

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I. 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.

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 and packaging operations, 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.

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are reported at net realizable value. This value includes an allowance for estimated uncollectible receivables, which is charged to the provision for doubtful accounts. Estimated uncollectible receivables are based on the

amount and status of past-due accounts, contractual terms of the receivables and the company's history of uncollectible accounts.

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.

TAXES COLLECTED FROM CUSTOMERS

Taxes collected from customers and remitted to tax authorities are state and federal excise taxes on beer shipments and local and state sales taxes on attendance, food service and merchandise transactions at the company's theme parks. Excise taxes are shown in a separate line item in the consolidated income statement as reduction of gross sales. Sales taxes collected from customers are recognized as a liability, with the liability subsequently reduced when the taxes are remitted to the tax authority. Entertainment operations collected from customers and remitted to tax authorities total sales taxes of \$62.0 million, \$56.4 million, and \$52.5 million, respectively, in 2006, 2005 and 2004.

DELIVERY COSTS

In accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs," the company reports pass-through freight costs on beer shipped to independent beer wholesalers in cost of sales. Reimbursements of these costs by wholesalers are reported in sales.

Costs incurred by company-owned beer wholesalers to deliver beer to retail customers 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. Delivery costs associated with company-owned beer wholesalers totaled \$274.1 million, \$277.5 million and \$266.6 million, respectively in 2006, 2005 and 2004.

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 \$771.2 million in 2006, \$849.8 million in 2005 and \$806.7 million in 2004. Sales promotion costs are recognized as a reduction of net sales when incurred, and totaled \$675.3 million in 2006, \$716.7 million in 2005 and \$535.7 million in 2004.

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, generally in cost of sales for Anheuser-Busch. 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 outstanding at December 31, 2006, all have initial terms of three years 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 due 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.

INCOME TAXES

The provision for income taxes is based on the income and expense amounts reported in the consolidated statement of income. 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.

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." The Interpretation requires that realization of an uncertain income tax position must be estimated as "more likely than not" (i.e., greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. Further, the Interpretation requires the recognition of tax benefits recorded in the financial statements to be based on the amount most likely to be realized assuming a review by tax authorities having all relevant information. The Interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. Anheuser-Busch will adopt the Interpretation when required in the first quarter 2007. The company expects minimal impact from adoption of this Interpretation.

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 68% and 72% of total inventories at December 31, 2006 and 2005, respectively. Had the average cost method been used for all inventories as of December 31, 2006 and 2005, the value of total inventories would have been \$137.9 million and \$126.6 million higher, respectively.

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

	2006	2005
Raw materials and supplies	\$ 385.6	\$ 386.9
Work in process	110.8	93.5
Finished goods	198.5	174.1
Total inventories	\$ 694.9	\$ 654.5

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 wholesalerhips 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 while goodwill associated with the company's equity investments (primarily Grupo Modelo) 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. The impairment analysis for consolidated goodwill is performed at the reporting unit level using 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. A review of goodwill completed in the fourth quarter of 2006 found no impairment. Goodwill related to equity investments is tested for impairment if events or circumstances indicate the entire investment could be impaired. Recoverability testing for equity investment goodwill is based on a combination of future cash flow analysis and consideration of pertinent business and economic factors. 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 systems 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).

	2006	2005
Land	\$ 297.7	\$ 282.5
Buildings	5,123.6	4,970.4
Machinery and equipment	12,919.8	12,552.9
Construction in progress	369.5	403.1
Plant and equipment, at cost	18,710.6	18,208.9
Accumulated depreciation	(9,794.5)	(9,167.3)
Plant and equipment, net	\$ 8,916.1	\$ 9,041.6

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 shareholders equity and are not recognized in the income statement until the investment is sold. The only investment currently accounted for under FAS 115 is an immaterial

investment in the common stock of Kirin Brewing Company, Ltd. of Japan. In 2005 and 2004, deferred market valuations also included noncash changes in the value of convertible debt issued to the company by its strategic partner in China, Tsingtao Brewery. See Note 2 for a complete discussion of the company's investment in Tsingtao.

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.B. 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 \$3,362.7 million and \$3,148.3 million, respectively, at December 31, 2006 and 2005. Included in the carrying amounts of the Modelo investment is goodwill of \$536.6 million and \$558.0 million, respectively. Changes in goodwill during 2006 and 2005 are primarily due to changes in exchange rates between the U.S. dollar and Mexican peso.

Dividends received from Grupo Modelo in 2006 totaled \$240.0 million, compared to \$203.6 million in 2005 and \$170.2 million in 2004. 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. Cumulative unremitted earnings of Grupo Modelo totaled \$1,901.5 million at December 31, 2006.

In the 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 three 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.

	2006	2005	2004
Cash and marketable securities	\$ 2,094.0	\$ 1,640.5	\$ 1,419.6
Other current assets	\$ 1,017.6	\$ 933.3	\$ 719.4
Noncurrent assets	\$ 4,538.5	\$ 4,592.8	\$ 4,041.3
Current liabilities	\$ 524.7	\$ 407.1	\$ 406.0
Noncurrent liabilities	\$ 345.9	\$ 411.3	\$ 356.9
Gross sales	\$ 5,460.2	\$ 4,734.0	\$ 4,220.8
Net sales	\$ 5,072.1	\$ 4,399.0	\$ 3,862.6
Gross profit	\$ 2,643.9	\$ 2,315.1	\$ 2,092.3
Minority interest	\$ 1.5	\$ 1.3	\$ 3.5
Net income	\$ 1,141.1	\$ 966.8	\$ 788.1

TSINGTAO

Since 2003, Anheuser-Busch has participated in a strategic alliance with Tsingtao Brewery Company, Ltd., the largest brewer in China and producer of the Tsingtao brand. Through March 2005, the company had invested \$211 million in Tsingtao, in the form of a 9.9% equity stake in Tsingtao common shares and two convertible bonds. The 9.9% equity interest was accounted for under the cost method through April 2005 when the company converted its bonds into Tsingtao Series H common shares. The bond 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 allowed Anheuser-Busch to nominate an additional director, giving the company two of 11 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 values of the company's Tsingtao investment were \$241.9 million and \$224.8 million, respectively, at December 31, 2006 and 2005. Dividends received from Tsingtao totaled \$7.0 million in 2006 and \$6.5 million in 2005.

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 surplus 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 any hedge are recognized in the income statement immediately.

Following are the notional transaction amounts and fair values for the company's outstanding derivatives 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 largely offset.

	2006		2005	
	Notional Amount	Fair Value	Notional Amount	Fair Value
<u>Foreign currency</u>				
Forwards	\$115.3	\$ 2.7	\$115.2	\$(2.1)
Options	306.5	4.4	277.2	7.6
Total foreign currency	421.8	7.1	392.4	5.5
<u>Interest rate</u>				
Swaps	100.0	(1.3)	250.0	0.2
<u>Commodity price</u>				
Swaps	22.2	(4.1)	26.2	(3.8)
Futures and forwards	111.9	8.4	82.0	(1.9)
Total commodity price	134.1	4.3	108.2	(5.7)
Total outstanding derivatives	\$655.9	\$10.1	\$750.6	\$ —

The table below shows derivatives gains and losses deferred in nonowner changes in shareholders equity as of December 31, 2006, 2005 and 2004 (in millions). The amounts shown for 2005 and 2004 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, 2006 are generally expected to be recognized in 2007 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 \$3.1 million, \$4.4 million and \$6.5 million at the end of 2006, 2005 and 2004, respectively.

	2006	2005	2004
Deferred gains	\$ 9.2	\$ 2.6	\$ 2.8
Deferred losses	(5.9)	(6.4)	(4.9)
Net deferred gains/(losses)	\$ 3.3	\$(3.8)	\$(2.1)

Following are derivative gains and losses recognized in earnings during the years shown. As noted, effective gains and losses had been deferred over the life of the transaction and recognized simultaneously with the impact of price changes in the underlying transactions. The ineffective gains and losses were recognized immediately when it was evident they did not precisely offset price 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.

	2006	2005	2004
Effective gains			
Cash flow hedges	\$ 1.5	\$ 20.1	\$ 65.7
Fair value hedges	5.6	(0.5)	—
Total effective gains	7.1	20.6	65.7
Effective losses			
Cash flow hedges	(34.0)	(8.1)	(15.3)
Fair value hedges	(24.8)	(6.0)	(13.6)
Total effective losses	(58.8)	(14.1)	(28.9)
Net effective gains/(losses)	\$(51.7)	\$ 6.5	\$ 36.8
Net ineffective gains	\$ 2.2	\$ 0.2	\$ 26.5

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 \$17.6 million and \$15.3 million, at December 31, 2006 and 2005, respectively. The fair value of long-term debt, excluding commercial paper, and estimated based on future cash flows discounted at interest rates currently available to the company for debt with similar maturities and characteristics, was \$7.7 billion and \$8.3 billion at December 31, 2006 and 2005, 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). International beer distribution rights have a combined gross cost of \$57.1 million and a remaining unamortized balance of \$40.0 million at December 31, 2006. The company expects amortization expense of approximately \$5 million per year related to international distribution rights over the next five years.

	Trademarks	Goodwill	Beer Distribution Rights
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)
Tsingtao investment	97.9	—	11.6
Harbin purchase accounting adjustments	—	34.3	—
Amortization of international distribution rights	—	—	(4.7)
Foreign currency translation	3.5	49.0	(1.7)
Balance at Dec. 31, 2005	145.8	1,592.5	185.6
Harbin minority interest buyout	—	20.5	—
Acquisition of Rolling Rock brands	79.3	—	3.0
Acquisition of Grolsch and Tiger import rights	—	—	9.2
Domestic beer wholesaler equity investment	—	—	27.8
Disposition of domestic beer wholesaler equity investment	—	—	(14.8)
Amortization of international distribution rights	—	—	(5.6)
Foreign currency translation	4.6	1.4	3.3
Balance at Dec. 31, 2006	\$ 229.7	\$ 1,614.4	\$ 208.5

5. Retirement Benefits

ADOPTION OF FAS 158

In September 2006, the Financial Accounting Standards Board issued FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." FAS 158 focuses primarily on balance sheet reporting for the funded status of benefit plans and requires recognition of benefit liabilities for under-funded plans and benefit assets for over-funded plans, with offsetting impacts to nonowner changes in shareholders equity.

The company adopted FAS 158 effective with the December 31, 2006 financial statements. Anheuser-Busch is in a net underfunded position for its pension and retiree health care plans and has therefore recognized incremental retirement benefit liabilities on adoption. Additionally, the company has reclassified its pension liability from other long-term liabilities to retirement benefits on the consolidated balance sheet.

The new rules will also require companies to measure benefit plan assets and liabilities as of the balance sheet date for financial reporting purposes, eliminating the alternative approach of using a measurement date up to 90 days prior to the balance sheet date. The effective date for this change is delayed until year-end 2008. The company currently uses an October 1 measurement date and will adopt a December 31 measurement date in 2008 as required. Adopting the new measurement date will require a one-time adjustment to retained earnings per the transition guidance in FAS 158. None of the changes prescribed by FAS 158 will impact the company's results of operations or cash flows.

PENSION BENEFITS

The company sponsors pension plans for its employees. Net annual pension expense for single-employer defined benefit plans and total pension expense for the three years ended December 31 are 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 these plans equals cash contributions made by Anheuser-Busch.

	2006	2005	2004
Service cost (benefits earned during the year)	\$ 102.7	\$ 94.2	\$ 86.6
Interest cost on projected benefit obligation	170.0	168.3	159.2
Assumed return on plan assets	(198.6)	(194.9)	(189.2)
Amortization of prior service cost and net actuarial losses	112.8	88.8	62.0
Single-employer defined benefit plans	186.9	156.4	118.6
Multiemployer plans	16.2	16.2	16.8
Defined contribution plans	20.1	19.1	18.9
Total pension expense	\$ 223.2	\$ 191.7	\$ 154.3

The measurement date for the company's pension accounting is October 1. 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.

	2006	2005	2004
<u>Annual expense</u>			
Discount rate	5.5%	6.0%	6.25%
Long-term return on plan assets	8.5%	8.5%	8.5%
Rate of compensation growth	4.0%	4.25%	4.25%
<u>Funded status</u>			
Discount rate	6.0%	5.5%	6.0%
Rate of compensation growth	4.0%	4.0%	4.25%

For informational purposes, following is a summary of the potential impact on 2007 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	2006 Rate	Impact of 1% Increase	Impact of 1% Decrease
Long-term return on assets	8.5%	\$ (24.3)	\$ 24.3
Discount rate	5.5%	\$ (47.2)	\$ 55.5
Compensation growth rate	4.0%	\$ 20.5	\$(18.1)

Under FAS 158, pension assets or liabilities are recognized for the funded status of single-employer pension plans, based on a comparison of the projected benefit obligation (PBO) to plan assets for each plan. The following tables present changes in the PBO, changes in the fair value of plan assets and the combined funded status for all single-employer defined benefit plans for the two years ended December 31 (in millions).

	2006	2005
Beginning projected benefit obligation (PBO)	\$3,189.9	\$2,894.0
Service cost	102.7	94.2
Interest cost	170.0	168.3
Plan amendments	3.3	6.7
Actuarial loss/(gain)	(135.0)	205.8
Foreign currency translation	8.9	(6.6)
Benefits paid	(214.7)	(172.5)
Projected benefit obligation (PBO) at Oct. 1	\$3,125.1	\$3,189.9

	2006	2005
Fair value of plan assets, beginning of year	\$2,314.7	\$2,188.1
Actual return on plan assets	238.2	282.4
Employer contributions	236.3	15.8
Foreign currency translation	5.5	(3.9)
Benefits paid	(214.7)	(172.5)
Fair value of plan assets at Oct. 1	2,580.0	2,309.9
Fourth quarter contributions	79.3	4.8
Fair value of plan assets, end of year	\$2,659.3	\$2,314.7
Funded status – PBO in excess of plan assets	\$ 465.8	\$ 875.2

The following shows pension assets and liabilities reported on the balance sheet at December 31, 2006. The PBO 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 pension asset is classified as noncurrent on the balance sheet. Of the \$466.8 million total pension liability, \$2.8 million is classified as current, with the remainder classified as noncurrent.

	2006
<u>Plans with assets in excess of PBO (pension asset)</u>	
Plan assets	\$ 117.6
PBO	(116.6)
Pension asset recognized	\$ 1.0
<hr/>	
	2006
<u>Plans with PBO in excess of assets (pension liability)</u>	
PBO	\$ (3,008.5)
Plan assets	2,541.7
Pension liability recognized	\$ (466.8)

Following is information for the two years ended December 31 for those plans where the accumulated benefit obligation (ABO) for single-employer plans exceeds plan assets (in millions). The ABO is the actuarial present value of benefits for services rendered to date, with no consideration of future compensation increases.

	2006	2005
<u>Plans with ABO in excess of assets</u>		
ABO	\$ (2,748.9)	\$(2,890.9)
Plan assets at Oct. 1	2,541.7	2,309.9
ABO in excess of plan assets	\$ (207.2)	\$ (581.0)

The ABO for all plans totaled \$2,865.5 at December 31, 2006 and \$2,890.9 at December 31, 2005.

Following is the prepaid pension asset for single-employer pension plans recognized as of December 31, 2005 (in millions).

	2005
Funded status - plan assets greater than/(less than) PBO	\$ (875.2)
Unrecognized net actuarial loss	1,136.2
Unamortized prior service cost	131.1
Prepaid pension asset	\$ 392.1

Prior to the adoption of FAS 158, recognition of an alternative minimum pension liability (offset in nonowner changes in equity) was necessary whenever the ABO exceeded plan assets. Summarized in the following table are the components of the company's minimum pension liability recognized for the year ended December 31, 2005 and the minimum pension liability at December 31, 2006 prior to adoption of FAS 158 (in millions).

	2006	2005
Minimum pension liability – domestic plans	\$ (695.9)	\$(968.4)
Minimum pension liability – equity investments	(15.7)	(28.2)
Intangible asset – unrecognized prior service costs	108.3	132.6
Deferred income taxes	233.3	334.3
Deferred pension costs, pre-FAS 158	\$ (370.0)	\$(529.7)

Following are deferred pension costs which have not yet been recognized in periodic pension expense but instead are accrued in nonowner changes in shareholders equity, as of December 31 (in millions). Unrecognized actuarial losses represent changes in the PBO over time, primarily due to changes in assumed discount rates. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees, which was approximately ten years at the end of 2006. Actuarial losses and prior service costs expected to be amortized into net periodic pension expense in 2007 are \$66 million and \$19 million, respectively. Recording these deferred costs has no impact on annual pension expense or funding requirements.

	2006	2005
Prior service cost	\$ (112.5)	\$(131.1)
Unrecognized actuarial losses	(872.8)	(837.3)
Pretax deferred pension costs	(985.3)	(968.4)
Deferred income taxes	391.2	334.3
Deferred pension costs – domestic plans	(594.1)	(634.1)
Intangible asset – unrecognized prior service cost	—	132.6
Deferred pension costs – equity investments	(15.7)	(28.2)
Net pension costs deferred in nonowner changes in shareholders equity	\$ (609.8)	\$(529.7)

The following illustrates the impact on nonowner changes in shareholders equity of accruing all deferred pension costs at December 31, 2006, in accordance with FAS 158 (in millions).

	2006		
	Before FAS 158 Adjustments	FAS 158 Adjustments	Ending Balance
<u>Reported in assets and liabilities</u>			
Pension asset	\$ 519.6	\$(518.6)	\$ 1.0
Pension liability	\$(695.9)	\$ 229.1	\$ (466.8)
<u>Reported in nonowner changes in shareholders equity</u>			
Deferred pension costs (domestic and equity)	\$(711.6)	\$(289.4)	\$(1,001.0)
Intangible asset – unrecognized prior service cost	108.3	(108.3)	—
Deferred income taxes	233.3	157.9	391.2
Net deferred pension costs	\$(370.0)	\$(239.8)	\$ (609.8)

PENSION PLAN ASSETS

Required funding for the company's single-employer defined benefit pension plans is determined in accordance with guidelines set forth in the federal Employee Retirement Income Security Act (ERISA). Funding for the company's multi-employer and defined contribution plans is based on specific contractual requirements for each plan. 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 in 2007, and provided additional discretionary pension funding of \$85 million in January 2007. The company also made accelerated pension contributions of \$214 million in 2006 and \$187 million in 2004. 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.

Following is information regarding the allocation of the company's pension plan assets as of December 31, 2006 and 2005 and target allocation for 2007.

Asset Category	Percentage of Plan Assets at Dec. 31, 2005	Percentage of Plan Assets at Dec. 31, 2006	Target Asset Allocation for 2007
Equity securities	70%	70%	69%
Debt securities	26%	26%	27%
Real estate	4%	4%	4%
Total	100%	100%	100%

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. The assumed rate of return on pension plan assets 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 annual rate of return on plan assets net of investment manager fees was 10.5%, 13.7% and 11.7% for plan years ended September 30, 2006, 2005 and 2004, 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. Pension assets do not include any direct investment in Anheuser-Busch debt or equity securities.

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

RETIREMENT 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 retirement benefits expense for company retiree 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 retirement benefits obligation which is accounted for as a deferred actuarial gain and amortized over the remaining service life of participating employees; approximately 9 years. Applying the Act has reduced annual retiree health care and life insurance expense by approximately \$9 million.

	2006	2005	2004
Service cost	\$ 24.3	\$ 25.6	\$ 22.3
Interest cost on APBO	36.9	39.3	34.8
Amortization of prior service benefit	(16.4)	(11.4)	(11.4)
Amortization of net actuarial loss	20.2	14.1	4.2
Net periodic retirement health care and life insurance benefits expense	\$ 65.0	\$ 67.6	\$ 49.9

The following table details the components of the company's obligation for its single-employer defined benefit retirement health care and life insurance plans as of December 31 (in millions). As of December 31, 2006 and 2005, \$64.3 million and \$60.9 million, respectively, of the company's accumulated postretirement benefits obligation (APBO) was classified as current. Postretirement benefits obligations are unfunded; therefore no assets are associated with the plans. At December 31, 2005, neither deferred actuarial losses (primarily due to changes in assumed discount rates and differences in assumed versus actual health care costs) nor deferred prior service benefits were recognized on the balance sheet. With the adoption of FAS 158, these deferred actuarial items are fully recognized on the balance sheet as of December 31, 2006. Deferred actuarial items are amortized into annual retirement benefits expense over the remaining service life of participating employees. Deferred actuarial losses and unrecognized prior service benefits expected to be amortized into net retirement benefits expense in 2007 are \$25 million and \$10 million, respectively.

	2006	2005
APBO, beginning of year	\$ 654.3	\$600.4
Service cost	24.3	25.6
Interest cost	36.9	39.3
Actuarial loss	140.2	152.2
Plan amendments	—	(99.9)
Benefits paid	(68.7)	(63.3)
Plan participants' contributions	2.4	—
Medicare Part D subsidy	2.4	—
APBO, end of year	791.8	654.3
Unrecognized prior service benefits	—	105.0
Unrecognized net actuarial losses	—	(254.0)
Total retirement health care and life insurance liability	\$ 791.8	\$505.3

The following illustrates the impact on nonowner changes in shareholders equity of accruing all deferred retirement health care and life insurance costs at December 31, 2006, in accordance with FAS 158 (in millions).

	2006
Deferred actuarial losses	\$ (374.0)
Deferred prior service benefits	88.6
Net deferred actuarial items	(285.4)
Deferred income taxes	113.2
Net actuarial items deferred in nonowner changes in shareholders equity	\$ (172.2)

The key actuarial assumptions used to determine net retirement benefits expense and the APBO 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 in 2012 and then remain constant thereafter. The measurement date for the company's retiree health care accounting is December 31.

	2006	2005	2004
Discount rate	5.75%	5.5%	6.0%
Initial health care inflation rate	8.1%	8.9%	9.7%
Future health care inflation rate	5.0%	5.0%	5.0%

For informational purposes, following is a summary of the potential impact on net periodic retirement benefits expense and the APBO 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 retirement benefits expense	\$ 3.7	\$ (3.7)
Retirement benefits liability	\$38.9	\$(39.3)

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, 2006 (in millions).

	Pensions	Health Care and Insurance
2007	\$ 166.0	\$ 64.3
2008	\$ 173.1	\$ 65.2
2009	\$ 192.7	\$ 67.1
2010	\$ 208.3	\$ 68.4
2011	\$ 223.3	\$ 70.1
2012-2016	\$ 1,324.1	\$ 367.3

Effective November 30, 2006, the chairman of the board, the president and chief executive officer, and certain other senior executives retired as executive officers of the company and received lump sum pension payments from the supplemental executive retirement plan. The total of the lump sum payouts represented a portion of the supplemental plan's projected benefit obligation sufficient enough to constitute a plan settlement per FAS 88, "Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plans." Because the retirements occurred after the company's pension measurement date of October 1, and in accordance with FAS 88 settlement accounting, liabilities related to the supplemental plan have been remeasured as of December 15, 2006 and the company will recognize related deferred actuarial losses in the first quarter 2007.

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 participa-

tion. 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. Total 401(k) expense was \$60.7 million, \$63.6 million and \$50.9 million for 2006, 2005 and 2004, respectively. The 2004 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.

6. Stock-Based Compensation

STOCK OPTIONS

Under the terms of the company's stock option plans, officers, certain other employees and nonemployee directors may be granted options to purchase the company's common stock at a price equal to the closing market price per the New York Stock Exchange Composite Tape on the date the options are granted. Previously, stock options were granted with an exercise price equal to the average of the high and low market prices on the effective date of the grant. At December 31, 2006, 2005 and 2004, a total of 115 million, 121 million and 95 million shares of common stock were designated for future issuance under existing stock option plans, respectively. The company issues new shares when options are exercised under employee stock compensation plans. Under the plans for the board of directors, shares are issued from treasury stock.

The company's stock options ratably vest over a three-year service period commencing immediately following grant of the award, and have a maximum life of 10 years. There are no performance-based vesting requirements associated with stock options. The company's stock option plans provide for immediate vesting of all unvested options whenever an employee voluntarily leaves the company and has completed at least 20 years of service or is at least age 60. For employees meeting these criteria the accelerated vesting policy renders the requisite three-year service condition "nonsubstantive" under FAS No. 123R. Due to the nonsubstantive service condition, these stock options are considered nonforfeitable, with the option grant date being the effective service completion date. The company therefore fully expenses all options granted to individuals meeting either criterion as of the grant date. The company also identifies stock options granted to employees who do not yet, but will meet the separation-based vesting criteria prior to the end of the three year vesting cycle and recognizes expense over the substantive vesting period for that group of options. Stock options granted to employees not meeting the separation-based vesting criteria are expensed ratably over the three-year option vesting period. Due to the requirement to expense nonforfeitable options as of the grant date, the company recog-

nizes approximately 60% of its annual stock option expense in the fourth quarter each year when stock options are granted. 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, and is classified as a corporate item for business segments reporting.

Nonemployee directors may elect to receive their annual retainer in shares of Anheuser-Busch common stock instead of cash. If all nonemployee directors eligible to own the company's common stock elected to receive their 2007 annual retainer in shares, the total number of shares issued would be 14,634, based on the closing price for the company's common stock at December 31, 2006.

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.

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, 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
Granted	9.5	\$46.34		
Exercised	(4.9)	\$27.43		
Cancelled	(1.1)	\$48.64		
Balance, Dec. 31, 2006	100.0	\$45.97	80.3	\$45.89

The fair values of options granted during the last three years are as follows (in millions, except per option).

	2006	2005	2004
Fair value of each option granted	\$9.73	\$8.81	\$10.49
Total number of options granted	9.5	11.4	14.1
Total fair value of options granted	\$92.4	\$100.4	\$147.9

The fair value of stock options granted has been estimated on the date of grant using a binomial (lattice method) option-pricing model. The binomial model is used for valuation because it accommodates several inputs in order to take into account multiple option exercise patterns as determined by the

company's actuaries, and essentially computes an overall value based on a weighting of each distinct pattern. The assumptions used in applying the binomial model follow. For illustrative purposes, the expected life, risk-free rate, and fair value per option shown are weighted averages derived from the distinct exercise patterns. The volatility of Anheuser-Busch common stock is estimated by the company's actuaries based on an analysis of both historical and current market volatilities.

	2006	2005	2004
Expected life of option	6.3 yrs.	5.5 yrs.	5.5 yrs.
Risk-free interest rate	4.6%	4.4%	3.7%
Expected volatility of Anheuser-Busch stock	20%	21%	22%
Expected dividend yield on Anheuser-Busch stock	2.5%	2.5%	1.8%

The following tables provide additional information regarding options outstanding and options that were exercisable as of December 31, 2006.

Options Outstanding				Options Exercisable			
Range of Exercise Prices	Number	Wtd. Avg. Remaining Life	Wtd. Avg. Exercise Price	Number	Wtd. Avg. Remaining Life	Wtd. Avg. Exercise Price	
\$10 - \$29	6.4	1.6 yrs	\$27.64	6.4	1.6 yrs	\$27.64	
\$30 - \$39	7.3	2.8 yrs	\$37.84	7.3	2.8 yrs	\$37.84	
\$40 - \$49	58.3	6.3 yrs	\$46.46	42.3	5.1 yrs	\$46.89	
\$50 - \$54	28.0	6.8 yrs	\$51.29	24.3	6.6 yrs	\$51.44	
\$10 - \$54	100.0	5.9 yrs	\$45.96	80.3	5.1 yrs	\$45.89	

Range of Exercise Prices	Number	Pretax In-the-Money Value	
		Options Outstanding	Options Exercisable
\$10 - \$29	6.4	\$138.9	\$138.9
\$30 - \$39	7.3	81.8	81.8
\$40 - \$49	58.3	183.4	82.0
\$50 - \$54	28.0	—	—
\$10 - \$54	100.0	\$404.1	\$302.7

ADOPTION OF FAS 123R

Prior to 2006, Anheuser-Busch accounted for employee stock compensation in accordance with FAS 123, "Accounting for Stock-Based Compensation," and elected to recognize no expense related to employee stock compensation, since options were always granted with an exercise price equal to the market price of the company's stock on the effective date of grant. 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 was adopted by Anheuser-Busch in the first quarter of 2006, eliminates the disclosure-only election available under FAS 123 and requires 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 effective 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 results, Anheuser-Busch has retrospectively applied the new Standard to prior period results.

Following are amounts pertinent to operations and cash flows for the years 2005 and 2004, and the balance sheet as of December 31, 2005 and 2004 as they were previously reported and after the retrospective adoption of FAS 123R. In connection with the adoption, the company adjusted deferred income taxes \$50.6 million (offset in retained earnings) as of December 31, 2006 to eliminate deferred income taxes related to incentive stock options.

	2005		2004	
	Including FAS 123R	As Reported	Including FAS 123R	As Reported
Operating Results				
Cost of sales	\$9,606.3	\$9,579.5	\$9,020.0	\$8,982.5
Gross profit	\$5,429.4	\$5,456.2	\$5,914.2	\$5,951.7
Marketing, distribution and administrative expenses	\$2,837.5	\$2,730.2	\$2,740.5	\$2,590.7
Operating income	\$2,486.9	\$2,621.0	\$3,173.7	\$3,361.0
Income before income taxes	\$2,057.4	\$2,191.5	\$2,812.1	\$2,999.4
Provision for income taxes	\$ 811.1	\$ 850.4	\$1,097.5	\$1,163.2
Net income	\$1,744.4	\$1,839.2	\$2,118.7	\$2,240.3
Basic earnings per share	\$2.24	\$2.37	\$2.65	\$2.80
Diluted earnings per share	\$2.23	\$2.35	\$2.62	\$2.77
Cash Flows				
Operating cash flow before the change in working capital	\$2,651.6	\$2,677.5	\$3,096.6	\$3,121.9
Cash provided by operating activities	\$2,701.9	\$2,727.8	\$2,915.0	\$2,940.3
Shares issued under stock plans	\$ 161.4	\$ 135.5	\$ 146.1	\$ 120.8
Cash used for financing activities	\$1,615.8	\$1,641.7	\$1,363.0	\$1,388.3
Balance Sheet as of December 31				
Deferred income taxes	\$ 1,345.9	\$ 1,682.4	\$ 1,417.4	\$ 1,727.2
Capital in excess of par value	\$ 2,685.9	\$ 1,601.8	\$ 2,387.9	\$ 1,425.3
Retained earnings	\$15,698.0	\$16,445.6	\$14,754.4	\$15,407.2
Shareholders equity	\$ 3,679.8	\$ 3,343.3	\$ 2,977.9	\$ 2,668.1

The following illustrates the impact of stock option activity on earnings and cash flows for the last three years (in millions, except per share). Unrecognized pretax stock compensation cost as of December 31, 2006 was \$96 million, which is expected to be recognized over a weighted average life of approximately 1.5 years.

	2006	2005	2004
Pretax stock compensation expense	\$122.9	\$134.1	\$187.3
After-tax stock compensation expense	\$ 87.1	\$ 94.8	\$121.6
Diluted earnings per share impact	\$.11	\$.12	\$.15
Cash proceeds from stock option exercises	\$121.3	\$135.4	\$111.0
In-the-money value of stock options exercised	\$ 97.1	\$122.4	\$118.9
Income tax benefit of stock options exercised	\$ 34.3	\$ 41.6	\$ 41.6
Income tax benefit in excess of associated deferred taxes	\$ 22.6	\$ 25.9	\$ 25.3

The income tax benefit the company receives from the exercise of stock options is based on the income realized by optionees upon exercise, and is recognized as a reduction of current taxes payable and an increase in paid-in-capital with no impact on earnings. 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.

RESTRICTED STOCK

Effective January 2, 2006, the company issued shares of restricted stock to officers and certain other employees pursuant to grants made to them on November 22, 2005. Shares of restricted stock either vest ratably over a three-year period (time-based shares), or vest in prespecified percentages at the end of three years based on total BUD shareholder return performance ranked against the S&P 500 companies 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 awarded 168,557 performance-based shares, of which 53,284 were cancelled in December due to senior executive retirements and the remainder are outstanding and unvested. Time-based shares awarded totaled 403,827, of which 129,668 vested on January 3, 2007. In accordance with FAS 123R, compensation expense is being recognized over the three-year vesting or performance evaluation period, respectively, 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. As appropriate under FAS 123R, the fair value of the performance-based restricted shares includes a discount from the grant date market price that reflects the risk of forfeiture due to the performance-based vesting criteria.

7. Income Taxes

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

	2006	2005	2004
<u>Current tax provision</u>			
Federal	\$789.3	\$712.0	\$ 772.6
State	141.1	129.8	170.0
Foreign	16.0	8.4	33.5
Total current provision	946.4	850.2	976.1
<u>Deferred tax provision</u>			
Federal	(26.1)	(38.9)	109.6
State	(10.5)	(12.7)	11.8
Foreign	(9.3)	12.5	—
Total deferred provision	(45.9)	(39.1)	121.4
Total tax provision	\$900.5	\$811.1	\$1,097.5

The deferred income tax provision is a noncash expense resulting from temporary differences between financial reporting and income tax filing in the timing of certain income and expense items, and differences in the bases 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, 2006 and 2005, 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 the recognition of underfunded 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 \$234.8 million and \$205.6 million, respectively, at December 31, 2006 and 2005.

	2006	2005
Deferred income tax liabilities		
Fixed assets	\$1,789.1	\$1,839.4
Accelerated pension contributions	234.6	219.8
Accrued net U.S. taxes on equity earnings	210.6	188.3
Other	217.4	177.9
Total deferred income tax liabilities	2,451.7	2,425.4
Deferred income tax assets		
Deferred retirement benefits	713.8	541.2
Stock compensation	309.3	336.5
Spare parts and production supplies	79.4	77.0
Compensation-related obligations	70.4	72.2
Other	184.7	178.6
Valuation allowances	(47.4)	(67.0)
Total deferred income tax assets (1)	1,310.2	1,138.5
Net deferred income tax liabilities	\$1,141.5	\$1,286.9

Note 1: Deferred income tax assets of \$53.0 million and \$59.0 million, respectively, are classified in other current assets at December 31, 2006 and 2005.

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.

	2006	2005	2004
Federal statutory tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	3.7	3.7	4.0
Impact of foreign operations	2.8	0.7	0.6
Other items, net	(2.0)	—	(0.6)
Effective tax rate	39.5%	39.4%	39.0%

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 \$1.35 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).

	2006	2005
U.S. dollar notes due 2008 to 2023, interest rates from 4.375% to 7.5%	\$3,540.7	\$3,576.2
U.S. dollar debentures due 2009 to 2043, interest rates from 5.75% to 9.0%	2,900.0	2,600.0
Commercial paper, interest rates of 5.39% and 4.39%, respectively, at year-end	658.4	1,102.6
Industrial revenue bonds due 2009 to 2041, interest rates from 4.6% to 7.4%	269.4	271.7
Medium-term notes due 2010, interest rate 5.625%	200.0	200.0
Chinese renminbi-denominated bank loans due 2007 to 2011, interest rates from 5.02% to 7.02%	32.0	75.8
U.S. dollar EuroNotes due 2006, interest rate 4.51%	—	100.0
Miscellaneous items	72.4	66.1
Unamortized debt discounts	(19.4)	(20.3)
Total debt	\$7,653.5	\$7,972.1

The company's 5.49% fixed rate (\$100.0 million notional value) U.S. dollar notes were swapped to a floating LIBOR-based rate when issued. The effective interest rate for this debt was 4.98% in 2006, with a year-end rate of 5.25%. In addition to the 5.49% U.S. dollar notes, in 2005 the company had outstanding fixed-rate 4.51% Euro Notes and 5.60% U.S. dollar notes (additional notional value of \$150.0 million) which had also been swapped to LIBOR-based floating rates when issued. The weighted average effective interest rate for this debt during 2005 was 3.21% and the year-end 2005 rate was 4.29%.

The weighted-average interest rates for commercial paper borrowings during 2006, 2005, and 2004 were 5.00%, 3.31%, and 1.40%, 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 \$1.0 million in 2006 and \$1.2 million for both 2005 and 2004. Commercial paper borrowings up to \$2 billion are classified as long-term, as they are supported on a long-term basis by the revolving credit agreement. Any commercial paper borrowings in excess of \$2 billion will be classified as short-term.

9. Supplemental Cash Flow Information

Accounts payable include \$105 million and \$99 million of outstanding checks at December 31, 2006 and 2005, respectively. Supplemental cash flows information for the three years ended December 31 is presented in the following table (in millions).

	2006	2005	2004
<u>Cash paid during the year</u>			
Interest, net of interest capitalized	\$ 433.2	\$ 436.0	\$ 390.3
Income taxes	\$ 920.2	\$ 814.7	\$ 962.3
Excise taxes	\$2,252.3	\$ 2,217.3	\$ 2,229.1
<u>Change in working capital</u>			
(Increase)/Decrease in current assets:			
Accounts receivable	\$ (38.8)	\$ 14.7	\$ (26.7)
Inventories	(40.4)	35.8	(102.8)
Other current assets	(4.6)	6.9	(21.6)
Increase/(Decrease) in current liabilities:			
Accounts payable	176.8	54.7	101.1
Accrued salaries, wages and benefits	91.9	(40.5)	2.5
Accrued taxes	(22.8)	3.8	(10.2)
Accrued interest	0.5	(1.5)	14.8
Other current liabilities	17.1	(2.9)	3.6
Derivatives fair value adjustment	6.1	(9.8)	(91.3)
Working capital adjustment for acquisition/disposition	3.0	(10.9)	(51.0)
Net (increase)/decrease in working capital	\$ 188.8	\$ 50.3	\$ (181.6)

10. Accumulated Nonowner Changes In Shareholders Equity

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

	2006	2005
Foreign currency translation	\$ (452.2)	\$(382.0)
Deferred hedging gains/(losses)	2.1	(2.4)
Deferred securities valuation gains	1.3	0.3
Deferred retirement benefits costs	(782.0)	(529.7)
Accumulated nonowner changes in shareholders equity	\$ (1,230.8)	\$(913.8)

Deferred income tax liabilities of \$1.2 million and deferred tax assets of \$1.4 million have been recognized for deferred hedging gains and losses, respectively, as of December 31, 2006 and 2005. Deferred income tax liabilities of \$0.7 million and \$0.2 million have been provided for deferred securities valuation

gains, respectively, while deferred tax assets of \$504.4 million and \$334.3 million, respectively, have been recognized for deferred benefits costs. 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. Please see Note 3 for details of hedging gains and losses recognized in earnings which had previously been deferred in nonowner changes in shareholders equity.

11. Preferred and Common Stock

COMMON STOCK ACTIVITY

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

	2006	2005	2004
<u>Common Stock</u>			
Beginning common stock	1,468.6	1,463.0	1,457.9
Shares issued under stock plans	5.1	5.6	5.1
Common stock	1,473.7	1,468.6	1,463.0
<u>Treasury Stock</u>			
Beginning treasury stock	(690.9)	(678.0)	(644.8)
Treasury stock acquired	(16.7)	(12.9)	(33.2)
Cumulative treasury stock	(707.6)	(690.9)	(678.0)
Net common stock outstanding	766.1	777.7	785.0

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.

	2006	2005	2004
Basic weighted average shares outstanding	770.6	777.5	798.9
Weighted average stock option shares	6.4	5.1	9.6
Diluted weighted average shares outstanding	777.0	782.6	808.5

COMMON STOCK REPURCHASE

The board of directors has approved resolutions authorizing the company to repurchase shares of its common stock. At December 31, 2006, approximately 15 million shares remained available for repurchase under a March 2003 board authorization for 100 million shares. In December 2006, the Board approved the multi-year repurchase of an additional 100 million shares to commence when prior authorizations are exhausted. The Board does not specify minimum or maximum share repurchase levels and authorizations expire when fully utilized. The company repurchased 16.7 million common shares in 2006, 12.9 million shares in 2005, and 33.2 million shares in 2004, for \$745.9 million, \$620.4 million, and \$1,699.5 million, respectively.

PREFERRED STOCK

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

12. Contingencies

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

13. 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 2006, 2005, and 2004, (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 and stock compensation expense, are not allocated to the operating segments. Effective in 2005, the company began reporting its transportation business within the domestic beer segment, and its real estate business as a corporate item. These businesses previously comprised the "other" segment. Segment results for 2004 were updated to conform to this change which was immaterial for all segments. Corporate results for 2005 and 2004 have been recast for the retrospective adoption of FAS 123R in 2006, which had no impact on the company's four operating segments.

2006	Domestic Beer	International Beer	Packaging	Entertainment	Corporate & Eliminations (1)	Consolidated
<u>Income Statement Information</u>						
Gross sales	\$ 13,394.2	1,235.6	2,562.3	1,178.5	(412.8)	\$ 17,957.8
Net sales - intersegment	\$ 2.8	—	896.4	—	(899.2)	\$ —
Net sales - external	\$ 11,388.2	998.2	1,665.9	1,178.5	486.3	\$ 15,717.1
Depreciation and amortization	\$ 715.1	51.2	76.9	99.0	46.5	\$ 988.7
Income before income taxes	\$ 2,758.5	76.7	145.0	232.8	(936.1)	\$ 2,276.9
Equity income, net of tax	\$ 3.4	585.4	—	—	—	\$ 588.8
Net income	\$ 1,713.7	633.0	89.9	144.3	(615.7)	\$ 1,965.2
<u>Balance Sheet Information</u>						
Total assets	\$ 7,988.3	5,350.6	781.5	1,479.1	777.7	\$ 16,377.2
Equity method investments	\$ 67.8	3,604.6	—	—	—	\$ 3,672.4
Goodwill	\$ 21.2	1,283.0	21.9	288.3	—	\$ 1,614.4
Foreign-located fixed assets	\$ —	517.7	—	—	—	\$ 517.7
Capital expenditures	\$ 516.7	36.9	55.9	157.6	45.4	\$ 812.5

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	(1,052.1)	\$ 2,057.4
Equity income, net of tax	\$ —	498.1	—	—	—	\$ 498.1
Net income	\$ 1,658.9	551.7	87.7	127.7	(681.6)	\$ 1,744.4
<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	(934.4)	\$ 2,812.1
Equity income, net of tax	\$ —	404.1	—	—	—	\$ 404.1
Net income	\$ 2,033.0	485.3	101.6	107.1	(608.3)	\$ 2,118.7
<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

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 beer delivery costs reimbursed by independent wholesalers of \$370.9 million, \$340.1 million, and \$312.0 million in 2006, 2005, and 2004, respectively.

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