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, 2006. 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 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, one of the largest brewers 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 enhanced the company's corporate image by showcasing Anheuser-Busch's heritage, values and commitment to quality and social responsibility to 22 million visitors this year.

Comparison of Operating Results

Anheuser-Busch had a successful year in 2006, with consolidated net sales increasing 4.5% and reported diluted earnings per share growing 13.5%. Growth momentum was restored in the company's domestic beer business and significant progress was made on several strategic initiatives to enhance shareholder value. The company's domestic beer shipments were up 1.2% for the year and wholesaler sales-to-retailers were up 1.1%. Revenue per barrel was up 1.4% and productivity improvement reduced costs by almost $100 million. The company has made substantial progress increasing its participation in the high-margin and fast-growing import and craft segments of the beer market, including import alliances with InBev, Grolsch, Kirin, Tiger and the Czechvar brand, the acquisition of the Rolling Rock brands, and the introduction of several internally developed specialty brands. In addition, the company significantly expanded its participation in the fast growing energy drink business through a distribution agreement with Hansen Natural Corp., including their Monster energy brands. Also, in December Anheuser-Busch announced a more aggressive leverage target (25% to 30% cash flow to total debt ratio) that will enable it to use its balance sheet more effectively to support existing operations, acquisitions, dividend growth and share repurchasing, while maintaining substantial financial flexibility. These strategic initiatives, the restoration of momentum in our domestic beer business, domestic price increases that have been implemented, and Modelo's new U.S. import joint venture position the company well for continued volume and earnings growth in 2007.

Comparisons of key operating results for 2006, 2005 and 2004 are summarized in the following tables. Effective in the first quarter 2006, Anheuser-Busch adopted FAS 123R, "Share-Based Payment." FAS 123R requires the recognition of stock compensation expense for stock options and other forms of equity compensation, based on the fair value of the instruments on the date of grant. In order to enhance the comparability of all periods presented and provide the fullest understanding of the impact that expensing stock compensation has on the company's financial results, Anheuser-Busch elected to apply the modified retrospective method of adopting FAS 123R. The company has therefore recast prior years' results to incorporate the impact of previously disclosed pro forma stock compensation expense. For financial reporting purposes, stock compensation expense is included in cost of sales and marketing, distribution and administrative expenses, depending on where the recipient's cash compensation is reported. Stock compensation expense is classified as a corporate item for segment reporting and was $.11, $.12 and $.15 per diluted share for 2006, 2005 and 2004, respectively.

Results shown below also include the impact of one-time items in all years that make direct comparisons of underlying operations between those years difficult. In 2006, the company recorded a one-time deferred income tax benefit resulting from tax legislation in Texas. The one-time items in 2005 are settlement of litigation involving a domestic beer wholesaler, the favorable impact of settling of certain tax matters in Chile related to the sale of the company's investment in Compañía Cervecerías Unidas S.A. (CCU), a deferred income tax benefit from tax legislation in 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 from a reduction in Mexican corporate income tax rates related to the company's Grupo Modelo equity investment. Excluding these one-time items, diluted earnings per share increased 9.1% in 2006, decreased 10.5% in 2005 and increased 10.3% in 2004. The company excludes certain one-time nonrecurring items from its analysis of operating results because it believes this provides a more accurate basis of comparison among years by eliminating potential distortion of the company's underlying performance trends, both favorable and unfavorable. This is the same basis of comparison used by Anheuser-Busch management and the Board of Directors to evaluate the company's operations. See additional discussion and quantitative analysis on pages 30 through 33.

	2006	2005	2006 vs. 2005	
Gross sales	**$17,958**	$ 17,254	▲ $ 704	▲ 4.1 %
Net sales	**$15,717**	$ 15,036	▲ $ 681	▲ 4.5 %
Income before income taxes	**$ 2,277**	$ 2,057	▲ $ 220	▲ 10.7 %
Equity income, net of tax	**$ 589**	$ 498	▲ $ 91	▲ 18.2 %
Net income	**$ 1,965**	$ 1,744	▲ $ 221	▲ 12.7 %
Diluted earnings per share	**$ 2.53**	$ 2.23	▲ $ .30	▲ 13.5 %

	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	$ 2,057	$ 2,812	▼ $ 755	▼ 26.8 %
Equity income, net of tax	$ 498	$ 404	▲ $ 94	▲ 23.3 %
Net income	$ 1,744	$ 2,119	▼ $ 375	▼ 17.7 %
Diluted earnings per share	$ 2.23	$ 2.62	▼ $ .39	▼ 14.9 %

	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	$ 2,812	$ 2,644	▲ $ 168	▲ 6.4 %
Equity income, net of tax	$ 404	$ 345	▲ $ 59	▲ 17.2 %
Net income	$ 2,119	$ 1,963	▲ $ 156	▲ 8.0 %
Diluted earnings per share	$ 2.62	$ 2.34	▲ $ .28	▲ 12.0 %

SALES

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

Anheuser-Busch strives to obtain long-term price increases that are slightly less than increases in the U.S. Consumer Price Index (CPI). 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 reflects 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. The company has led the U.S. brewing industry in sales volume and market share since 1957.

WORLDWIDE BEER VOLUME

The company's reported beer volume for the three years ended December 31, 2006, is summarized in the following table (millions of barrels).

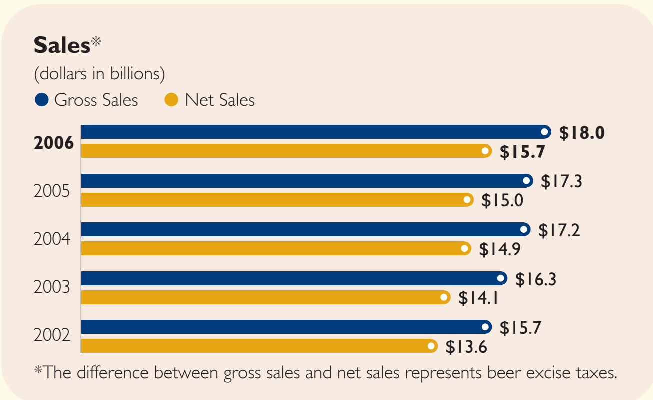
	2006	2005	Change
Domestic	**102.3**	101.1	▲ 1.2%
International	**22.7**	20.8	▲ 9.3%
Worldwide A-B brands	**125.0**	121.9	▲ 2.6%
International equity partner brands	**31.6**	26.4	▲ 19.7%
Total brands	**156.6**	148.3	▲ 5.6%

	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%

Worldwide Anheuser-Busch beer volume is composed of domestic volume and international volume. Domestic beer volume represents beer shipped within the United States, which includes both the company's domestically-produced brands and

imported brands. 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. 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, and includes Anheuser-Busch's pro rata share in the beer volume of CCU for 2004. Total brands combine worldwide Anheuser-Busch brands volume with international equity partners' volume.



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

SALES – 2006 VS. 2005

Anheuser-Busch reported gross sales of $18.0 billion and net sales of $15.7 billion in 2006. Gross sales improved $704 million, or 4.1%, and net sales were up $681 million, or 4.5%. The difference between gross and net sales is due to beer excise taxes of $2.2 billion. Sales increases for the year were driven by improvement in all operating segments. Domestic beer net sales increased 2.8%, or $308 million on higher beer sales volume and increased revenue per barrel. International beer segment net sales grew 7%, or $65 million, primarily on volume increases. Packaging segment net sales increased 10%, or $153 million, on higher recycling sales. Entertainment sales increased 9%, or $94 million primarily from increased attendance and higher in-park spending.

Domestic beer revenue per barrel was up 1.4% due to the successful implementation of price increases and discount reductions on a majority of the company's domestic volume. Pricing initiatives have been tailored to selected markets, brands and packages. Revenue per barrel contributed $197 million to the segment increase in net sales, including the impact of the acquired Rolling Rock brands and imports Grolsch and Tiger. The 1.2% increase in domestic beer volume added $111 million to the increase in segment net sales. Wholesalers' sales-to-retailers increased 1.1% for the year. Rolling Rock, Grolsch and Tiger contributed 0.5 points of growth to both beer volume and sales-to-retailers. Wholesaler beer inventory levels at the end of the year are more than 1.5 days below 2005 year-end levels.

Domestic beer industry volume, including imports, was very strong, up approximately 2% in 2006. The company's estimated domestic market share (excluding exports) for the full year was 48.4%, compared with 2005 market share of 48.7%. Domestic market share is based on estimated U.S. beer industry shipment volume using information provided by the Beer Institute and the U.S. Department of Commerce. The company's shipment-based market share comparisons were adversely impacted by the reduction in wholesaler inventories.

International beer volume was up 9.3%, or 1.9 million barrels, on volume growth in China, Canada and Mexico, partially offset by declines in the United Kingdom and Ireland. Worldwide Anheuser-Busch brands volume was up 2.6%, or 3.1 million barrels, to 125.0 million barrels. Equity partner brands volume grew 19.7% for the year, to 31.6 million barrels due to Modelo and Tsingtao volume growth. The company began equity accounting for Tsingtao in May 2005. Total brands volume was up 5.6%, to 156.6 million barrels for the year.

SALES – 2005 VS. 2004

Gross and net sales increased slightly in 2005, to $17.3 billion and $15.0 billion, respectively. Beer excise taxes totaled $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.

International beer sales were up $123 million, or 15.2% due primarily to higher beer volume in China (including a full year of 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 a 0.5% decrease in revenue per barrel for the year.

Domestic beer sales-to-wholesalers declined 1.8% while wholesaler sales-to-retailers increased 0.2% (selling day adjusted). Sales-to-retailers results were led by the Budweiser Family, particularly from the 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 48.7%, compared with 2004 market share of 49.6%. Anheuser-Busch's shipment-based market share performance was adversely impacted by the company's wholesaler inventory reduction.

International beer volume increased 50.8%, or 7.0 million barrels in 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 consolidated 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.

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 of the company's 12 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 for 2006 increased $559 million, or 5.8% to $10.2 billion. The increase in cost of sales is attributable to higher costs for all the company's segments, including costs associated with higher beer volume worldwide; increased packaging materials and plant operating costs for domestic beer; higher energy costs for all operations; increased aluminum costs for recycling operations; and higher park operating costs for entertainment operations. Incremental costs associated with increased beer volume were $75 million for domestic beer and $48 million for international operations. Gross profit as percentage of net sales was down 80 basis points for the year, to 35.3% due primarily to lower gross margins for domestic and international beer and the commodity-based recycling operations.

The cost of sales was $9.6 billion for 2005, an increase of $586 million, or 6.5%. 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 350 basis points, to 36.1%, due primarily to the decreases in domestic beer sales volume and revenue per barrel combined with increases in domestic beer production costs.

Cost of sales was $9.0 billion for 2004, an increase of $535 million, or 6.3%. The increase was due to higher costs for all of the company's 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 39.6%, 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.

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 were $2.8 billion for 2006, a decrease of $5 million, or 0.2% due to lower marketing expenses for domestic beer mostly offset by higher marketing costs for international beer in China and for entertainment operations, and increased general and administrative costs. The company also experienced slightly favorable distribution costs for company-owned beer wholesale operations due to having one less location.

Marketing, distribution and administrative expenses for 2005 were $2.8 billion, an increase of $97 million, or 3.5%. 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 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 $2.7 billion in 2004, an increase of $98 million, or 3.7%. 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.

Operating results for 2005 also include the one-time $105 million pretax litigation settlement cost which is reported as a separate line item in the consolidated income statement. See page 33 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 nonoperating items and equity income. The company generated operating income of $2.7 billion in 2006, an increase of $233 million, or 9.4%. Operating margin for the year was up 80 basis points to 17.3%. Excluding the 2005 litigation settlement, operating income was up $128 million, or 4.9% and operating margin improved 10 basis points as shown below.

	2006	2005	Change
Reported operating margin	**17.3%**	16.5%	80 bps
Impact of litigation settlement	**—**	0.7	(70) bps
Excluding litigation settlement	**17.3%**	17.2%	10 bps

Operating income of $2.5 billion decreased $687 million, or 22% in 2005. Operating margin for 2005 was 16.5%, a decline of 480 basis points due primarily to reduced domestic beer sales volume, lower revenue per barrel and higher operating costs, including the one-time litigation settlement. Excluding the litigation settlement, operating margin decreased 410 basis points, as shown below.

	2005	2004	Change
Reported operating margin	16.5%	21.3%	(480) bps
Impact of litigation settlement	0.7	—	70 bps
Excluding litigation settlement	17.2%	21.3%	(410) bps

Operating income was $3.2 billion in 2004, representing an increase versus prior year of $155 million, or 5.1%. Operating margin was 21.3% for 2004, level versus 2003.

INTEREST EXPENSE LESS INTEREST INCOME

Interest expense less interest income was $449.5 million for 2006, $452.1 million for 2005, and $422.2 million for 2004, representing a decrease of 0.6% in 2006, and increases of 7.1% and 5.6%, respectively, for 2005 and 2004. The 2006 result is due to lower average debt balances throughout the year mostly offset by higher average interest rates. The increases in 2005 and

2004 primarily result from higher average outstanding debt balances compared with prior years, plus the impact of slightly higher average interest rates in 2005. 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 assets was $17.6 million in 2006, $19.9 million in 2005, and $21.9 million in 2004. 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 items of a nonoperating nature that do not have a material impact on the company's consolidated results of operations, either individually or in total. Earnings from the company's equity investments in domestic beer wholesalers are included in other income in 2005 and 2004. The company had consolidated net other expense of $10.8 million in 2006, and net other income of $2.7 million and $38.7 million in 2005 and 2004, respectively.

Other income for 2005 includes the one-time $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 was 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 segment 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 as determined under FAS 133. The company sold the hedges 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 equity investments in two domestic beer wholesaler partnerships in 2004 and recorded a $19.1 million pretax gain in domestic beer results..

Income Before Income Taxes
(dollars in millions)

INCOME BEFORE INCOME TAXES — 2006 VS. 2005

On a reported basis, income before income taxes increased 10.7%, or $220 million due to higher profits in domestic beer and entertainment operations. Pretax income increased 6.1%, excluding from 2005 results both the $105 million pretax litigation settlement charge and the $15.4 million pretax gain from the sale of the theme park interest in Spain. These items are excluded to enhance comparability (see page 33).

Income before income taxes for domestic beer was up 3.1%, or $83 million on higher volume, increased revenue per barrel and lower marketing costs, partially offset by higher beer production costs. Higher costs are primarily attributable to increased costs for aluminum and other packaging materials and energy. International beer pretax income decreased 11.3%, or $10 million due to lower earnings in the United Kingdom partially offset by increased profits in China, Canada, Ireland and Mexico. Packaging segment pretax income was up 2.5%, or $4 million primarily due to higher can manufacturing profits. Entertainment segment pretax results improved 13.1%, or $27 million on increased attendance and in-park spending, partially offset by higher park operating expenses and marketing costs.

INCOME BEFORE INCOME TAXES — 2005 VS. 2004

Reported income before income taxes decreased $755 million, or 27% 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 22.7% (see page 33).

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)%
Gain on sale of CCU	—	(13.4)	7.5
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.

INCOME BEFORE INCOME TAXES — 2004 VS. 2003

Reported income before income taxes for 2004 was $2.8 billion, an increase of $168 million, or 6.4%. This increase reflects improved results for all of the company's operating segments. Excluding favorable one-time items in 2004 to enhance comparability, income before income taxes increased 5.1% (see page 33).

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.

EQUITY INCOME, NET OF TAX

Equity income of $588.8 million was an increase of 18.2% versus prior year primarily due to Grupo Modelo volume increases, pricing growth in Mexico and a lower Mexican income tax rate.

Equity income was $498.1 million in 2005, an increase of $94 million, or 23% for the year, reflecting the benefit of Grupo Modelo volume growth, lower Mexican income taxes and the impact of including Tsingtao equity income beginning May 2005, partially offset by the reduction in equity income due to the sale of CCU and a 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 page 33).

Equity income was $404.1 million for 2004, up $59 million, or 17.2%, due to the benefit of revenue growth from Grupo Modelo and the $10 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 page 33).

NET INCOME AND DILUTED EARNINGS PER SHARE

Diluted earnings per share for all years benefited from the company's ongoing share repurchase program. The company reported 2006 net income of $2.0 billion, a $221 million, or 12.7% increase compared to prior year. Diluted earnings per share increased $.30, or 13.5% to $2.53 for the same period. Comparisons of net income and earnings per share between 2006 and 2005 are impacted by one-time income tax events in both years, as well as the 2005 litigation settlement and gain on the sale of the Spanish theme park investment. In 2006, Anheuser-Busch recognized a gain of $7.8 million from the reduction of deferred income taxes resulting from state income tax reform legislation in Texas, while in 2005 the company recognized a similar gain of $7.2 million due to tax reform legislation in Ohio, incurred a favorable tax impact from the sale of the Spanish theme park, and reported a $6.8 million favorable settlement of certain Chilean taxes associated with the 2004 sale of the company's equity stake in CCU. Excluding these one-time items to enhance comparability, net income and diluted earnings per share for 2006 increased 8.5% and 9.1%, respectively.

Anheuser-Busch generated net income of $1.7 billion in 2005, a decrease of $374 million, or 17.7%, while reported diluted earnings per share of $2.23 decreased 14.9%, or $.39. Excluding the one-time 2005 items noted above and also the previously discussed one-time 2004 commodity hedge gain and Mexican income tax rate benefit, net income and diluted earnings per share decreased by 13.4% and 10.5%, respectively, versus 2004 as shown in the table on page 33.

Net income of $2.1 billion for 2004 was an increase versus 2003 of $156 million, or 8%. Diluted earnings per share were $2.62, an increase of 12%, or $.28. Excluding the 2004 one-time items from the comparison with 2003, net income increased 6.1% and diluted earnings per share increased 10.3% (see table below).

The following information is provided to make direct comparisons easier for 2006, 2005 and 2004 versus prior year by excluding one-time items previously discussed (in millions, except per share). The company believes excluding one-time items better illustrates underlying results by providing a consistent basis of comparison.

	Income Before Income Taxes	Provision For Income Taxes	Equity Income	Net Income	Diluted Earnings Per Share
2006					
Reported	**$2,276.9**	**$(900.5)**	**$588.8**	**$1,965.2**	**$2.53**
Texas income tax legislation benefit	**—**	**(7.8)**	**—**	**(7.8)**	**(.01)**
Excluding one-time item	**$2,276.9**	**$(908.3)**	**$588.8**	**$1,957.4**	**$2.52**
Percentage Change - 2006 vs. 2005					
Reported	10.7%		18.2%	12.7%	13.5%
Excluding one-time items	6.1%		18.2%	8.5%	9.1%
2005					
Reported	$2,057.4	$(811.1)	$498.1	$1,744.4	$2.23
Gain on sale of Spanish theme park	(15.4)	(3.5)	—	(18.9)	(.024)
CCU sale Chile tax settlement	—	(6.8)	—	(6.8)	(.009)
Ohio income tax legislation benefit	—	(7.2)	—	(7.2)	(.009)
Litigation settlement	105.0	(12.6)	—	92.4	.118
Excluding one-time items	$2,147.0	$(841.2)	$498.1	$1,803.9	$2.31
Percentage Change - 2005 vs. 2004					
Reported	(26.8)%		23.3%	(17.7)%	(14.9)%
Excluding one-time items	(22.7)%		29.0%	(13.4)%	(10.5)%

	Income Before Income Taxes	Provision For Income Taxes	Equity Income	Net Income	Diluted Earnings Per Share
2004					
Reported	$2,812.1	$(1,097.5)	$404.1	$2,118.7	$2.62
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	$2,779.2	$(1,083.4)	$386.1	$2,081.9	$2.58
Percentage Change - 2004 vs. 2003					
Reported	6.4%		17.2%	8.0%	12.0%
Excluding one-time items	5.1%		11.9%	6.1%	10.3%

INCOME TAXES

The effective tax rates for 2006 and 2005 include ongoing benefits from the American Jobs Creation Act. The company's fourth quarter effective tax rate is typically higher than during the rest of the year due to the granting of incentive stock options for which the company cannot assume a future tax deduction.

Anheuser-Busch's effective tax rate for 2006 was 39.5%, up 10 basis points for the year, and includes a benefit from partial utilization of the litigation settlement capital loss. Excluding the one-time $7.8 million Texas tax legislation benefit from 2006 the effective rate was 39.9%, an increase of 70 basis points primarily due to higher taxes on foreign earnings. This comparison excludes from 2005 the one-time tax impacts of the limited deductibility of the litigation settlement, the $3.5 million related to the sale of the Spanish theme park, the $6.8 million for the settlement of CCU tax matters and the $7.2 million Ohio tax legislation benefit.

The 2005 effective income tax rate of 39.4% was up 40 basis points versus 2004. The effective tax rate for 2005 includes the one-time favorable impacts noted above, which were essentially offset by a limited income tax benefit available from the litigation settlement. The company recognized a limited benefit for the settlement due to not having sufficient capital gains available to allow full deductibility of the loss.

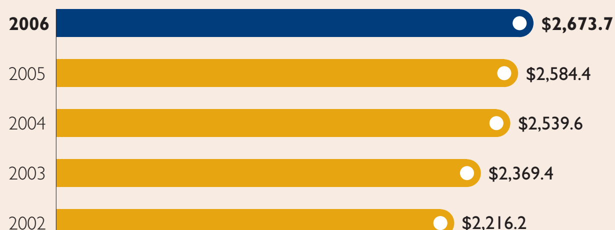
The 2004 effective tax rate of 39.0% increased 20 basis points versus the 2003 rate. The rate for 2004 includes the impact of the $8 million of incremental U.S. deferred income taxes provided to partially offset the Mexican corporate income tax rate reduction previously discussed.

Diluted Earnings per Share
(in dollars)

EMPLOYEE-RELATED COSTS

Employee-related costs were $2.7 billion in 2006, an increase of 3.5% versus 2005. These costs totaled $2.6 billion in 2005, an increase of 1.8% versus 2004 costs of $2.5 billion, which increased 7.2% versus 2003. The changes in employee-related costs primarily reflect increases in annual compensation and benefits expense, including the impact of acquiring Harbin in 2004. Annual compensation comprises the majority of employee-related costs and totaled $2.0 billion in 2006 and $1.9 billion in both 2005 and 2004, representing an increase of 3.4% in 2006, a decrease in 2005 of 2.5%, due to lower stock compensation costs, and an increase in 2004 of 4.0%, respectively. The remainder of employee-related costs consists primarily of pension, life insurance and health care benefits and payroll taxes. The company had 30,183 full-time employees at December 31, 2006. Full-time employees numbered 31,485 and 31,435 at the end of 2005 and 2004, respectively.

Employee-Related Costs
(dollars 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. Taxes related to 2006 operations, not including the many indirect taxes included in materials and services purchased, totaled $3.4 billion, an increase of 3.4% versus total taxes in 2005 of $3.3 billion. The increase in 2006 reflects higher beer excise taxes due to increased beer volume, and increased income taxes due to higher pretax earnings. Tax expense in 2005 decreased 8.1% compared with total taxes of $3.6 billion in 2004. 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 15.6% in 2006 compared to 14.0% and 17.5% in 2005 and 2004, respectively. 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 2006, 2005, and 2004, after-tax net interest expense was $269 million, $269 million and $251 million, respectively, calculated as pretax net interest expense of $434 million, $435 million and $405 million, respectively, less income taxes applied at an assumed 38% rate.

Liquidity and Financial Condition

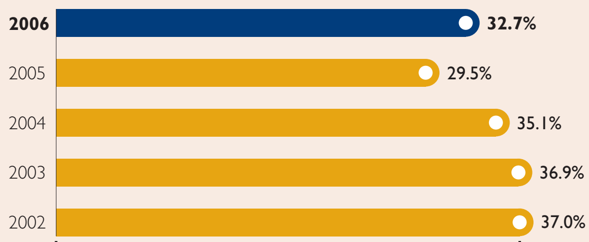
Anheuser-Busch's strong financial position allows it to pursue its growth strategies while also providing substantial returns to shareholders. Accordingly, the company has established the following priorities for its available cash:

- Investing in core businesses to enhance profit growth. This includes capital expenditures in existing operations, and acquisitions and investments to enhance the company's long-term earnings growth.

- Returning cash to shareholders by consistently increasing dividends in line with expected growth in diluted earnings per share, and share repurchasing, consistent with the company's leverage target.

The company considers its cash flow to total debt ratio to be one of the most important indicators of leverage, and following the company's announcement in December 2006, currently targets a ratio between 25% and 30%. Cash flow to total debt is defined as: operating cash flow before the change in working capital, adjusted for pension contributions less service costs; divided by total debt, adjusted to include the funded status of the company's single-employer defined benefit pension plans. Based on its specific financial position and risk tolerance, Anheuser-Busch believes this leverage target 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 32.7% in 2006, 29.5% in 2005, and 35.1% in 2004.

Ratio of Cash Flow to Total Debt
(in percent)

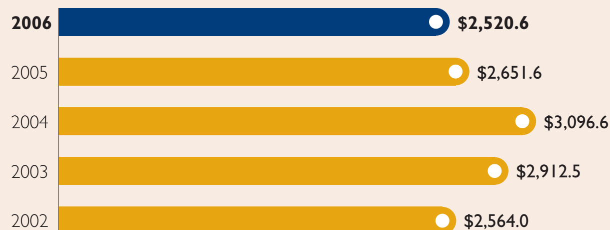


SOURCES AND USES OF CASH

The company's primary source of liquidity is cash provided by operations. Principal uses of cash are capital expenditures, business investments, dividends and share repurchases. 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 acquisitions, may require external financing as the company maintains its cash flow to total debt ratio within its target range. The use of debt financing lowers the company's overall cost of capital and the 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 $417 million, $224 million and $151 million, at December 31, 2006, 2005, and 2004, respectively.

Operating Cash Flow Before the Change in Working Capital
(dollars in millions)



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 company's 9% debentures due 2009 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, 2006, 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 $2.8 million of these notes in 2006 and $1.8 million in 2005.

The company's fixed charge coverage ratio was 6.1X for the year ended December 31, 2006 and was 5.5X and 7.4X for the years ended December 31, 2005 and 2004, respectively.

The company's future cash commitments are shown below, as of December 31, 2006 (in millions).

	2007	2008 and 2009	2010 and 2011	2012 and Thereafter	Total
Capital expenditures	$ 86	$ 64	$ —	$ —	$ 150
Operating leases	44	59	43	271	417
Brewing and packaging materials	410	277	222	321	1,230
Unfunded benefits payments	67	146	150	416	779
Interest payments	415	803	683	4,455	6,356
Royalty arrangements	93	192	200	1,795	2,280
Maturities of long-term debt	22	750	776	6,106	7,654
	$1,137	$2,291	$2,074	$13,364	$18,866

CAPITAL EXPENDITURES

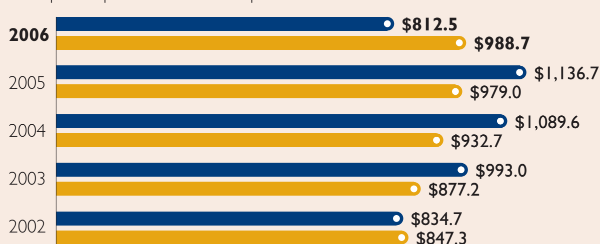
During the next five years, the company will continue capital expenditure programs designed to take advantage of growth and productivity improvement opportunities for its beer, packaging and entertainment operations. The company has a formal and intensive review procedure for the authorization of capital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

Capital expenditures were $813 million in 2006, were $1.1 billion in both 2005 and 2004, and totaled $4.9 billion over the past five years. The company expects capital expenditures of approximately $900 million in 2007 and is projecting capital spending during the five-year period 2007 - 2011 of $4.5 billion. See Note 13 for information on capital expenditures by business segment.

Capital Expenditures/Depreciation and Amortization

(dollars in millions)

● Capital Expenditures ● Depreciation and Amortization



FINANCING ACTIVITIES

The company's debt balance decreased a total of $318.6 million in 2006, compared with a decrease of $306.5 million in 2005. Details of debt increases and decreases for the last two years follow.

Increases In Debt

Description	Amount (in millions)	Interest Rate (fixed unless noted)
2006		
U.S. Dollar Debentures	**$300.0**	**5.75%**
Industrial Revenue Bonds	**17.7**	**4.98%, wtd. avg.**
U.S. Dollar Notes	**17.3**	**5.54%**
Other	**11.3**	**Various**
	$346.3	
2005		
U.S. Dollar Notes	$ 100.0	5.49%
United Kingdom Brewery Lease	52.9	6.25%
Other	2.1	Various
	$ 155.0	

Decreases In Debt

Description	Amount (in millions)	Interest Rate (fixed unless noted)
2006		
Commercial Paper	**$444.2**	**5.00% wtd. avg., floating**
U.S. Dollar Notes	**52.8**	**$50.0 at 5.6% and $2.8 at 5.35%**
U.S. Dollar EuroNotes	**100.0**	**4.51%**
Net Change in Chinese Renminbi-Denominated Debt	**43.8**	**5.41% wtd. avg.**
Industrial Revenue Bonds	**20.0**	**6.63% wtd. avg.**
Other	**4.1**	**Various**
	$664.9	
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
Net change in Chinese Renminbi-Denominated Debt	37.8	5.41% wtd. avg.
U.S. Dollar Notes	1.8	5.35%
Other	10.3	Various
	$ 461.5	

In February 2007, the company issued $300.0 million of 5.6% U.S. dollar notes due 2017 and also replaced $20.2 million of 5.75% industrial revenue bonds due 2030 with 4.8% bonds due 2046.

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 October 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 net positive cash flows in the second and third quarters of the year, and relatively lower net cash flows in the first and fourth quarters. Peak commercial paper borrowings

of $1.4 billion and $1.6 billion occurred in February 2006 and April 2005, respectively. Lowest commercial paper borrowings were zero during portions of August and September 2006 and were $515 million in September 2005. Average outstanding commercial paper balances were $600 million during 2006 and $1.1 billion during 2005.

In 2006, the company executed a long-term lease with the City of New York for land to which the company will relocate its New York beer distribution facility. The company will construct a new warehouse, distribution, vehicle maintenance, and office complex on the site as well as make extensive site development improvements for a total estimated cost of approximately $72 million. The development site is located in a low-income distressed area of New York City and investment in the construction project qualifies for certain federal economic development tax incentives. In order to obtain the tax incentives, the company entered into agreements with Banc of America Community Development Corporation, Enterprise Community Investment, Inc. and certain affiliates to provide $46 million in construction financing, in the form of a project investment of $11 million and loan proceeds totaling $35 million. The $11 million investment is related to the development tax incentives and will be recognized by Anheuser-Busch as a reduction in its cost of financing over the seven-year term of the borrowing.

PENSION CONTRIBUTIONS

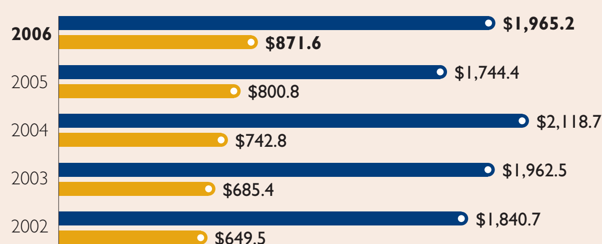
The company made total contributions to its pension plans of $352 million, $56 million, and $245 million, respectively, in calendar years 2006, 2005, and 2004. See Note 5 for additional retirement benefits information.

SHARE REPURCHASE

The company spent $746 million, $620 million, and $1.7 billion, to repurchase 16.7 million, 12.9 million, and 33.2 million Anheuser-Busch common shares in 2006, 2005, and 2004, respectively. Anheuser-Busch uses its share repurchase program to manage its capital structure consistent with its cash flow to total debt ratio leverage target. 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. All shares are repurchased under authorization of the board of directors and in December 2006 the board of directors authorized a new multi-year repurchase of an additional 100 million shares, which brought total open authorized repurchases to approximately 115 million shares. See Note 11 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 $872 million in 2006, $801 million in 2005, and $743 million in 2004. In the third quarter of 2006, effective with the September dividend, the board of directors increased the quarterly dividend rate from $.27 to $.295 per share. This increased annual dividends to $1.13 per share, a 9.7% increase compared with $1.03 per share in 2005. The dividend rate in 2005 reflected an increase of 10.8% versus the rate of $.93 per share in 2004. Quarterly dividends per share for the first and second halves of the year, respectively, were $.27 and $.295 for 2006, $.245 and $.27 for 2005, and $.22 and $.245 for 2004.



COMMON STOCK

At December 31, 2006, registered common stock shareholders numbered 51,888 compared with 53,573 at the end of 2005. 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, 2006 and 2005 was $49.20 and $42.96, respectively. Following are comparative 2006 and 2005 quarterly high and low closing prices for BUD.

Price Range of Anheuser-Busch Common Stock (BUD)

	2006		2005	
	High	Low	High	Low
First quarter	**$43.98**	**$40.42**	$50.52	$47.26
Second quarter	**$46.96**	**$41.90**	$48.10	$45.10
Third quarter	**$49.91**	**$45.19**	$46.48	$43.04
Fourth quarter	**$49.38**	**$46.14**	$44.70	$40.57

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 essential 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 believes 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 incremental U.S. deferred income taxes on equity earnings in excess of dividends received. In 2006, the company had equity income of $588.8 million and received cash distributions from investees of $247.0 million. In 2005, Anheuser-Busch recognized equity income of $498.1 million and received cash distributions from investees of $210.1 million. In 2004, equity income was $404.1 million and cash received was $179.0 million. Consolidation of the company's equity investees would not be appropriate because Anheuser-Busch does not have 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, 2006 rate is being used for 2007 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 life 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 life insurance expense, and to value the related postretirement benefit liability on the balance sheet. Similar to pensions, the discount rate is determined by observable market rates, 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 expenditures, 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 and 2006, particularly upward cost pressure for commodities. 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. Bilateral collateral posting arrangements are in place with all over-the-counter derivatives counterparties, who are required to post collateral to Anheuser-Busch whenever the fair value of their positions reach specified thresholds favorable to the company. The thresholds are based on their credit ratings from Moody's and Standard & Poor's, respectively, as follows (in millions).

Fair Value Thresholds for Collateral Posting

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 requirements and thresholds apply to Anheuser-Busch and its credit ratings, if the fair value of the derivatives is unfavorable to the company. All collateral must be cash, U.S. Treasury securities, or letters of credit. At December 31, 2006, 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).

	2006	**2005**
Foreign Currency Risk — Forwards and Options	**$ 0.7**	$ 1.0
Interest Rate Risk — Interest Rate Swaps	**$ 0.3**	$ 0.3
Commodity Price Risk — Futures, Swaps and Options	**$13.8**	$10.2

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 largely 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 2006 was $200,000, with a computed one-day high of $900,000 and a one-day low of zero. The average daily change in fair value for foreign exchange derivatives in 2006 was $120,000, with a computed one-day high of $500,000 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, 2006, fixed-rate debt with an approximate average maturity of 15 years represented 90% of the company's outstanding debt. Assuming the percentage of floating-rate debt at year-end remains constant in 2007, and including the impact of an existing fixed-to-floating interest rate swap, an immediate 100 basis points (1.0 percentage point) increase in the company's effective interest rate would result in incremental interest expense of approximately $8 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 market value over the company's cost, based on Grupo Modelo's closing stock price on the Mexican stock exchange (Bolsa) at December 31, 2006, was $10 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.

CERTIFICATIONS AND GOVERNANCE

The company has included the required CEO and CFO certifications regarding the company's public disclosure as exhibits to its 2006 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 plans 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.