

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

ACCOUNTING 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.

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.

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 domestically 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 international beer operations and sales of 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.

DELIVERY COSTS

Pass-through finished goods delivery costs reimbursed by customers are reported in sales, with an offsetting expense 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 substantial marketing and other customer service functions to retailers including product display, shelf space management, distribution of promotional materials, draught line cleaning and product rotation.

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 \$849.8 million in 2005 and \$806.7 million in both 2004 and 2003. Sales promotion costs are recognized as a reduction of net sales when incurred, and totaled \$716.7 million in 2005, \$535.7 million in 2004, and \$511.8 million in 2003.

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.

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. Hedge accounting creates the potential for an income statement match between the changes in fair values of derivatives and the changes in cost or values of the

associated underlying transactions. By policy, derivatives held by the company must be designated as hedges of specific exposures at inception, with an expectation that changes in the fair value will essentially offset the change in cost or value for the underlying exposure. All of the company's derivatives qualify for hedge accounting under FAS 133. Liquidation of derivative positions is required whenever it is subsequently determined that an underlying transaction will not occur, with the gains or losses recognized in the income statement on liquidation. The fair values of derivatives are determined from market observation or dealer quotation. Commodities derivatives currently outstanding at December 31, 2005, all have initial terms of one year or less and the associated underlying transactions are expected to occur within that timeframe.

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 counterparties (unrealized hedge gains) or owed to counterparties (unrealized hedge losses) 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 and classifications 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 6 for information regarding shares granted, outstanding and exercisable under the company's stock compensation plans.

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).

Because the company's employee stock options are not traded on an exchange, the fair value disclosed is required to be based on a theoretical option-pricing model. 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.

	2005	2004	2003
Reported net income	\$ 1,839.2	\$ 2,240.3	\$ 2,075.9
Pro forma stock option expense	(94.8)	(121.6)	(113.4)
Adjusted net income	\$ 1,744.4	\$ 2,118.7	\$ 1,962.5
Reported basic earnings per share	\$ 2.37	\$ 2.80	\$ 2.51
Pro forma stock option expense	(.13)	(.15)	(.14)
Adjusted basic earnings per share	\$ 2.24	\$ 2.65	\$ 2.37
Reported diluted earnings per share	\$ 2.35	\$ 2.77	\$ 2.48
Pro forma stock option expense	(.12)	(.15)	(.14)
Adjusted diluted earnings per share	\$ 2.23	\$ 2.62	\$ 2.34

The fair value of stock options granted, which is hypothetically recognized in compensation expense over the vesting period to determine the pro forma earnings impact illustrated above, has been estimated on the date of grant using a binomial (lattice method) option-pricing model for 2005 and 2004 and the Black-Scholes option-pricing model for 2003. In 2005, the company began recognizing the entire fair value associated with non-forfeitable stock options in its pro forma stock compensation expense calculation as of the grant date. This means approximately 60% of total stock options expense will be recognized in the fourth quarter each year, with the remaining stock option expense associated with forfeitable options recognized ratably over the three-year option vesting period.

The fair values of options granted during 2005, 2004 and 2003 determined using either the binomial or Black-Scholes model as noted above, are as follows (in millions, except per option).

	2005	2004	2003
Fair value of each option granted	\$ 8.81	\$10.49	\$13.58
Total number of options granted	11.4	14.1	14.4
Total fair value of options granted	\$100.4	\$147.9	\$195.6

The binomial option-pricing model was selected for the valuation of 2005 and 2004 options because it accommodates several inputs in order to take into account multiple option exercise patterns, and essentially computes an overall value based on a weighting of each distinct pattern. Anheuser-Busch therefore believes the binomial model is a better measure of stock option value than Black-Scholes. The assumptions used in applying the company's option pricing models follow. For illustrative purposes, the expected life, risk-free rate, and fair value per option shown above are weighted averages derived from the distinct exercise patterns.

	2005	2004	2003
Expected life of option	5.5 yrs.	5.5 yrs.	7 yrs.
Risk-free interest rate	4.4%	3.7%	4.0%
Expected volatility of Anheuser-Busch stock	21%	22%	22%
Expected dividend yield on Anheuser-Busch stock	2.5%	1.8%	1.7%

In December 2004, the Financial Accounting Standards Board issued a revised and renamed standard regarding stock compensation — FAS 123R, "Share-Based Payment." The revised standard, which is effective for Anheuser-Busch in the first quarter of 2006, 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 generally based on the fair value of the instruments on the date of grant. In order to enhance comparability among all years presented and to provide the fullest understanding of the impact that expensing stock options has on the company, Anheuser-Busch will retrospectively apply the new standard to prior period results on adoption. As required by FAS 123R, retrospective results will include the net income and earnings per share impacts previously disclosed under FAS 123 pro forma reporting requirements. The company estimates that the impact on 2006 earnings per share from expensing stock compensation will be comparable to the pro forma impact disclosed for 2005. For financial reporting purposes, stock compensation expense will be included in either cost of sales or marketing, distribution and administrative expenses, depending on where the recipient's cash compensation is reported, and will be classified as a corporate item for segment reporting.

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 7 for additional information on the company's provision for income taxes, deferred income tax assets and liabilities, and effective tax rate.

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.

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 72% and 71% of total inventories at December 31, 2005 and 2004, respectively. Had average cost been used for all inventories at December 31, 2005 and 2004, the value of total inventories would have been \$126.6 million and \$126.0 million higher, respectively.

Following are the components of the company's inventories as of December 31 (in millions).

	2005	2004
Raw materials and supplies	\$ 386.9	\$ 405.0
Work in process	93.5	80.0
Finished goods	174.1	205.3
Total inventories	\$ 654.5	\$ 690.3

INTANGIBLE ASSETS

Anheuser-Busch's intangible assets consist of trademarks, beer distribution rights, and goodwill. Trademarks and beer distribution rights meeting criteria for separate recognition as specified by FAS 142, "Goodwill and Other Intangible Assets," are recognized in distinct asset categories. 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 legal right to sell the company's products in defined geographic areas. The carrying values of these rights have

indefinite lives and are not 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's distribution rights in the United Kingdom are contractually limited to 32 years and expire in 2029. Distribution rights in China are being amortized over seven years, through 2011, based on independent valuation appraisal and normal practice in China. 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 the net assets purchased as goodwill. Goodwill related to consolidated businesses is included in intangible assets on the balance sheet. Goodwill associated with the company's equity investments (primarily Grupo Modelo, and CCU prior to its sale in late 2004) is included in investments in affiliated companies. Goodwill is not amortized to earnings, but instead is reviewed for impairment at least annually, with ongoing recoverability based on applicable operating unit performance, consideration of significant events or changes in the overall business environment and comparable market transactions.

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 and/or comparable market transactions, 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 to 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. A review of intangible assets completed in the fourth quarter of 2005 found no impairment. See Note 4 for additional information on changes in the balances of intangible assets.

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. Computer systems development costs not meeting the proper criteria for capitalization, including reengineering costs, are expensed as incurred.

PLANT AND EQUIPMENT

Fixed assets are carried at original cost less accumulated depreciation, and include expenditures for new facilities as well as expenditures 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).

	2005	2004
Land	\$ 282.5	\$ 278.9
Buildings	4,970.4	4,750.6
Machinery and equipment	12,552.9	11,907.4
Construction in progress	403.1	475.6
Plant and equipment, at cost	18,208.9	17,412.5
Accumulated depreciation	(9,167.3)	(8,565.1)
Plant and equipment, net	\$ 9,041.6	\$ 8,847.4

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 nonowner changes in equity and are not recognized in the income statement until the investment is sold.

ISSUANCE OF STOCK BY EQUITY INVESTEES

The company has elected to treat issuances or repurchases of common stock by equity investees as equity transactions per SEC Staff Accounting Bulletin No. 52, and therefore recognizes no gain or loss when shares are issued or repurchased.

2. International Equity Investments

GRUPO MODELO

Anheuser-Busch owns a 35.12% direct interest in Grupo Modelo, S.A. de C.V. (Modelo), Mexico's largest brewer and producer of the Corona brand, and a 23.25% direct interest in Modelo's operating subsidiary Diblo, S.A. de C.V. (Diblo). The company's direct investments in Modelo and Diblo give Anheuser-Busch an effective (direct and indirect) 50.2% equity interest in Diblo. Anheuser-Busch 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 investments using the equity method. The total cost of the company's investments was \$1.6 billion.

The carrying amount of the Modelo investment was \$3,148.3 million and \$2,686.2 million, respectively, at December 31, 2005 and 2004. Included in the carrying amount of the Modelo investment is goodwill of \$558.0 million and \$525.1 million, respectively, at December 31, 2005 and 2004. Changes in goodwill during 2005 and 2004 are due to changes in exchange rates between the U.S. dollar and Mexican peso.

Dividends received from Grupo Modelo in 2005 totaled \$203.6 million, compared to \$170.2 million in 2004 and \$118.3 million in 2003. 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 third quarter 2004, Modelo received a \$251.0 million capital infusion into certain subsidiaries in exchange for equity in those subsidiaries. Anheuser-Busch recognized its after-tax 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 on a one-month lag basis, and include the impact of Anheuser-Busch's purchase accounting adjustments.

	2005	2004	2003
Cash and marketable securities	\$1,640.5	\$1,419.6	\$1,044.7
Other current assets	\$ 933.3	\$ 719.4	\$ 744.7
Noncurrent assets	\$4,592.8	\$4,041.3	\$3,700.1
Current liabilities	\$ 407.1	\$ 406.0	\$ 382.1
Noncurrent liabilities	\$ 411.3	\$ 356.9	\$ 330.4
Gross sales	\$4,734.0	\$4,220.8	\$3,909.0
Net sales	\$4,399.0	\$3,862.6	\$3,594.6
Gross profit	\$2,315.1	\$2,092.3	\$1,959.1
Minority interest	\$ 1.3	\$ 3.5	\$ 4.6
Net income	\$ 966.8	\$ 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 producer of the Tsingtao brand. Under the alliance agreement, in 2003 and 2004 Anheuser-Busch invested \$182 million in three mandatorily convertible bonds which required conversion into Tsingtao equity within seven years. The investment in the bonds, combined with an existing 4.5% stake in Tsingtao common stock, brought Anheuser-Busch's total investment to \$211 million. 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 accounted for its investment on the cost basis through April 2005, when the company converted the two remaining convertible bonds into Tsingtao Series H common shares. The April 2005 conversion increased Anheuser-Busch's economic ownership in Tsingtao from 9.9% to 27%, and its voting stake from 9.9% to 20%. Local government authorities hold the proxy voting rights for the 7% difference between the company's voting and economic stakes. The increased economic stake allows Anheuser-Busch to nominate an additional director, giving the company two of eleven board seats and representation on related committees. Because of the increased share and voting ownership and board representation, Anheuser-Busch believes it has the ability to exercise significant influence and therefore began applying the equity method of accounting for Tsingtao in May 2005, on a one-month lag basis.

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.

The carrying value of the company's Tsingtao investment was \$224.8 million at December 31, 2005. Dividends received from Tsingtao totaled \$6.5 million in 2005.

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 which it accounted for using the equity method. The CCU investment indirectly increased Anheuser-Busch's ownership interest in a previously held investment in the Argentine subsidiary of CCU to 28.6%, and the company also began applying equity accounting for that investment at that time. Dividends received from CCU totaled \$8.8 million in 2004 and \$50.9 million in 2003. In November 2004, Anheuser-Busch sold its 20% equity stake in CCU 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 Chilean tax circumstances, the after-tax gain on the CCU sale was \$14.7 million, or \$.018 per share. Subsequent to the sale of CCU, the company changed the accounting for its investment in CCU-Argentina back to the cost basis because Anheuser-Busch can no longer exercise significant influence. The company's relationship with CCU to produce and distribute Budweiser in Chile and Argentina continues.

3. Derivatives and Other Financial Instruments

DERIVATIVES

Under FAS 133, derivatives are classified as fair value, cash flow or net investment hedges (foreign currency denominated), depending on the nature of the underlying exposure. The company's interest rate hedges are fair value hedges, while commodity cost hedges and most foreign currency denominated hedges are classified as cash flow hedges. Hedged commodity exposures are short, meaning the company must acquire additional quantities to meet its operating needs, and include aluminum, rice, corn and natural gas. Anheuser-Busch's primary foreign currency exposures result from transactions and investments denominated in Mexican pesos, Chinese renminbi, Canadian dollars, British pounds sterling, and euros. These exposures are long, meaning the company has or generates sufficient quantities of these currencies.

Fair value hedges are accounted for by recognizing the changes in fair values for both the derivative and the underlying hedged exposure in earnings each period. For cash flow hedges, the portion of the derivative gain or loss that is effective in offsetting the change in cost or value of the underlying exposure is deferred in nonowner changes in shareholders equity, and later reclassified into earnings to match the impact of the underlying transaction when it occurs. Net investment hedges are accounted for in the foreign currency translation account in nonowner changes in shareholders equity. Regardless of classification, a 100% effective hedge will result in zero

net earnings impact while the derivative is outstanding. To the extent that any hedge is ineffective at offsetting cost or value changes in the underlying exposure, there could be a net earnings impact. Gains and losses from the ineffective portion of a hedge are recognized in the income statement immediately.

Following are the notional transaction amounts and fair values for the company's outstanding derivatives, summarized by risk category and instrument type, at December 31 (in millions, with brackets indicating a deferred loss position). Because the company hedges only with derivatives that have high correlation with the underlying transaction cost or value, changes in derivatives fair values and the underlying cost are expected to essentially offset.

	2005		2004	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Foreign currency:				
Forwards	\$115.2	\$(2.1)	\$114.7	\$ 0.7
Options	277.2	7.6	151.0	3.8
Total foreign currency	392.4	5.5	265.7	4.5
Interest rate:				
Swaps	250.0	0.2	150.0	5.6
Commodity price:				
Swaps	26.2	(3.8)	22.0	(2.9)
Futures and forwards	82.0	(1.9)	14.6	(0.9)
Options	—	—	58.3	2.4
Total commodity price	108.2	(5.7)	94.9	(1.4)
Total outstanding derivatives	\$750.6	\$ —	\$510.6	\$ 8.7

The table below shows derivatives gains and losses deferred in nonowner changes in shareholders equity as of December 31, 2005, 2004 and 2003 (in millions). The amounts shown for 2004 and 2003 were subsequently recognized in earnings as the hedged transactions took place, mostly in the next year. The gains and losses deferred as of December 31, 2005 are generally expected to be recognized in 2006 as the underlying transactions occur. However, the amounts ultimately recognized may differ, favorably or unfavorably, from those shown because some of the company's derivative positions are not yet settled and therefore remain subject to ongoing market price fluctuations. Included in the figures below are deferred option premium costs of \$4.4 million, \$6.5 million and \$26.2 million at the end of 2005, 2004, and 2003, respectively.

	2005	2004	2003
Deferred gains	\$ 2.6	\$ 2.8	\$ 86.0
Deferred losses	(6.4)	(4.9)	(26.2)
Net deferred gains/(losses)	\$(3.8)	\$(2.1)	\$ 59.8

Following are derivative gains and losses recognized in earnings during the years shown. As noted, effective gains and losses had been deferred over time and recognized simultaneously with the impact of the underlying transactions. The ineffective gains and losses were recognized immediately when it was evident they did not precisely offset changes in the underlying transactions. The ineffective 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 cost estimates which were subsequently lowered during contract renewal negotiations, resulting in significant hedge ineffectiveness in accordance with FAS 133. The company sold these hedges per policy and immediately recognized the ineffective portion of the gain.

	2005	2004	2003
Effective gains	\$20.1	\$ 65.7	\$ 14.4
Effective losses	(8.1)	(15.3)	(16.2)
Net effective gains/(losses)	\$12.0	\$ 50.4	\$ (1.8)
Net ineffective gains	\$ 0.2	\$ 26.5	\$ 1.3

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 \$15.3 million and \$12.5 million, at December 31, 2005 and 2004, 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 \$8.3 billion and \$7.7 billion at December 31, 2005 and 2004, respectively.

4. Intangible Assets

The following table shows the activity in goodwill, beer distribution rights and trademarks during the three years ended December 31 (in millions).

	Trademarks	Goodwill	Beer Distribution Rights
Balance at Dec. 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	—	(35.5)	2.1
Balance at Dec. 31, 2003	—	989.9	221.3
Domestic beer wholesaler acquisition	—	21.2	10.6
Disposition of domestic beer wholesaler equity investment	—	—	(40.1)
Harbin acquisition	44.4	613.8	15.4
CCU disposition	—	(126.0)	—
Amortization of international distribution rights	—	—	(1.8)
Foreign currency translation	—	10.3	1.5
Balance at Dec. 31, 2004	44.4	1,509.2	206.9
Domestic beer wholesaler disposition	—	—	(5.6)
Disposition of domestic beer wholesaler equity investment	—	—	(20.9)
Harbin purchase accounting adjustments	—	34.3	—
Amortization of international distribution rights	—	—	(3.1)
Foreign currency translation	1.1	49.0	(2.0)
Balance at Dec. 31, 2005	\$45.5	\$1,592.5	\$175.3

The international beer distribution rights have a combined gross cost of \$45.5 million and a remaining unamortized balance of \$32.0 million at December 31, 2005. The company expects amortization expense of approximately \$3.1 million per year related to international distribution rights over the next five years.

5. Retirement Benefits

PENSION PLANS

The company sponsors pension plans for its 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 cash contributions for all years shown.

	2005	2004	2003
Single-employer defined benefit plans	\$156.4	\$118.6	\$73.7
Multiemployer plans	16.8	16.8	16.8
Defined contribution plans	19.1	18.9	18.4
Total pension expense	\$192.3	\$154.3	\$108.9

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

	2005	2004	2003
Service cost (benefits earned during the year)	\$ 94.2	\$ 86.6	\$ 74.7
Interest cost on projected benefit obligation	168.3	159.2	151.9
Assumed return on plan assets	(194.9)	(189.2)	(188.9)
Amortization of prior service cost and net actuarial losses	88.8	62.0	36.0
Net annual pension expense	\$ 156.4	\$ 118.6	\$ 73.7

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.

	2005	2004	2003
Annual expense:			
Discount rate	6.0%	6.25%	6.75%
Long-term rate of return on plan assets	8.5%	8.5%	8.5%
Wtd. avg. rate of compensation increase	4.25%	4.25%	4.25%
Funded status:			
Discount rate	5.5%	6.0%	6.25%
Wtd. avg. rate of compensation increase	4.0%	4.25%	4.25%

For informational purposes, following is a summary of the potential impact on 2006 annual pension expense of a hypothetical 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	8.5%	\$(23.2)	\$23.2
Discount rate	6.0%	\$(43.4)	\$58.5
Salary growth rate	4.25%	\$21.5	\$(19.2)

The following table provides a reconciliation between the funded status of single-employer defined benefit plans and the prepaid pension asset on the balance sheet for the two years ended December 31 (in millions). Unrecognized actuarial losses represent changes in the estimated projected benefit obligations (primarily due to changes in assumed discount rates) which have not yet been recognized in the balance sheet or income statement. The impact of these actuarial changes is amortized into net annual pension expense over the remaining service period for active employees, which is approximately ten years for each of the years shown.

	2005	2004
Funded status — plan assets (less than)		
projected benefit obligation	\$ (880.0)	\$ (705.9)
Unrecognized net actuarial loss	1,136.2	1,087.3
Unamortized prior service cost	131.1	146.4
Prepaid pension asset	\$ 387.3	\$ 527.8

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). The projected benefit obligation is the actuarial net present value of all benefits related to employee service rendered to date, including assumptions of future annual compensation increases to the extent appropriate. The accumulated benefit obligation is the actuarial present value of benefits for services rendered to date, with no consideration of future compensation.

	2005	2004
Projected benefit obligation, beginning of year	\$ 2,894.0	\$ 2,575.6
Service cost	94.2	86.6
Interest cost	168.3	159.2
Plan amendments	6.7	56.1
Actuarial loss	205.8	183.4
Foreign currency translation	(6.6)	4.1
Benefits paid	(172.5)	(171.0)
Projected benefit obligation, end of year	\$ 3,189.9	\$ 2,894.0

	2005	2004
Fair value of plan assets, beginning of year	\$2,188.1	\$1,935.1
Actual return on plan assets	282.4	211.8
Employer contributions	15.8	172.7
Foreign currency translation	(3.9)	2.2
Benefits paid	(172.5)	(171.0)
Fair value of plan assets, end of year	\$2,309.9	\$2,150.8

	2005	2004
Plans with accumulated benefit obligation in excess of assets:		
Accumulated benefit obligation	\$(2,890.9)	\$(2,622.0)
Plan assets	2,309.9	2,150.8
Accumulated benefit obligation exceeding assets	\$ (581.0)	\$ (471.2)

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). Additional contributions to enhance the funded status of pension plans can be made at the company's discretion. The company plans to make required pension contributions totaling \$58 million for all plans throughout 2006, and provided additional discretionary pension funding of \$214 million in January 2006. Anheuser-Busch made accelerated pension contributions of \$187 million and \$75 million in 2004 and 2003, respectively. Projections indicated that Anheuser-Busch would have been required to contribute these amounts in future years, but the company chose to make the contributions early in order to enhance the funded status of the plans.

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 annual pension expense or funding requirements. Summarized in the following table are the components of the company's minimum pension liability for the two years ended December 31 (in millions).

	2005	2004
Minimum pension liability — domestic plans	\$(968.4)	\$(961.7)
Minimum pension liability — equity investments	(39.2)	(42.4)
Intangible asset — unrecognized prior service costs	132.6	150.8
Deferred income taxes	345.3	336.3
Net minimum pension liability	\$(529.7)	\$(517.0)

Following is information regarding the allocation of the company's pension plan assets as of December 31, 2005 and 2004, target allocation for 2006, and weighted average expected long-term rates of return by asset category.

Asset Category	Percentage of Plan Assets at Dec. 31, 2004	Percentage of Plan Assets at Dec. 31, 2005	Target Asset Allocation for 2006	Wtd. Avg. Expected Long-Term Rate of Return
Equity securities	69%	70%	69%	10.0%
Debt securities	27%	26%	27%	5.0%
Real estate	4%	4%	4%	7.0%
Total	100%	100%	100%	8.5%

Asset allocations are intended to achieve a total asset return target 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. As noted, annual pension expense includes assumptions regarding the rate of return on plan assets. 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 strives to balance expected long-term returns and short-term volatility of pension plan assets. Favorable or unfavorable differences between the assumed and actual returns on plan assets are generally recognized in periodic pension expense over the subsequent five years. The actual rate of return on plan assets net of investment manager fees was 14%, 12% and 18% for 2005, 2004 and 2003, respectively.

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. 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.

Derivatives use is permitted by investment funds to hedge exposure to foreign currency denominated stocks and securitize cash in investment portfolios where appropriate to achieve overall investment policy objectives. By policy, derivatives used

must be simple structures with high liquidity and be either exchange-traded or executed with high credit 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. Through December 31, 2005, participants were required to have at least 10 years of service after the age of 45 to become eligible for any retiree health care benefits. Effective January 1, 2006, participants must have at least 10 years of continuous service after reaching age 48 to become eligible. 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, which provides federal payments to sponsors of retiree health care plans, such as Anheuser-Busch. On adoption of the Act, the company made a one-time \$40.1 million reduction to its accumulated postretirement benefits obligation which is accounted for as an actuarial gain and amortized over the remaining service life of participating employees, approximately 9 years. Additionally, applying the Act has reduced annual retiree health care expense by approximately \$7 million.

	2005	2004	2003
Service cost	\$ 25.6	\$ 22.3	\$ 19.7
Interest cost on accumulated postretirement benefits obligation	39.3	34.8	37.9
Amortization of prior service benefit	(11.4)	(11.4)	(11.5)
Amortization of actuarial loss/(gain)	14.1	4.2	2.3
Net periodic postretirement benefits expense	\$ 67.6	\$ 49.9	\$ 48.4

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, 2005 and 2004, \$61.0 million and \$46.8 million, respectively, of the company's total postretirement benefits liability was classified as current. Unrecognized net actuarial losses represent changes in the estimated accumulated benefits obligation which have not yet been recognized in the balance sheet or income statement. These changes are primarily due to changes in assumed discount rates and unfavorable increases in health care costs. The impact of the changes is amortized into annual postretirement benefits expense over the remaining service life of participating employees. Postretirement benefits obligations

are not prefunded, and there are no assets associated with the plans.

	2005	2004
Accumulated postretirement benefits obligation, beginning of year	\$ 600.4	\$600.4
Service cost	25.6	22.3
Interest cost	39.3	34.8
Actuarial loss	152.2	3.8
Plan amendments	(99.9)	—
Benefits paid	(63.3)	(60.9)
Accumulated postretirement benefits obligation, end of year	654.3	600.4
Unrecognized prior service benefits	105.0	16.5
Unrecognized net actuarial losses	(254.0)	(115.9)
Total postretirement benefits liability	\$ 505.3	\$501.0

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.

	2005	2004	2003
Discount rate	5.5%	6.0%	6.25%
Initial health care inflation rate	8.9%	9.7%	10.45%
Future health care inflation rate	5.0%	5.0%	5.0%
Year health care trend rate assumed to become constant	2012	2012	2012

For informational purposes, following is a summary of the potential 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	\$ 7.9	\$ (6.9)
Accrued postretirement benefits liability	\$ 33.0	\$ (38.9)

ESTIMATED FUTURE RETIREMENT BENEFITS PAYMENTS

Following are retirement benefits expected to be paid in future years, based on employee data and plan assumptions, as of December 31, 2005 (in millions). The amounts shown for pensions include payments related to supplemental executive retirement plans of \$4 million, \$77 million, \$3 million, \$4 million and \$7 million, for the years 2006 through 2010, respectively, and a total of \$58 million for 2011-2015. Payments for supplemental executive retirement and retiree health care are unfunded and therefore constitute future cash commitments of the company.

	Pensions	Health Care and Insurance
2006	\$ 179.4	\$ 56.5
2007	\$ 235.3	\$ 56.4
2008	\$ 167.7	\$ 55.9
2009	\$ 192.2	\$ 55.6
2010	\$ 211.5	\$ 55.8
2011-2015	\$1,252.8	\$279.5

EMPLOYEE STOCK PURCHASE AND SAVINGS PLANS

The company sponsors employee stock purchase and savings plans (401(k) plans), which are voluntary defined contribution plans in which most regular employees are eligible for participation. Under the 401(k) plans, the company makes matching cash contributions for up to 6% of employee pretax savings. The company's matching contribution percentage is established annually based on a formula that considers both consolidated net income and total employee costs. From 1989 through the first quarter of 2004, the company's 401(k) expense was favorably impacted by the funding of a portion of the company's matching obligation through qualified Employee Stock Ownership Plans (ESOPs), which expired in March 2004. Total 401(k) expense was \$63.6 million, \$50.9 million and \$17.0 million for 2005, 2004 and 2003, respectively.

6. Stock-Based Compensation

STOCK OPTIONS

Under the terms of the company's stock option plans, officers, certain other employees and non-employee 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, 2005, 2004, and 2003, a total of 121 million, 95 million, and 100 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 paid-in-capital) was \$41.6 million for the years ended December 31, 2005 and 2004, and \$41.3 million for the year ended December 31, 2003. The income tax benefit is based on the income realized by the employee on the date of exercise.

Following 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, 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
Granted	11.4	\$43.83		
Exercised	(5.9)	\$25.48		
Cancelled	(0.8)	\$49.38		
Balance, Dec. 31, 2005	96.5	\$45.01	71.5	\$44.06

Non-employee directors may elect to receive their annual retainer in shares of Anheuser-Busch common stock instead of cash. If all non-employee directors eligible to own the company's common stock elected to receive their 2006 annual retainer in shares, the total number of shares issued would be 16,760, based on the closing price for the company's common stock at December 31, 2005.

The following table provides additional information regarding options outstanding and options that were exercisable as of December 31, 2005.

Range of Exercise Prices	Options Outstanding		Options Exercisable	
	Number	Wtd. Avg. Remaining Life	Wtd. Avg. Exercise Price	Wtd. Avg. Exercise Price
\$10-29	10.1	2.2 yrs	\$25.90	10.1
\$30-39	8.1	3.7 yrs	\$37.84	8.1
\$40-49	50.2	6.6 yrs	\$46.49	38.8
\$50-54	28.1	8.2 yrs	\$51.29	14.5
\$10-54	96.5	6.4 yrs	\$45.01	71.5

RESTRICTED STOCK

In January 2006, the company granted shares of restricted stock to officers and certain other employees. Shares of restricted stock either vest ratably over a three year period (time-based shares), or vest in pre-specified percentages at the end of three years based on total BUD shareholder return performance ranked against the S&P 500 over that period (performance-based shares). The performance-based shares were granted to members of the company's Strategy Committee. All other employees received time-based shares. The company granted a total of 168,557 performance-based shares and 403,827 time-based shares. In accordance with FAS 123R, compensation expense will be based on the grant date

fair values of \$43.39 per share for time-based shares and \$35.58 per share for performance-based shares, and will be recognized over the three year vesting or performance evaluation period, respectively.

7. Income Taxes

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

	2005	2004	2003
Current tax provision:			
Federal	\$712.0	\$ 772.6	\$ 813.1
State	129.8	170.0	142.6
Foreign	8.4	33.5	8.1
Total current provision	850.2	976.1	963.8
Deferred tax provision:			
Federal	(3.3)	168.7	112.1
State	(9.0)	18.4	17.0
Foreign	12.5	—	0.4
Total deferred provision	0.2	187.1	129.5
Total tax provision	\$850.4	\$1,163.2	\$1,093.3

The deferred income tax provision is a non-cash expense and results from temporary differences between financial reporting and income tax filing in the timing of certain income and expense items and in the basis of assets and liabilities. The primary temporary differences relate to depreciation on fixed assets, pension contributions and accrued U.S. taxes on equity income, net of applicable foreign tax credits. Anheuser-Busch operates in multiple legal jurisdictions that subject it to tax audits in the U.S. and various foreign countries. The company believes it has made adequate provisions in all jurisdictions for all years remaining subject to audit.

The company's deferred income tax liabilities and deferred income tax assets as of December 31, 2005 and 2004, are summarized by category in the following table (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 for minimum pension liabilities. Deferred income taxes are not provided on undistributed earnings of consolidated foreign subsidiaries that are considered to be permanently reinvested outside the United States. Cumulative foreign earnings considered permanently reinvested totaled \$205.6 million and \$187.9 million, respectively, at December 31, 2005 and 2004.

	2005	2004
Deferred income tax liabilities:		
Fixed assets	\$1,839.4	\$1,902.6
Accelerated pension contributions	219.8	221.3
Accrued net U.S. taxes on equity earnings	188.3	162.3
Other	177.9	211.7
Total deferred income tax liabilities	2,425.4	2,497.9
Deferred income tax assets:		
Minimum pension obligation	334.3	324.4
Postretirement benefits	206.9	199.7
Spare parts and production supplies	77.0	74.8
Compensation-related obligations	72.2	74.9
Accrued liabilities and other	111.6	152.6
Total deferred income tax assets (1)	802.0	826.4
Net deferred income taxes	\$1,623.4	\$1,671.5

Note 1: Deferred income tax assets of \$59.0 million and \$55.7 million are classified in other current assets at December 31, 2005 and 2004, respectively.

Valuation allowances of \$67.0 million and \$32.2 million have been provided for deferred income tax assets for which realization is uncertain as of December 31, 2005 and 2004, respectively. The increase in valuation allowances in 2005 is due to foreign operations and the allowance provided for the capital loss carry forward relating to the third quarter litigation settlement. The company has recorded the litigation settlement on the basis that the entire amount is a capital loss, which is only deductible for income tax purposes to the extent Anheuser-Busch has qualifying capital gains. The company did not have sufficient capital gains available in 2005 or the three prior tax years to allow a current deduction of the full amount. The portion of the loss not deducted in 2005 can be carried forward and applied against future capital gains for up to five years.

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.

	2005	2004	2003
Federal statutory tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	3.6	3.9	3.7
Impact of foreign operations	0.7	0.6	0.7
Other items, net	(0.5)	(0.7)	(0.7)
Effective tax rate	38.8%	38.8%	38.7%

In October 2004, the American Jobs Creation Act was signed into law. The Act provides annual income tax deductions on income from certain domestic manufacturing activities, with increasing deduction levels phased in through 2010. The company recorded an initial income tax benefit under the Act of \$22.2 million in 2005, and anticipates receiving increasing on-going future benefits related to qualifying manufacturing activities. The Act also created a one-time opportunity to repatriate income retained by overseas operations at substantially reduced U.S. income tax rates. The company

ected to not repatriate consolidated income reinvested overseas as these funds are being used to expand local operations. The reduced U.S. income tax rate applied to the Modelo dividends received in 2005.

In 2004, Anheuser-Busch identified a \$25.9 million balance sheet reclassification related to the 1996 spin-off of its Campbell Taggart bakery subsidiary. 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.

8. Debt

The company uses SEC shelf registrations for debt issuance efficiency and flexibility, and currently has \$1.65 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).

	2005	2004
U.S. dollar notes due 2006 to 2023, interest rates from 4.375% to 7.5%	\$3,576.2	\$3,478.0
U.S. dollar debentures due 2009 to 2043, interest rates from 5.95% to 9.0%	2,600.0	2,950.0
Commercial paper, interest rates of 4.39% and 2.18%, respectively, at year-end	1,102.6	1,164.2
Industrial revenue bonds due 2006 to 2038, interest rates from 4.6% to 7.4%	271.7	271.8
Medium-term notes due 2010, interest rate 5.625%	200.0	200.0
Chinese renminbi-denominated bank loans due 2006 to 2009, interest rates from 4.7% to 6.7%	75.8	113.6
U.S. dollar EuroNotes due 2006, interest rate 4.51%	100.0	100.0
Miscellaneous items	66.1	23.4
Unamortized debt discounts	(20.3)	(22.4)
Total debt	\$7,972.1	\$8,278.6

The fixed interest rates on the company's 4.51% EuroNotes and 5.60% and 5.49% U.S. dollar notes (total notional value of \$250.0 million in 2005 and \$150.0 million in 2004) were swapped to LIBOR-based floating rates when issued. The weighted average effective interest rates for this debt during 2005 and 2004 were 3.21% and 1.35%, respectively, while year-end rates were 4.29% and 2.28%, respectively.

The weighted-average interest rates for commercial paper borrowings during 2005, 2004, and 2003 were 3.31%, 1.40%, and 1.08%, respectively. The company has in place a single committed \$2 billion revolving credit agreement that expires in October 2010, to support the company's commercial paper program. The agreement is syndicated among 17 banks, has no financial covenants, and does not designate a material adverse change as a default event or as an event prohibiting a borrowing. Credit rating triggers in the agreement pertain only to annual fees and the interest rate applicable to 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 2005, 2004 and 2003. 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. Harbin Group Acquisition

In July 2004, the company completed the purchase of Harbin Brewery Group, the fifth-largest brewer in China. 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.

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). Adjustments to the initial purchase price allocation resulted from detailed analysis of assets and liabilities at each Harbin Brewery location.

Description	Preliminary Allocation	Adjustments	Final Allocation
Working capital deficit	\$ (27.9)	\$(28.8)	\$ (56.7)
Property, plant and equipment	173.1	(0.4)	172.7
Identifiable intangible assets	59.8	—	59.8
Goodwill	613.8	34.3	648.1
Long-term debt assumed	(118.4)	—	(118.4)
Net other liabilities	(6.6)	(5.1)	(11.7)
Total purchase price	\$ 693.8	\$ —	\$ 693.8

An independent appraiser performed the valuation of acquired Harbin 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 was a portfolio of small-scale renminbi-denominated loans with a weighted average interest rate of 5.57% and maturities ranging from 2005 through 2009. The majority of this debt was due and settled in 2005. None of the Harbin goodwill is deductible for tax purposes.

10. Supplemental Cash Flow Information

Accounts payable include \$99 million and \$111 million of outstanding checks at both December 31, 2005 and 2004. Supplemental cash flows information for the three years ended December 31 is presented in the following table (in millions).

	2005	2004	2003
Cash paid during the year:			
Interest, net of interest capitalized	\$ 436.0	\$ 390.3	\$ 369.0
Income taxes	\$ 814.7	\$ 962.3	\$ 952.2
Excise taxes	\$ 2,217.3	\$ 2,229.1	\$ 2,169.4
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	\$ 14.7	\$ (26.7)	\$ (39.0)
Inventories	35.8	(102.8)	(23.9)
Other current assets	6.9	(21.6)	(60.5)
Increase/(decrease) in current liabilities:			
Accounts payable	54.7	101.1	107.1
Accrued salaries, wages and benefits	(40.5)	2.5	1.4
Accrued taxes	3.8	(10.2)	(17.9)
Accrued interest	(1.5)	14.8	8.1
Other current liabilities	(2.9)	3.6	(29.2)
Derivatives fair value adjustment	(9.8)	(91.3)	77.2
Working capital adjustment for acquisition/disposition	(10.9)	(51.0)	9.3
Net (increase)/decrease in working capital	\$ 50.3	\$ (181.6)	\$ 32.6

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).

11. Accumulated Nonowner Changes In Shareholders Equity

The components of accumulated nonowner changes in shareholders equity as of December 31 are summarized below (in millions).

	2005	2004
Foreign currency translation	\$ (382.0)	\$ (566.5)
Deferred hedging losses	(2.4)	(1.3)
Deferred securities valuation gains	0.3	95.9
Minimum pension liability	(529.7)	(517.0)
Accumulated nonowner changes in shareholders equity	\$ (913.8)	\$ (988.9)

Deferred tax assets of \$1.4 million and \$0.8 million have been recognized for deferred hedging losses as of December 31, 2005 and 2004, respectively, while deferred income tax liabilities of \$0.2 million and \$54.0 million have been provided for deferred securities valuation gains, respectively. The decline in deferred securities valuation gains is due to conversion of the Tsingtao convertible bonds in 2005. See Note 2 for additional information. See Note 5 for deferred taxes related to minimum

pension liabilities. The majority of foreign currency translation losses relate to equity investments (primarily Grupo Modelo) whose operations are reported in Anheuser-Busch's financial statements on a net-of-tax basis.

12. Preferred and Common Stock

COMMON STOCK ACTIVITY

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

	2005	2004	2003
Common Stock:			
Beginning common stock	1,463.0	1,457.9	1,453.4
Shares issued under stock plans	5.6	5.1	4.5
Common stock	1,468.6	1,463.0	1,457.9
Treasury Stock:			
Beginning treasury stock	(678.0)	(644.8)	(606.8)
Treasury stock acquired	(12.9)	(33.2)	(39.4)
Treasury stock issued	—	—	1.4
Cumulative treasury stock	(690.9)	(678.0)	(644.8)
Net common stock outstanding	777.7	785.0	813.1

EARNINGS PER SHARE OF COMMON STOCK

Basic earnings per share are computed by dividing net income by the weighted-average number of shares of common stock outstanding for the year. Diluted earnings per share are computed using the weighted-average number of common shares outstanding, 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.

	2005	2004	2003
Basic weighted average shares outstanding	777.5	798.9	826.2
Weighted average stock option shares	5.1	9.6	10.8
Diluted weighted average shares outstanding	782.6	808.5	837.0

COMMON STOCK REPURCHASE

The board of directors has approved resolutions authorizing the company to repurchase shares of its common stock. At December 31, 2005, approximately 31 million shares remained available for repurchase under a March 2003 board authorization totaling 100 million shares. The company repurchased 12.9 million common shares in 2005, 33.2 million shares in 2004, and 39.4 million shares in 2003, for \$620.4 million, \$1,699.5 million, and \$1,958.9 million, respectively.

PREFERRED STOCK

At December 31, 2005 and 2004, 40 million shares of \$1.00 par value preferred stock were authorized and unissued.

13. Contingencies

In the third quarter 2005, Anheuser-Busch and its outside insurance companies settled all claims associated with previously disclosed lawsuits filed by Maris Distributing Company. As a result of the settlement, the company paid \$120 million, resulting in a \$105 million pretax charge (\$.12 per share) which is reported as a separate line item on a pretax basis in the income statement. The settlement is classified as a corporate item for segment reporting.

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.

14. Quarterly Financial Data (unaudited)

Following is selected quarterly information for 2005 and 2004 (in millions, except per share).

Year Ended Dec. 31, 2005

	Net Sales	Gross Profit	Net Income	Earnings Per Share	
				Basic	Diluted
1st Qtr	\$ 3,563.7	\$1,336.5	\$ 512.8	\$.66	\$.65
2nd Qtr	4,018.1	1,542.1	607.0	.78	.78
3rd Qtr	4,088.5	1,574.7	518.2	.67	.66
4th Qtr	3,365.4	1,002.9	201.2	.26	.26
Annual	\$15,035.7	\$5,456.2	\$1,839.2	\$2.37	\$2.35

Year Ended Dec. 31, 2004

	Net Sales	Gross Profit	Net Income	Earnings Per Share	
				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

15. Business Segments

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

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, Mexico and Ireland. The company attributes foreign sales based on the location of the distributor purchasing 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.

Following is Anheuser-Busch business segment information for 2005, 2004, and 2003 (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. Effective in 2005, the company's transportation business is included within the domestic beer segment and its real estate business is reported as a corporate item. These businesses previously comprised the "other" segment. Segment results for 2004 and 2003 have been updated to conform to the 2005 reporting convention. The change in composition is not material for any segment or for any period presented.

ANHEUSER-BUSCH COMPANIES AND SUBSIDIARIES

2005	Domestic Beer	International Beer	Packaging	Entertainment	Corporate & Eliminations ⁽¹⁾	Consolidated
<u>Income Statement Information</u>						
Gross sales	\$ 13,067.6	1,165.5	2,383.6	1,084.8	(448.0)	\$ 17,253.5
Net sales - intersegment	\$ 2.7	—	871.1	—	(873.8)	\$ —
Net sales - external	\$ 11,079.8	932.8	1,512.5	1,084.8	425.8	\$ 15,035.7
Depreciation and amortization	\$ 706.6	52.1	83.3	93.9	43.1	\$ 979.0
Income before income taxes	\$ 2,675.6	86.5	141.5	205.9	(918.0)	\$ 2,191.5
Equity income, net of tax	\$ —	498.1	—	—	—	\$ 498.1
Net income	\$ 1,658.9	551.7	87.7	127.7	(586.8)	\$ 1,839.2
<u>Balance Sheet Information</u>						
Total assets	\$ 8,019.0	5,049.2	764.4	1,400.8	1,321.6	\$ 16,555.0
Equity method investments	\$ —	3,373.1	—	—	—	\$ 3,373.1
Goodwill	\$ 21.2	1,261.1	21.9	288.3	—	\$ 1,592.5
Foreign-located fixed assets	\$ —	510.3	—	—	—	\$ 510.3
Capital expenditures	\$ 851.7	72.8	55.0	104.2	53.0	\$ 1,136.7

2004 ⁽²⁾	Domestic Beer	International Beer	Packaging	Entertainment	Corporate & Eliminations ⁽¹⁾	Consolidated
<u>Income Statement Information</u>						
Gross sales	\$ 13,388.5	1,015.1	2,276.8	989.3	(509.5)	\$ 17,160.2
Net sales - intersegment	\$ 2.8	—	880.1	—	(882.9)	\$ —
Net sales - external	\$ 11,364.9	809.9	1,396.7	989.3	373.4	\$ 14,934.2
Depreciation and amortization	\$ 680.5	35.0	83.9	91.8	41.5	\$ 932.7
Income before income taxes	\$ 3,279.0	130.9	163.9	172.7	(747.1)	\$ 2,999.4
Equity income, net of tax	\$ —	404.1	—	—	—	\$ 404.1
Net income	\$ 2,033.0	485.3	101.6	107.1	(486.7)	\$ 2,240.3
<u>Balance Sheet Information</u>						
Total assets	\$ 7,857.9	4,683.9	800.8	1,378.9	1,451.9	\$ 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	\$ 800.0	56.6	56.3	131.9	44.8	\$ 1,089.6

2003 ⁽²⁾	Domestic Beer	International Beer	Packaging	Entertainment	Corporate & Eliminations ⁽¹⁾	Consolidated
<u>Income Statement Information</u>						
Gross sales	\$ 13,017.1	797.0	2,093.6	923.9	(511.4)	\$ 16,320.2
Net sales - intersegment	\$ 3.1	—	869.2	—	(872.3)	\$ —
Net sales - external	\$ 10,999.7	636.6	1,224.4	923.9	362.1	\$ 14,146.7
Depreciation and amortization	\$ 643.0	24.6	79.2	87.3	43.1	\$ 877.2
Income before income taxes	\$ 3,119.8	90.8	155.5	162.8	(704.6)	\$ 2,824.3
Equity income, net of tax	\$ —	344.9	—	—	—	\$ 344.9
Net income	\$ 1,934.3	401.2	96.4	100.9	(456.9)	\$ 2,075.9
<u>Balance Sheet Information</u>						
Total assets	\$ 7,814.8	3,517.9	782.4	1,341.9	1,232.5	\$ 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	\$ 745.7	39.0	42.6	127.9	37.8	\$ 993.0

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 \$340.1 million, \$312.0 million, and \$298.9 million in 2005, 2004, and 2003, respectively.

Note 2: In the first quarter 2005, the company began including its transportation business in Domestic Beer and its real estate business in Corporate. These businesses formerly comprised the Other segment. Results shown for 2004 and 2003 have been updated to conform to the 2005 convention.