volume was up 9.0%, to 148.3 million barrels for the full year 2005.

SALES – 2004 VS. 2003

Anheuser-Busch generated gross and net sales of $17.2 billion and $14.9 billion, respectively, in 2004. Beer excise taxes totaled $2.2 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 2.5% higher revenue per barrel and higher volume. The increase in revenue per barrel generated $323 million in net sales improvement and beer volume gains contributed $42 million of the increase. 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.

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 recycling operations sales. Entertainment segment sales were up $65 million due to higher admissions pricing and increased in-park spending. Entertainment sales were adversely impacted by hurricanes in Florida in the second half of the year.

Domestic beer sales-to-wholesalers increased 0.4% in 2004, to 103.0 million barrels. This increase was led by the growth of Michelob ULTRA and Bud Light. Wholesaler sales-to-retailers declined 0.3% versus 2003. Both sales-to-retailers and sales-to-wholesalers were adversely impacted during 2004 by abnormally wet weather in many 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%.

International beer volume increased 5.4 million barrels, or 65%, to 13.8 million barrels in 2004 due to volume growth in 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 partially offset by the impact of the CCU sale in November. 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. Beer excise taxes were $2.2 billion. 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. The growth in domestic revenue per barrel enhanced both gross and operating profit margins. Consumers trading up to the super-premium Michelob family enhanced the company's revenue per barrel results.

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.

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. Wholesaler sales-to-retailers volume 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 49.0% 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 volume in China.

COST OF SALES

The company continuously strives to reduce costs throughout its manufacturing and distribution systems. 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.

The cost of sales was $9.6 billion for 2005, an increase of $597 million, or 6.6% compared to 2004. This increase is attributable to higher costs for all of the company's major business segments, including higher aluminum and other packaging materials expense and increased energy costs for domestic beer; incremental production costs for international beer associated with higher beer volume and the timing of the Harbin acquisition; increased aluminum, energy and other manufacturing costs for the commodity-based packaging segment; and higher park operating expenses in entertainment operations. Gross profit as a percentage of net sales decreased 360 basis points versus 2004, to 36.3%. This decline is primarily due to the decrease in domestic beer sales volume combined with increases in domestic beer production costs per barrel significantly exceeding revenue per barrel.

Cost of sales was $9.0 billion for 2004, an increase of $533 million, or 6.3%, compared with 2003. The increase was due to higher costs for all of the company's major business segments. Domestic beer costs were higher 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 the Harbin acquisition. Packaging operations experienced higher aluminum costs and entertainment operations incurred higher park operating expenses, including hurricane cleanup costs in the second half of the year. 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 was 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. Cost of sales for international beer operations 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.

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, the Internet, print and outdoor advertising and event sponsorships.

Marketing, distribution and administrative expenses for 2005 were $2.7 billion, an increase of $140 million, or 5.4% compared with 2004. The increase is the result of higher marketing and selling costs for both domestic and international beer operations and increased entertainment marketing costs, partially offset by reduced general and administrative expenses. Domestic beer marketing costs were up primarily for the Budweiser Family, including the national introduction of Budweiser Select, and in support of the company's beer volume and market share growth initiatives. International beer marketing increased primarily due to the Harbin acquisition. Higher domestic beer distribution costs were largely the result of increased fuel costs while international distribution costs increased due to Harbin and higher costs in the United Kingdom.

Marketing, distribution and administrative expenses were $2.6 billion in 2004, an increase of $92 million, or 3.7%, compared with 2003. The increase was 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 $2.5 billion, an increase of $43 million, or 1.7%, compared with 2002. This increase was principally due to marketing costs for 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.

Operating results for 2005 also include a one-time $105 million pretax litigation settlement ($.12 per share), which occurred in the third quarter and is reported as a separate line item in the consolidated income statement. See Notes 7 and 13 and page 32 of this Discussion for additional information. The settlement expense is classified as a corporate item for business segment reporting.

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 of $2.6 billion income decreased $740 million, or 22% in 2005 versus 2004. Operating margin for 2005 was 17.4%, a decline of 510 basis points due primarily to reduced domestic beer sales volume, lower revenue per barrel and higher operating costs, including the one-time litigation settlement.

Operating income was $3.4 billion in 2004 and $3.2 billion in 2003, representing increases versus the prior years of $162 million, or 5.1% in 2004, and $219 million, or 7.4% in 2003. Operating margins were 22.5% and 22.6% for 2004 and 2003, respectively. The decline in operating margin in 2004 was primarily due to higher sales and offsetting costs in commodity-based aluminum can manufacturing and recycling operations. Operating margin was up 60 basis points in 2003 versus prior year 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 $452.1 million for 2005, $422.2 million for 2004, and $399.8 million for 2003, representing increases of 7.1%, 5.6% and 8.8%, respectively, compared with prior years. These increases primarily result from higher average outstanding debt balances compared with prior years. In addition, 2005 includes the impact of slightly higher average interest rates which increased in the latter half of the year. 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 as part of the cost basis of capital projects was $19.9 million in 2005, $21.9 million in 2004, and $24.4 million in 2003. 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, NET

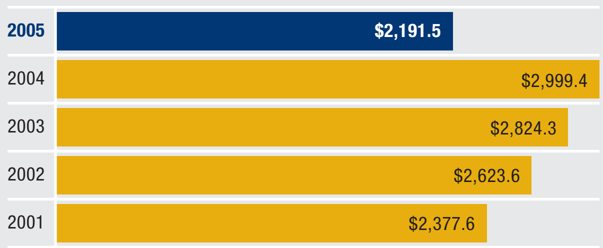
Other income, net includes earnings from the company's limited partnership equity investments in beer wholesalers, in addition to other items of a non-operating nature that do not have a material impact on the company's consolidated results of operations, either individually or in total. The company had consolidated net other income of $2.7 million in 2005, $38.7 million in 2004, and $0.4 million in 2003.

Other income for 2005 includes a $15.4 million pretax gain from the sale of the company's 13% stake in the Port Aventura theme park in Spain. The theme park sale gain is partially offset by expenses incurred to call the company's 7.25% and 7.00% U.S. dollar debentures due 2015 and 2025, respectively. These transactions are all classified as corporate items for business segments reporting.

Other income for 2004 includes a one-time pretax gain of $19.5 million from the sale of commodity derivatives that were originally placed for future years using estimates of conversion costs to be included in the renewal of supply contracts. These costs were reduced during negotiations, resulting in significant hedge ineffectiveness in compliance with FAS 133. The company sold the hedges per company policy and realized the ineffective portion of the gain, which is reported in the corporate segment. Also in 2004, the company recorded a $13.4 million pretax gain on the sale of its investment in CCU, which is recognized in the international beer segment. In addition, the company sold interests in two domestic beer wholesaler partnerships in 2004 and recorded a $19.1 million pretax gain, which is included in domestic beer results.

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

INCOME BEFORE INCOME TAXES
(in millions)



INCOME BEFORE INCOME TAXES

2005 VS. 2004

Reported income before income taxes decreased 27% versus 2004, primarily reflecting lower profits in domestic beer, international beer and packaging operations, partially offset by improved results from entertainment operations. Income before income taxes includes the impact of the one-time gains in both 2004 and 2005 plus the 2005 litigation settlement. Excluding these items from both years to enhance comparability, income before income taxes decreased 23% (see page 32).

Domestic beer pretax income decreased $603 million, or 18% due to lower beer sales volume, reduced revenue per barrel and higher costs. Higher costs resulted from commodity cost pressures for aluminum, glass and energy, plus costs for new packaging initiatives such as applied plastic labels and aluminum bottles. Pretax income for international beer decreased $44 million, or 34% for the full year primarily due to lower profits in China and the United Kingdom and the impact of the CCU sale gain in 2004, partially offset by improved results in Canada. Excluding the CCU sale gain, pretax income for international beer decreased 26%, as shown in the following table.

	2005	2004	Change
International beer pretax income	$86.5	$130.9	(33.9)%
Less: Gain on sale of CCU	—	(13.4)	
International beer pretax excluding CCU gain	$86.5	$117.5	(26.4)%

Packaging segment pretax profits were down $22 million, or 14% during 2005 due to higher energy and materials costs for can and glass manufacturing operations and lower profits for the company's aluminum recycling and label manufacturing operations. Entertainment segment pretax results improved $33 million, or 19% due to increased attendance, admissions pricing and in-park spending, partially offset by higher park operating expenses. Results in 2004 were adversely impacted by a series of hurricanes in Florida.

2004 VS. 2003

Reported 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. Excluding one-time items in 2004, income before income taxes increased 5% versus 2003 (see page 32).

Pretax income for the domestic beer segment was up $159 million for the full year, reflecting increased beer volume and higher revenue per barrel, partially offset by higher costs. International beer segment pretax income improved $40 million for 2004, 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 $8 million for the year primarily due to higher soft drink can volume and pricing and improved results from the company's aluminum recycling operations. Entertainment segment pretax income increased $10 million compared with the full year 2003, primarily due to higher admissions pricing and increased in-park spending, partially offset by hurricane impacts.

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 $199 million, reflecting higher revenue per barrel and increased beer volume. International beer segment pretax income increased $15 million, primarily due to volume and profit growth in China. Packaging segment pretax profits were up $2 million in 2003, while entertainment segment income before income taxes increased $10 million compared with 2002, primarily due to higher admissions pricing and increased in-park spending.

EQUITY INCOME, NET OF TAX

Equity income was $498.1 million in 2005, an increase of $94 million, or 23% for year, reflecting the benefit of Grupo Modelo volume growth, lower Mexican income taxes and the impact of including Tsingtao equity income, partially offset by the reduction in equity income due to the sale of the company's investment in CCU and the one-time $18 million deferred income tax benefit in 2004 from a reduction in Mexican corporate income tax rates. The tax benefit in 2004 was partially offset by $8 million of incremental U.S. deferred income taxes in the consolidated income tax provision. Excluding the Mexican tax benefit from 2004 results, equity income for full year 2005 increased 29% (see adjacent table).

Equity income was $404.1 million for 2004, up $59 million, or 17.2%, versus 2003 due to the benefit of price increases and volume growth from Grupo Modelo and the $18 million Mexican income tax benefit, net of U.S. deferred taxes. Equity income results for 2003 included a $5.5 million one-time after-tax benefit representing Anheuser-Busch's equity share of a gain on the sale of a brewery by CCU. Excluding the Mexican tax rate benefit from 2004, equity income would have increased 11.9% (see adjacent table).

Equity income of $344.9 million in 2003 decreased $7 million versus 2002, primarily due to a combination of lower export volume growth, Modelo not raising prices, and a weaker peso in 2003 compared with higher than normal 2002 equity income results which included a $17 million one-time deferred income tax benefit partially offset by a $6.5 million charge related to a brewery restructuring. The 2002 Modelo deferred tax benefit was largely offset by higher U.S. deferred income taxes included in the consolidated U.S. income tax provision. As noted, equity earnings for 2003 benefited from the after-tax gain on the sale of a brewery by CCU.

NET INCOME AND DILUTED EARNINGS PER SHARE

Anheuser-Busch generated net income of $1.8 billion in 2005, a decrease of $401 million, or 17.9% compared with the full year 2004, while reported diluted earnings per share of $2.35 decreased 15.2%, or $.42. Excluding the one-time items previously discussed, net income and diluted earnings per share decreased by 13.8% and 11%, respectively, versus 2004 as shown in the adjacent table. Net income of $2.2 billion for 2004 was an increase versus 2003 of $164 million, or 7.9%. Diluted earnings per share were $2.77, an increase of 11.7%, or $.29 compared with 2003 results. Excluding the 2004 one-time items from the comparison with 2003, net income increased 6.1% and diluted earnings per share increased 10.1% (see adjacent table). The company earned net income of $2.1 billion in 2003, an increase of $142 million, or 7.4%, over 2002. Earnings per share were $2.48 in 2003, an increase of $.28, or 12.7% compared with 2002. Diluted earnings per share for all years benefit from the company's ongoing share repurchase program.

The following table is provided to make direct comparisons easier between 2005 and 2004, and between 2004 and 2003 by excluding one-time items. The company believes excluding one-time items better illustrates underlying results (in millions, except per share).

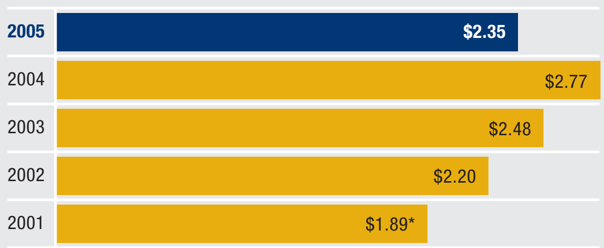
	Income Before Income Taxes	Provision For Income Taxes	Equity Income	Net Income	Earnings Per Share
2005					
Reported	**$2,191.5**	**$(850.4)**	**$498.1**	**$1,839.2**	**$2.35**
Gain on sale of Spanish theme park	**(15.4)**	**(3.5)**	**—**	**(18.9)**	**(.024)**
Favorable Chile income tax settlement on CCU sale	**—**	**(6.8)**	**—**	**(6.8)**	**(.009)**
Deferred income tax benefit from Ohio tax legislation	**—**	**(7.2)**	**—**	**(7.2)**	**(.009)**
Litigation settlement	**105.0**	**(12.6)**	**—**	**92.4**	**.118**
Excluding one-time items	**$2,281.1**	**$(880.5)**	**$498.1**	**$1,898.7**	**$2.43**
Percentage Change - 2005 vs. 2004					
Reported	(26.9)%		23.3%	(17.9)%	(15.2)%
Excluding one-time items	(23.1)%		29.0%	(13.8)%	(11.0)%
2004					
Reported	2,999.4	(1,163.2)	404.1	2,240.3	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	$2.73
Percentage Change - 2004 vs. 2003					
Reported	6.2%		17.2%	7.9%	11.7%
Excluding one-time items	5.0%		11.9%	6.1%	10.1%

INCOME TAXES

Anheuser-Busch's 2005 effective income tax rate of 38.8% was level with the rate in 2004. The effective tax rate for 2005 includes one-time favorable impacts of $3.5 million related to the sale of the Spanish theme park, $6.8 million for the settlement of certain CCU tax matters and $7.2 million from tax reform legislation enacted in Ohio, plus ongoing benefits from the American Jobs Creation Act. These favorable impacts were essentially offset by the limited income tax benefit from the litigation settlement. The company recognized a limited benefit for the settlement due to not currently having sufficient capital gains available to allow full deductibility of the loss. See Note 7 and page 32 for additional information.

The 2004 effective tax rate of 38.8% increased 10 basis points versus the 2003 rate of 38.7%. The rate for 2004 includes the impact of $8 million of incremental U.S. deferred income taxes provided to partially offset the Mexican corporate income tax rate reduction previously discussed. The effective rate for 2003 decreased 100 basis points versus the 2002 rate. This decrease resulted from a more favorable foreign tax credit position in 2003, and an unusually high effective rate in 2002 due to increased U.S. deferred taxes incurred to offset the benefit of a Mexican income tax rate reduction.

DILUTED EARNINGS PER SHARE



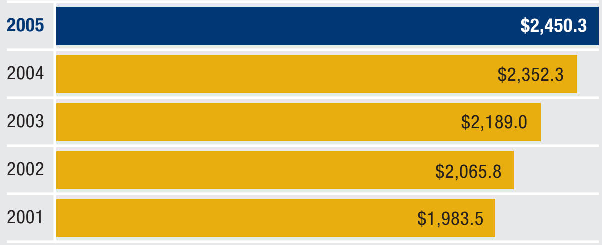
* On a comparable basis, which excludes goodwill amortization, diluted earnings per share for 2001 would have been $1.93.

EMPLOYEE-RELATED COSTS

Employee-related costs were $2.5 billion in 2005, an increase of 4.2% versus 2004 costs. Employee-related costs totaled $2.4 billion in 2004, an increase of 7.5% versus 2003 costs of $2.2 billion, which had increased 6.0% versus 2002. The changes in employee-related costs primarily reflect increases in salaries, wages and benefits expense, including the impact of Harbin in 2004. Salaries and wages comprise the majority of employee-related costs and totaled $1.8 billion in both 2005 and 2004, and $1.7 billion in 2003, representing increases versus prior year of 0.3%, 4.0%, and 2.8%, respectively. The remainder of employee-related costs consists primarily of pension, life insurance and health care benefits, and payroll taxes.

The company had 31,485 full-time employees at December 31, 2005. Full-time employees numbered 31,435 and 23,316 at the end of 2004 and 2003, respectively. The increase from 2003 to 2004 was primarily due to the Harbin acquisition.

EMPLOYEE-RELATED COSTS
(in millions)



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 2005 operations, not including the many indirect taxes included in materials and services purchased, totaled $3.3 billion, a decrease of 8.1% versus total taxes in 2004 of $3.6 billion. The decrease in 2005 reflects lower beer excise taxes and lower income taxes. Tax expense in 2004 increased 3.2% compared with total taxes of $3.5 billion in 2003. These figures highlight the significant tax burden on the company and the entire brewing industry.

Proposals to increase excise taxes on beer are addressed by the company and the brewing industry every year. 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 an important 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.

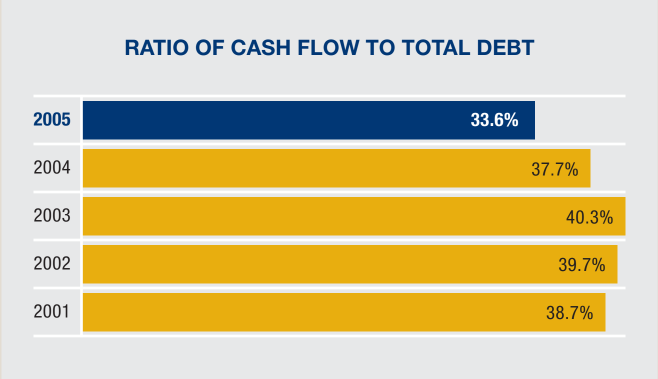
The company's rate of return on capital employed was 14.7% in 2005 compared to 18.4% in both 2004 and 2003. Return on capital employed is computed as net income for the year plus after-tax net interest (interest expense less interest capitalized), divided by average net investment. Net investment is 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 2005, 2004 and 2003, after-tax net interest expense was $269 million, $251 million and $234 million, respectively, calculated as pretax net interest expense of $435 million, $405 million and $377 million, respectively, less income taxes applied at an assumed 38% rate.

Liquidity and Financial Condition

Anheuser-Busch's strong financial position allows it to pursue its growth strategies while also providing substantial returns to shareholders. Accordingly, the company has established the following 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 investments in higher-growth international beer markets.
- Make substantial payments to shareholders through consistent dividend growth and the repurchase of common shares. Anheuser-Busch has paid cash dividends each year since 1933 and intends to increase dividends per share in line with the company's long-term expected diluted earnings per share growth. The company has an ongoing common share repurchase program.

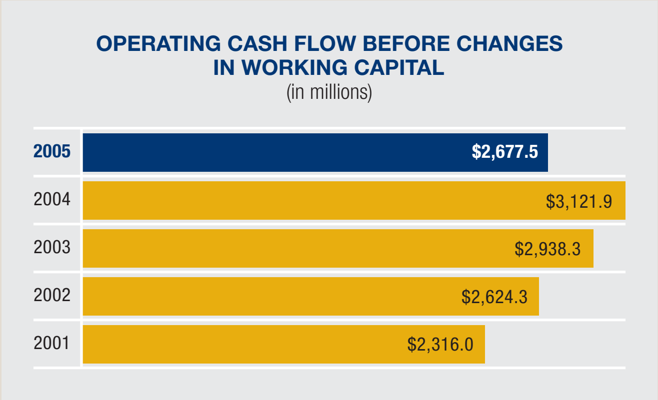
The company considers its ratio of cash flow to total debt to be one of the most important indicators of ongoing leverage, and currently targets a ratio in the 30% to 40% range in order to maintain its strong credit ratings of A1 and A+, from Moody's and Standard & Poor's, respectively. Based on its 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 33.6% in 2005, 37.7% in 2004, and 40.3% in 2003.



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, may require external financing as 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 $224 million, $151 million, and $227 million at December 31, 2005, 2004, and 2003, 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 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 shares. The company has cash commitments in the normal course of business, including operating leases. The company has no off-balance-sheet obligations specifically structured to provide earnings or tax benefits, or to avoid recognition or 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, 2005, 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 $1.8 million of these notes in 2005 and $1.9 million in 2004.

The company's fixed charge coverage ratio was 5.8X for the year ended December 31, 2005, and 7.8X for the years ended December 31, 2004 and 2003.

The company's future cash commitments are shown below, as of December 31, 2005 (in millions).

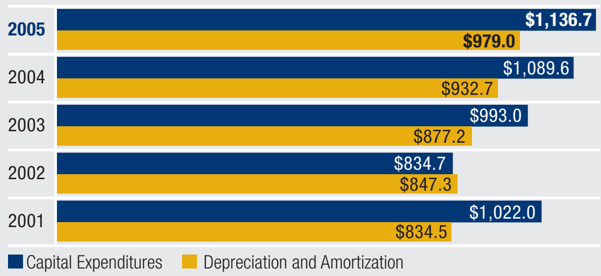
	2006	2007 and 2008	2009 and 2010	2011 and Thereafter	Total
Capital expenditures	$ 106	$ 5	$ —	$ —	$ 111
Operating leases	45	61	49	393	548
Brewing and packaging materials	301	232	237	416	1,186
Unfunded benefits payments	61	192	123	338	714
Interest payments	407	785	711	4,254	6,157
Maturities of long-term debt	247	300	747	6,678	7,972
	$1,167	$1,575	$1,867	$12,079	$16,688

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 were $1.1 billion in both 2005 and 2004, $993 million in 2003 and totaled $5.1 billion over the past five years. The company expects capital expenditures of approximately $900 million in 2006 and is projecting capital spending during the five-year period 2006 - 2010 of $4.5 billion. See Note 15 for information on capital expenditures by business segment.

CAPITAL EXPENDITURES/DEPRECIATION AND AMORTIZATION
(in millions)

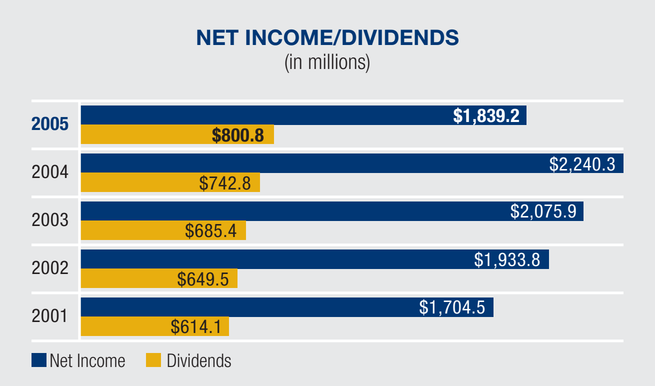


SHARE REPURCHASE

The company spent $620 million, $1.7 billion, and $2.0 billion to repurchase 12.9 million, 33.2 million and 39.4 million Anheuser-Busch common shares in 2005, 2004, and 2003, respectively. Anheuser-Busch uses its share repurchase program to balance its capital structure as the company manages its cash flow to total debt ratio. All shares are repurchased under authorization of the Board of Directors. The company has historically repurchased significantly more shares each year than it has issued under stock option plans, with average net annual repurchases of 2.5% of outstanding shares for over 10 years. See Note 12 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 $800.8 million in 2005, $742.8 million in 2004, and $685.4 million in 2003. In the third quarter of 2005, effective with the September dividend, the board of directors increased the quarterly dividend rate from $.245 to $.27 per share. This increased annual dividends to $1.03 per share, a 10.8% increase compared with $.93 per share in 2004. The dividend rate in 2004 reflected an increase of 12.0% compared with the rate of $.83 per share in 2003. Quarterly dividends per share for the first and second halves of the year, respectively, were $.245 and $.27 for 2005, $.22 and $.245 for 2004, and $.195 and $.22 for 2003.



PENSION CONTRIBUTIONS

The company made total contributions to its pension plans of $56 million, $245 million and $131 million, respectively, in calendar years 2005, 2004 and 2003. See Note 5 for additional information.

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, 2005, a total of $1.65 billion of SEC registered debt was available for issuance. The company's debt balance decreased a total of $306.5 million in 2005, compared with an increase of $993.2 million in 2004. Details of debt increases and decreases follow.

Increases In Debt

Description	Amount (in millions)	Interest Rate (fixed unless noted)
2005		
U.S. Dollar Notes	**$100.0**	**5.49%**
United Kingdom Brewery Lease	**52.9**	**6.25%**
Other	**2.1**	**Various**
	$155.0	
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	

Decreases In Debt

Description	Amount (in millions)	Interest Rate (fixed unless noted)
2005		
U.S. Dollar Debentures	**$350.0**	**$200.0 at 7.0% and $150.0 at 7.25%**
Commercial Paper	**61.6**	**3.31% wtd. avg., floating**
Chinese Renminbi-Denominated Bank Loans	**37.8**	**5.41% wtd. avg.**
U.S. Dollar Notes	**1.8**	**5.35%**
Other	**10.3**	**Various**
	$461.5	
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	

In addition to long-term debt, Anheuser-Busch issues commercial paper as a source of short-term financing. Commercial paper activity is supported by the company's committed $2 billion bank revolving credit agreement that expires in 2010. This standby credit agreement, which has never been used, provides Anheuser-Busch with an immediate and continuing source of liquidity.

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 $1.6 billion and $1.2 billion occurred in April 2005 and October 2004, respectively. Lowest commercial paper borrowings were $515 million in September 2005 and $254 million in June 2004. Average outstanding commercial paper balances were $1.1 billion during 2005 and $756 million during 2004.

COMMON STOCK

At December 31, 2005, registered common stock shareholders numbered 53,573 compared with 54,654 at the end of 2004. 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, 2005 and 2004 was $42.96 and $50.73, respectively. Comparative 2005 and 2004 high and low quarterly closing prices for BUD are provided in the following table.

Price Range of Anheuser-Busch Common Stock (BUD)

	2005		2004	
	High	Low	High	Low
First quarter	**$50.52**	**$47.26**	$54.01	$49.94
Second quarter	**$48.10**	**$45.10**	$54.22	$50.52
Third quarter	**$46.48**	**$43.04**	$54.29	$49.45
Fourth quarter	**$44.70**	**$40.57**	$51.07	$49.83

Critical Accounting Policies

The SEC defines 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 (as a reduction of the company's investment, not equity income) 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. The company provides deferred income taxes on equity earnings in excess of dividends received. In 2005, the company had equity income of $498.1 million and received cash distributions from investees of $210.1 million. 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. See Note 2 for additional information.

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.

POSTRETIREMENT PENSION, HEALTH CARE AND INSURANCE BENEFITS

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 the interest rate derived from matching future pension benefit payments with expected cash flows from high-quality, long-term corporate debt for the same periods. 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, 2005 rate is being used for 2006 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 5 for information on the impact of a 1% change in key pension assumptions.

Anheuser-Busch provides health care and insurance 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 and insurance expense and value the related postretirement benefit liability on the balance sheet. Similar to pensions, the discount rate is determined by observable market pricing, and it is based on the interest rate derived from matching future postretirement benefits payments with expected cash flows from high-quality, long-term corporate debt for the same periods. Health care inflation rates are recommended by the company's actuarial consultants each year. See Note 5 for information on the impact of a 1% change in the assumed discount rate and health care inflation rate.

Risk Management

Through its operations and investments, 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, dividends from equity investments and changes in interest rates. In addition to long-term supply agreements, the company uses derivative financial instruments, including forward exchange contracts, futures contracts, swaps, and purchased options and collars, to manage certain of these exposures. The company has been impacted by certain changes in underlying market conditions during 2005, particularly upward cost pressure for commodities such as energy and aluminum. There have been no significant changes in Anheuser-Busch's philosophy and approach for managing these exposures, or in the types of derivative instruments used to hedge the company's risks.

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.

Counterparty default risk is considered low because derivatives are either exchange-traded instruments with frequent margin position requirements that are highly liquid, or over-the-counter instruments transacted with highly rated financial institutions. Additionally, 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, 2005, the company held zero counterparty collateral and had zero collateral outstanding. Given the composition of 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 summary of potential unfavorable changes in the fair value of the company's derivative holdings under certain market movements during the last two years (in millions).

	2005	2004
Foreign Currency Risk — Forwards and Options	**$ 1.0**	$0.4
Interest Rate Risk — Interest Rate Swaps	**$ 0.3**	$0.2
Commodity Price Risk — Futures, Swaps and Options	**$10.2**	$9.3

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. Also, the preceding derivatives volatility analyses ignore 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 2005 was $100,000, with a computed one-day high of $1.6 million and a one-day low of zero. The average daily change in fair value for foreign exchange derivatives in 2005 was $50,000, with a computed one-day high of $200,000 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, 2005, fixed-rate debt with an approximate average maturity of 13 years represented 83% of the company's outstanding debt. Assuming the percentage of floating-rate debt at year-end remains constant in 2006, 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 $14 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 (Bolsa) at December 31, 2005, was $6.0 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.

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 Note 10 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 2005 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 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.