

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, 2007. 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 U.S. 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 profits and free cash flow from the packaging and entertainment segments. Packaging operations provide significant efficiencies, cost savings and quality assurance for U.S. beer operations. Entertainment operations enhance the company's corporate image by showcasing Anheuser-Busch's heritage, values and commitment to quality and social responsibility to more than 20 million visitors each year.

Comparison of Operating Results

Anheuser-Busch achieved significant results in 2007, generating strong earnings growth and broadening its beer portfolio to enhance the company's participation in the high-end segment. Revenue per barrel performance was solid and the company managed cost pressures effectively. International beer profits for the year for Anheuser-Busch-owned operations as well as those of the company's equity partners increased significantly, while both the packaging and entertainment segments contributed strong earnings growth. The company also achieved significant increases in operating cash flow, return on capital and cash returned to shareholders.

Comparisons of key operating results for 2007, 2006 and 2005 are summarized in the following tables. In the first quarter 2006, Anheuser-Busch adopted FAS 123R, "Share-Based Payment," which requires expense recognition for stock options and all other forms of equity compensation, based on the fair value of the instruments on the date of grant. 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 and therefore recast operating results from prior years to incorporate the impact of pro forma stock compensation expense related to those years that had been previously disclosed, but not recognized under accounting standards applicable at that time. 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 \$.13, \$.11 and \$.12 per diluted share for 2007, 2006 and 2005, respectively.

Operating results and comparisons to prior years include the impact of various nonrecurring transactions in each year that make direct comparisons of underlying operations between years difficult. The company has therefore normalized certain results within this discussion to facilitate comparison. In 2007, Anheuser-Busch recorded gains on the sale of the company's remaining interest in the Port Aventura theme park in Spain and on the sale of certain beer distribution rights in southern California, and also incurred its pro rata share of a charge by Grupo Modelo for restructuring of Modelo's domestic distribution system and C-store closings. In 2006, the company recorded a one-time deferred income tax benefit resulting from tax legislation in Texas. The normalization items in 2005 are settlement of litigation involving a U.S. beer wholesaler, the favorable impact of settling certain tax matters in Chile related to the sale of the company's former investment in Compañía Cervecerías Unidas S.A. (CCU), a deferred income tax benefit from tax legislation in Ohio and a pretax gain plus a tax benefit on the sale of a portion of the company's Spanish theme park investment. Excluding these normalization items, diluted earnings per share increased 10.3% in 2007, 9.1% in 2006 and decreased 10.5% in 2005. The company believes excluding certain normalization items from its analysis of operating results 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.

Following are comparative summaries of key operating results for 2007, 2006 and 2005 (in millions, except per share).

	2007	2006	2007 vs. 2006	
Gross sales	\$18,989	\$17,958	▲ \$1,031	▲ 5.7%
Net sales	\$16,686	\$15,717	▲ \$ 969	▲ 6.2%
Income before income taxes	\$ 2,423	\$ 2,277	▲ \$ 146	▲ 6.4%
Equity income, net of tax	\$ 662	\$ 589	▲ \$ 73	▲ 12.5%
Net income	\$ 2,115	\$ 1,965	▲ \$ 150	▲ 7.6%
Diluted earnings per share	\$ 2.79	\$ 2.53	▲ \$.26	▲ 10.3%

	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%

SALES

Revenue per barrel reflects the net average sales price the company obtains from wholesaler customers for its products. Generally, 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 one and a half times the impact on profits as comparable percentage increases in beer volume. Revenue per barrel is calculated as net sales generated by the company's U.S. 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 revenue per barrel increases that are slightly above 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 revenue per barrel 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. Such price increases would be borne directly by consumers.

The company has led the U.S. brewing industry in sales volume and market share since 1957. Anheuser-Busch reports U.S. 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 sales-to-retailers require increased beer sales-to-wholesalers to meet ongoing demand.

WORLDWIDE BEER VOLUME

The company's reported beer volume for the three years ended December 31, 2007, is summarized in the following table (in millions of barrels).

	2007	2006	Change
U.S.	104.4	102.3	▲ 2.0%
International	24.0	22.7	▲ 5.8%
Worldwide Anheuser-Busch brands	128.4	125.0	▲ 2.7%
Equity partner brands	33.2	31.6	▲ 4.9%
Total brands	161.6	156.6	▲ 3.2%

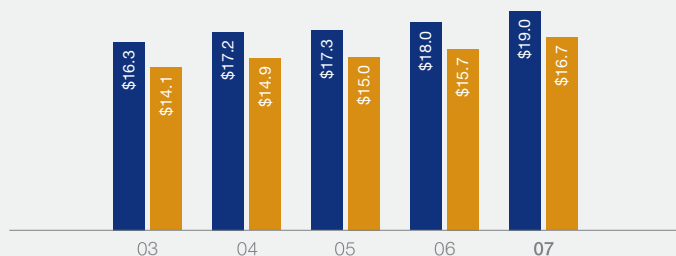
	2006	2005	Change
U.S.	102.3	101.1	▲ 1.2%
International	22.7	20.8	▲ 9.3%
Worldwide Anheuser-Busch brands	125.0	121.9	▲ 2.6%
Equity partner brands	31.6	26.4	▲ 19.7%
Total brands	156.6	148.3	▲ 5.6%

	2005	2004	Change
U.S.	101.1	103.0	▼ 1.8%
International	20.8	13.8	▲ 50.8%
Worldwide Anheuser-Busch brands	121.9	116.8	▲ 4.4%
Equity partner brands	26.4	19.3	▲ 36.6%
Total brands	148.3	136.1	▲ 9.0%

Worldwide Anheuser-Busch beer volume is composed of U.S. beer volume plus international volume. U.S. beer volume represents beer shipped to wholesalers within the United States, which includes both the company's domestically produced brands and imported brands. International beer volume consists of Anheuser-Busch brands produced overseas by company-owned breweries in China and the United Kingdom and under various license and contract-brewing agreements, plus exports from the company's U.S. breweries. Equity partner brands volume represents the company's ownership percentage share of volume in its equity partners reported on a one-month-lag basis. Total brands combine worldwide Anheuser-Busch brands volume with equity partner brands.

Sales* (dollars in billions)

● Gross Sales ● Net Sales



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

SALES – 2007 VS. 2006

Anheuser-Busch reported gross sales in 2007 of \$19.0 billion, an increase versus the prior year of \$1.0 billion, or 5.7%. Net sales were \$16.7 billion, up \$969 million, or 6.2% compared to 2006. The difference between gross and net sales is beer excise taxes of \$2.3 billion. The improvement in net sales is due to contributions from all of the company’s operating segments. U.S. beer sales increased \$718 million, or 6% on increased revenue per barrel and higher beer shipments. International beer sales were up \$99 million, or 10% primarily due to volume increases. Packaging segment net sales improved \$35 million, or 2% due to higher can manufacturing and aluminum recycling revenues. Entertainment sales increased \$94 million, or 8% from increased attendance and higher ticket pricing and in-park spending.

U.S. beer revenue per barrel increased 3% as a result of successful price increases and favorable brand mix, contributing \$373 million of the increase in segment net sales. Beer shipment volume increases of 2% provided \$242 million in net sales improvement for the year, while non-beer revenues added \$103 million. Wholesaler sales-to-retailers grew 1.3% in 2007. The company’s acquired and import brands contributed 170 and 160 basis points of growth to shipments and sales-to-retailers, respectively. Wholesaler inventories for company-produced brands at the end of 2007 were approximately the same as at the end of 2006. U.S. beer industry volume was strong in 2007 for the second year in a row, up approximately 1.4%. The company’s estimated U.S. beer market share for 2007 was 48.5% compared to prior year market share of 48.2%. 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.

International volume increased 5.8% for the year, primarily due to increased volume in China, Canada and Mexico, partially offset by lower volume in the United Kingdom. Worldwide Anheuser-Busch brands volume increased 2.7% for the year to 128 million barrels. Equity partner brands volume grew 4.9% on Tsingtao and Modelo volume growth. Total brands volume was up 3.2%, to 162 million barrels for 2007.

SALES – 2006 VS. 2005

The company reported gross sales of \$18.0 billion and net sales of \$15.7 billion in 2006. Gross sales improved \$704 million, or 4%, 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. U.S. beer net sales increased 3%, 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.

U.S. 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 U.S. beer volume. Revenue per barrel contributed \$197 million to the segment increase in net sales, including the impact of acquired and import brands. The 1.2% increase in U.S. beer volume added \$111 million to the increase in segment net sales. Wholesalers’ sales-to-retailers increased 1.1% for the year. Acquired and import brands contributing 0.5 points of growth to both beer volume and sales-to-retailers. Wholesaler beer inventory levels at the end of 2006 were more than 1.5 days below 2005 year-end levels. U.S. beer industry volume was up approximately 2% in 2006. The company’s estimated U.S. market share for the full year was 48.2%, compared with 2005 market share of 48.7%. The company’s 2006 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 1% on sales improvement in international beer, packaging and entertainment operations, partially offset by lower U.S. beer sales. International beer sales were up \$123 million, or 15% due primarily to higher beer volume in China, Canada and Mexico. Packaging operations sales were up \$116 million, or 8% on higher aluminum prices and increased volume. Entertainment sales increased \$96 million, or 10% from higher attendance, increased pricing and increased in-park spending. U.S. beer segment net sales decreased 2.5%, or \$285 million, with \$206 million of the decrease due to a 1.8% decline in beer sales volume, and \$79 million stemming from a 0.5% decrease in revenue per barrel for the year.

U.S. 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 introduction of Budweiser Select. Wholesaler inventories were reduced significantly during 2005, ending the year more than two days lower than the end of 2004. The company's estimated U.S. beer market share for 2005 was 48.7%, compared with 2004 market share of 49.6%. Anheuser-Busch's market share was adversely impacted by the reduction in wholesaler inventories.

International beer volume increased 50.8%, or 7.0 million barrels in 2005 due primarily to increased volume in China, 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 partner 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%, to 148.3 million barrels for the full year 2005.

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.

Cost of sales was \$10.8 billion for 2007, an increase of \$671 million, or 7%. This increase was primarily attributable to incremental costs associated with higher U.S. and international beer volumes, overall higher costs for brewing and packaging materials, higher plant operating costs in U.S. beer and packaging operations and higher labor and operating costs for entertainment operations, partially offset by lower energy costs. Incremental costs for 2007 associated with increased U.S. and international beer volume were \$318 million and \$41 million, respectively. Gross profit as a percentage of net sales was 35.1%, down 20 basis points versus 2006.

For 2006, cost of sales increased \$559 million, or 6% 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 U.S. 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 U.S. 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 U.S. and international beer and for recycling operations.

Cost of sales was \$9.6 billion for 2005, an increase of \$586 million, or 6.5%. This increase was 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 U.S. 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 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 U.S. beer sales volume and revenue per barrel combined with increases in U.S. beer production costs.

MARKETING, DISTRIBUTION AND ADMINISTRATIVE EXPENSES

Advertising and promotional activities for its beer brands and theme park operations are important elements of Anheuser-Busch's strategy and represent significant annual expenditures. The company employs a variety of national, regional and local media outlets in its promotional efforts, including television, radio, the Internet, print and outdoor advertising and event sponsorships.

Marketing, distribution and administrative expenses for 2007 were \$3.0 billion, an increase of \$150 million, or 5%. The increase is the result of higher U.S. beer marketing costs, including incremental marketing and selling expense for the company's new import beer portfolio, increased marketing costs for entertainment operations and higher delivery costs for company-owned beer wholesalerships and for international beer operations. Administrative expenses in 2007 include asset disposition gains and a FAS 88 settlement charge.

Marketing, distribution and administrative expenses were \$2.8 billion for 2006, a decrease of \$5 million due to lower marketing expenses for U.S. 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 U.S. beer and international beer operations and increased entertainment marketing costs, partially offset by reduced general and administrative expenses. U.S. beer marketing costs were up primarily for the national introduction of Budweiser Select, and to support the beer volume and market share growth initiatives. International beer marketing increased primarily due to the Harbin acquisition. Higher U.S. 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.

OPERATING INCOME

Operating income represents the measure of the company's financial performance before net interest cost, other nonoperating items and equity income. Operating income for 2007 includes the \$26.5 million gain from the sale of certain beer distribution rights in southern California, which is shown as a separate line item in the consolidated income statement and is reported as part of the U.S. beer segment. Additionally, 2005 operating results include the one-time \$105 million litigation settlement cost which is reported as a separate line item in the income statement and classified as a corporate item for segment reporting.

Anheuser-Busch reported operating income of \$2.9 billion in 2007, up \$174 million, or 6% on improved results from all business segments, including the U.S. beer distribution rights gain. Operating margin was 17.3%, level versus prior year. Excluding the distribution rights gain, operating income was up 5%, while operating margin declined 10 basis points as shown below.

	2007	2006	Change
Reported operating margin	17.3%	17.3%	— pts.
Gain on sale of distribution rights	(0.1)	—	(0.1) pts.
Excluding gain on sale of rights	17.2%	17.3%	(0.1) pts.

The company generated operating income of \$2.7 billion in 2006, an increase of \$233 million, or 9% due to increased profits in U.S. beer and entertainment operations and the 2005 litigation settlement. Operating margin for the year was up 80 basis points to 17.3%. Excluding the litigation settlement, operating income was up 5% and operating margin improved 10 basis points, as shown below.

	2006	2005	Change
Reported operating margin	17.3%	16.5%	0.8 pts.
Impact of litigation settlement	—	0.7	(0.7) pts.
Excluding litigation settlement	17.3%	17.2%	0.1 pts.

Operating income of \$2.5 billion in 2005 decreased \$687 million, or 22% on lower profits in U.S. beer, international beer and packaging operations and the impact of the litigation settlement, partially offset by improved results from entertainment operations. Operating margin for 2005 was 16.5%, a decline of 480 basis points due primarily to reduced U.S. beer sales volume, lower revenue per barrel and higher operating costs, plus the 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%	(4.8) pts.
Impact of litigation settlement	0.7	—	0.7 pts.
Excluding litigation settlement	17.2%	21.3%	(4.1) pts.

INTEREST EXPENSE LESS INTEREST INCOME

Interest expense less interest income was \$480.5 million for 2007, \$449.5 million for 2006 and \$452.1 million for 2005, representing an increase of 7% in 2007, a decrease of 1% in 2006 and an increase of 7% for 2005. The increase in 2007 is due to higher average debt balances during the year partially offset by slightly lower average interest rates and higher interest income. The 2006 result is due to lower average debt balances throughout the year mostly offset by higher average interest rates. The increase in 2005 is primarily due to higher average outstanding debt balances compared with prior year, plus the impact of slightly higher average interest rates. See the Liquidity and Financial Condition section 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 \$17.4 million in 2007, \$17.6 million in 2006 and \$19.9 million in 2005. 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.

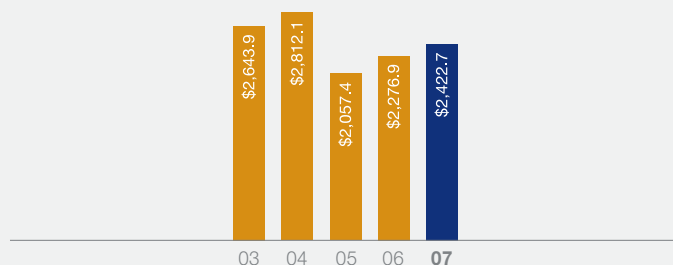
OTHER INCOME/(EXPENSE), NET

Other income/(expense), 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 U.S. beer wholesalers are included in other income in 2005. The company had consolidated net other expense of \$8.2 million in 2007 and \$10.8 million in 2006, and net other income of \$2.7 million in 2005.

Other expense in 2007 includes the \$16 million pretax gain on the sale of the last portion of the company's investment in the Port Aventura theme park in Spain, plus expense associated with the early redemption of the company's 7.125% debentures due 2017. Other income for 2005 includes a \$15.4 million pretax gain from the partial sale of the Spanish theme park investment 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.

Income Before Income Taxes

(dollars in millions)



INCOME BEFORE INCOME TAXES — 2007 VS. 2006

The company reported income before income taxes of \$2.4 billion for 2007, an increase of 6%, or \$146 million due to improved results from all business segments partially offset by higher net interest expense. Reported income before income taxes includes the previously discussed gains from the sale of beer distribution rights in California and the Port Aventura theme park sale in Spain. Excluding these normalization items, pretax income increased 4.5% (see page 33).

Reported U.S. beer pretax income increased \$75 million, or 3% on higher revenue per barrel and increased beer volume partially offset by higher production costs and marketing spending, particularly for the company's import beer portfolio. Excluding the gain on the sale of distribution rights, U.S. beer pretax income increased 2%, as shown below.

	2007	2006	Change
Reported U.S. Beer pretax income	\$2,784.0	\$2,709.2	2.8 %
Gain on sale of distribution rights	(26.5)	—	(1.0)%
U.S. Beer pretax excluding gain	\$2,757.5	\$2,709.2	1.8 %

International beer pretax income increased \$17 million, or 22% due primarily to increased profits in China, Canada and Mexico, partially offset by lower results in the United Kingdom. Packaging segment pretax income increased \$31 million, or 22% on improved performance for all packaging businesses, led by higher can manufacturing and recycling profits. Entertainment segment pretax results improved \$30 million, or 13% on increased attendance and higher ticket pricing and in-park spending.

INCOME BEFORE INCOME TAXES — 2006 VS. 2005

On a reported basis, 2006 income before income taxes increased 11%, or \$220 million due to higher profits in U.S. beer and entertainment operations. Pretax income increased 6%, when 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 (see page 33). Income before income taxes for U.S. beer was up 3%, 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%, 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%, 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 U.S. beer, international beer and packaging operations, partially offset by improved results from entertainment operations. The comparison of income before income taxes includes the impact of the 2005 litigation settlement and in 2004, one-time pretax gains of \$19.5 million and \$13.4 million from the sale of aluminum commodity hedges and the company's investment in CCU, respectively. Excluding these normalization items from both years to enhance comparability, income before income taxes decreased 23% (see page 33). U.S. beer pretax income decreased

\$603 million, or 18% due to lower beer sales volume, reduced revenue per barrel and higher manufacturing costs resulting 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 and higher admissions pricing and in-park spending, partially offset by higher park operating expenses. Entertainment results in 2004 were adversely impacted by a series of hurricanes in Florida.

EQUITY INCOME, NET OF TAX

Equity income of \$662 million in 2007 represented an increase of \$73 million, or 12.5% versus \$589 million in 2006. The increase is primarily due to Grupo Modelo volume increases, benefits from Modelo's Crown joint venture and a \$29 million benefit from the return of advertising funds that were part of prior import contracts. Equity income in 2007 includes the company's \$16 million pro rata share of a charge by Grupo Modelo for the restructuring of Modelo's domestic distribution system and C-store closings. Excluding this charge, equity income increased 15% in 2007 (see page 33).

Equity income for 2006 increased \$91 million, or 18% 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 recognized in 2004 due to 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 income tax benefit from 2004 results, equity income for 2005 increased 29% (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.

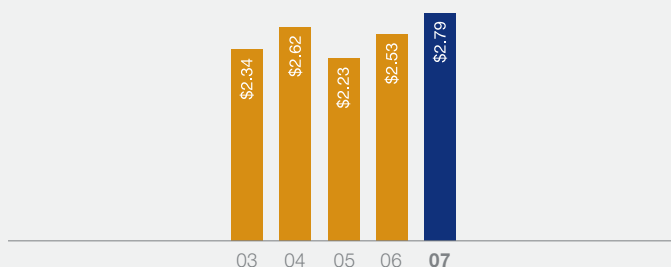
Reported net income and diluted earnings per share for 2007 were \$2.1 billion and \$2.79, respectively. Net income increased \$150 million, or 8% compared to 2006 while diluted earnings per share increased 10%, or \$.26 for the same period. Comparisons of net income and earnings per share for 2007 versus 2006 include the gains from the sales of distribution rights in southern California and the remaining interest in the Spanish theme park and the company's portion of Modelo's restructuring charge in 2007, plus a \$7.8 million benefit from the reduction of deferred income taxes due to state income tax reform legislation in Texas in 2006. Excluding these normalization items to enhance comparability, net income increased 7.5% and diluted earnings per share increased 10% (see page 33).

The company reported 2006 net income of \$2.0 billion, a \$221 million, or 13% increase versus 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 income tax legislation events in both years, as well as the 2005 litigation settlement and pretax gain on the sale of a portion of the Spanish theme park investment. In 2006, Anheuser-Busch recognized the gain from state 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 \$3.5 million 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 previous sale of the company's equity stake in CCU. Excluding these normalization items to enhance comparability, net income and diluted earnings per share for 2006 increased 8.5% and 9%, respectively (see page 33).

Anheuser-Busch generated net income of \$1.7 billion in 2005, a decrease of \$374 million, or 18%, while reported diluted earnings per share of \$2.23 decreased 15%, or \$.39. Excluding all 2005 and 2004 normalization items discussed previously, net income and diluted earnings per share decreased by 13% and 10.5%, respectively, as shown on page 33.

Diluted Earnings per Share

(in dollars)



The following summary is provided to make direct comparisons of results easier for 2007, 2006 and 2005 versus prior years by excluding normalization items previously discussed (in millions, except per share). The company believes excluding normalization 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
2007					
Reported	\$2,422.7	\$(969.8)	\$662.4	\$2,115.3	\$2.79
Gain on sale of Spanish theme park	(16.0)	6.1	—	(9.9)	(.01)
Gain on sale of distribution rights	(26.5)	10.2	—	(16.3)	(.02)
Modelo restructuring	—	—	16.0	16.0	.02
Excluding normalization items	\$2,380.2	\$(953.5)	\$678.4	\$2,105.1	\$2.78

Percentage Change - 2007 vs. 2006

Reported	6.4%		12.5%	7.6%	10.3%
Excluding normalization items	4.5%		15.2%	7.5%	10.3%

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 normalization 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 normalization 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 normalization 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 normalization items	(22.7)%		29.0%	(13.4)%	(10.5)%

INCOME TAXES

The company's fourth quarter effective income 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.

The company's effective income tax rate of 40.0% in 2007 represents an increase of 50 basis points versus 2006, primarily due to higher taxes on foreign earnings, a lower benefit from capital loss utilization in 2007 and the one-time deferred tax benefit in 2006 from Texas tax legislation. These increases were partially offset by a higher domestic manufacturing deduction rate. Excluding the gains on the distribution rights and Port Aventura sale, the Modelo restructuring charge and the 2006 Texas tax legislation benefit, the effective tax rate was 40.1%, up 20 basis points versus 2006.

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 \$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 tax impacts of the limited deductibility of the litigation settlement, the \$3.5 million benefit related to the partial 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 favorable normalization impacts noted above, which were essentially offset by a limited income tax benefit available from the litigation settlement. The tax benefit from the settlement was limited due to not having sufficient capital gains available to allow full deductibility of the loss.

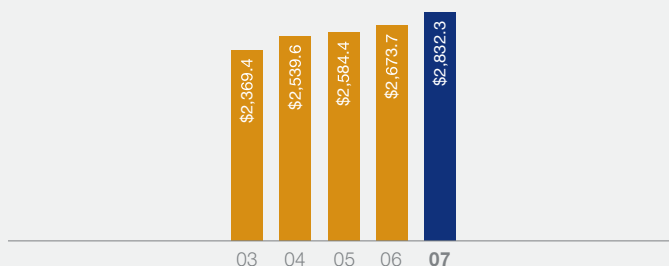
EMPLOYEE-RELATED COSTS

Employee-related costs were \$2.8 billion in 2007, an increase of \$159 million, or 6% versus 2006. These costs totaled \$2.7 billion in 2006, an increase of \$89 million, or 3.5% versus 2005 costs of \$2.6 billion which had increased \$45 million versus the prior year. The changes in employee-related costs primarily reflect changes in annual compensation and benefits expense. Annual compensation totaled \$2.1 billion in 2007, \$2.0 billion in 2006 and \$1.9 billion in 2005, representing increases of \$126 million in 2007 and \$64 million in 2006, and a decrease in 2005 of \$47 million. The decrease in 2005 was primarily due to lower bonus payments and lower stock compensation expense. The remainder of employee-related costs consists of pension, health care and life insurance benefits, 401(k) expense and payroll taxes.

The company had 30,849 full-time employees at December 31, 2007. Full-time employees numbered 30,183 and 31,485 at the end of 2006 and 2005, 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 2007 operations, not including the many indirect taxes included in materials and services purchased, totaled \$3.5 billion, an increase of 3.9% versus total taxes in 2006 of \$3.4 billion. The increase in 2007 reflects higher beer excise taxes due to increased beer volume, and increased income taxes due to higher pretax earnings. Tax expense in 2006 increased 3.4% compared with total taxes of \$3.3 billion in 2005. 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 16.6% in 2007, compared to 15.6% in 2006 and 14% in 2005. 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. After-tax net interest expense was \$290 million in 2007 and \$269 million in both 2006 and 2005, calculated as pretax net interest expense of \$467 million, \$434 million and \$435 million, respectively, less income taxes applied at an assumed 38% rate.

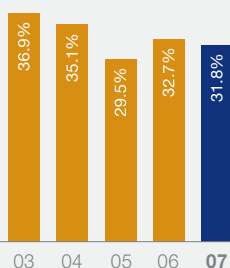
Liquidity and Financial Condition

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 growth in 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 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 31.8% in 2007, 32.7% in 2006 and 29.5% in 2005.

Ratio of Cash Flow to Total Debt



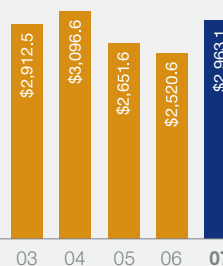
SOURCES AND USES OF CASH

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. 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 the net issuance of debt 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 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 \$279 million, \$417 million and \$224 million, at December 31, 2007, 2006 and 2005, respectively.

Cash at December 31, 2007 was \$283 million, an increase of \$64 million versus 2006. Anheuser-Busch generated operating cash flow before the change in working capital of \$3.0 billion, an increase of \$443 million over 2006 and due primarily to increased earnings, higher Grupo Modelo dividends in 2007, \$403 million versus \$240 million, and a lower discretionary defined benefit pension contribution in 2007, \$85 million compared to \$214 million in 2006.

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, 5.5% notes due 2018 and 6.45% debentures due 2037 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 either be preceded by or result from a change in control. The total outstanding balance for this debt at December 31, 2007 is \$1.35 billion.

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 \$2.5 million of these notes in 2007 and \$2.8 million in 2006.

The company's future cash commitments are shown below, as of December 31, 2007 (in millions).

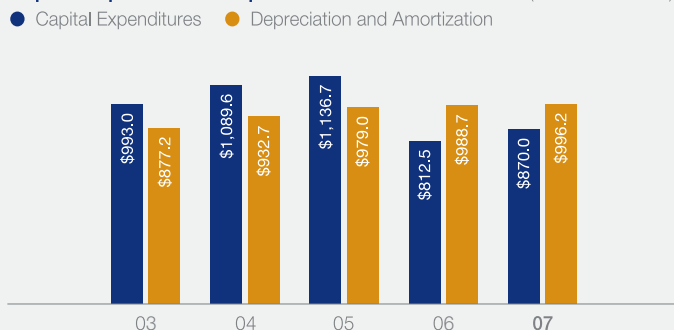
	2008	2009 and 2010	2011 and 2012	2013 and Thereafter	Total
Capital expenditures	\$ 128	\$ 82	\$ —	\$ —	\$ 210
Operating leases	126	62	37	263	488
Uncertain tax benefits	12	—	—	99	111
Brewing and packaging materials	509	490	292	228	1,519
Unfunded benefits payments	140	146	152	402	840
Interest payments	476	871	750	5,216	7,313
Maturities of long-term debt	305	753	869	7,213	9,140
Royalty arrangements	95	196	204	1,689	2,184
	\$1,791	\$2,600	\$2,304	\$15,110	\$21,805

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 \$870 million in 2007, \$813 million in 2006 and \$1.1 billion in 2005, and totaled \$4.9 billion during the past five years. The company expects capital expenditures of approximately \$975 million in 2008 and is projecting capital spending during the five-year period 2008 - 2012 of approximately \$4.6 billion. See Note 13 for information on capital expenditures by business segment.

Capital Expenditures/Depreciation and Amortization (dollars in millions)



FINANCING ACTIVITIES

The company's debt balance increased a total of \$1.5 billion in 2007, compared with a decrease of \$319 million in 2006. Details of debt increases and decreases for the last two years follow.

Changes In Debt

Description	Amount (in millions)	Interest Rate (fixed unless noted)
2007		
Increases:		
U.S. dollar notes	\$ 817.2	\$500.0 at 5.5%; \$300.0 at 5.6%; \$17.2 at 5.54%
U.S. dollar debentures	500.0	6.45%
Commercial paper	379.8	5.16% wtd. avg., floating
Industrial revenue bonds	14.5	5.34% wtd. avg.
Other, net	40.3	Various
Total increases	1,751.8	
Decreases:		
U.S. dollar debentures	250.0	7.125%
Chinese yuan-denominated notes	10.1	5.74% wtd. avg.
U.S. dollar notes	2.5	5.35%
Other, net	2.4	Various
Total decreases	265.0	
Net increase in debt	\$1,486.8	
2006		
Increases:		
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, net	11.3	Various
Total increases	346.3	
Decreases:		
Commercial paper	444.2	5.00% wtd. avg., floating
U.S. dollar EuroNotes	100.0	4.51%
U.S. dollar notes	52.8	\$50.0 at 5.6%; \$2.8 at 5.35%
Chinese yuan-denominated notes	43.8	5.41% wtd. avg.
Industrial revenue bonds	20.0	6.63% wtd. avg.
Other, net	4.1	Various
Total decreases	664.9	
Net decrease in debt	\$318.6	

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 \$2.0 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 \$1.0 billion and \$1.4 billion occurred in December 2007 and February 2006, respectively. Lowest commercial paper borrowings were \$285 million in June 2007 and zero in September 2006. Average monthly commercial paper balances outstanding were \$720 million during 2007 and \$600 million during 2006.

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 is constructing a new warehouse, distribution, vehicle maintenance and office complex on the site as well as making extensive site development improvements for a total cost of approximately \$81 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. To obtain the tax incentives, the company entered into agreements with Banc of America Community Development Corporation, Enterprise Community Investment, Inc. and certain affiliates that provided \$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 is being recognized by Anheuser-Busch as a reduction in its cost of financing over the seven-year term of the borrowing.

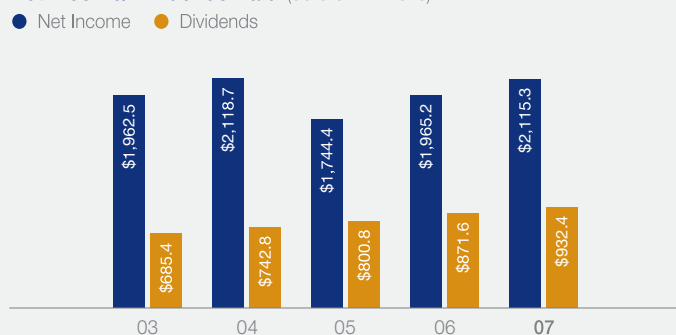
SHARE REPURCHASE

The company spent \$2.7 billion, \$746 million and \$620 million, to repurchase 53.6 million, 16.7 million and 12.9 million Anheuser-Busch common shares in 2007, 2006 and 2005, 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 compensation plans, and has repurchased an average of 3% of net shares outstanding annually during the last 10 years. All shares are repurchased under authorization of the board of directors, the latest of which was a 100 million share authorization in December 2006. Also see Note 11.

DIVIDENDS

Dividends are paid in the months of March, June, September and December of each year. Cash dividends paid to shareholders were \$932 million in 2007, \$872 million in 2006 and \$801 million in 2005. In the third quarter of 2007, effective with the September dividend, the board of directors increased the quarterly dividend rate from \$.295 to \$.33 per share. This increased annual dividends to \$1.25 per share, a 10.6% increase compared with \$1.13 per share in 2006. The dividend rate in 2006 reflected an increase of 9.7% versus the rate of \$1.03 per share in 2005. Quarterly dividends per share for the first and second halves of the year, respectively, were \$.295 and \$.33 for 2007, \$.27 and \$.295 for 2006 and \$.245 and \$.27 for 2005.

Net Income/Dividends Paid (dollars in millions)



COMMON STOCK

At December 31, 2007, registered common stock shareholders numbered 49,732 compared with 51,888 at the end of 2006. 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, 2007 and 2006 was \$52.34 and \$49.20, respectively. Following are comparative 2007 and 2006 quarterly high and low closing prices for BUD.

Price Range of Anheuser-Busch Common Stock (BUD)

	2007		2006	
	High	Low	High	Low
First quarter	\$51.75	\$47.97	\$43.98	\$40.42
Second quarter	\$54.41	\$49.19	\$46.96	\$41.90
Third quarter	\$52.31	\$46.95	\$49.91	\$45.19
Fourth quarter	\$53.58	\$48.74	\$49.38	\$46.14

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 2007, the company had equity income of \$662.4 million and received cash distributions from investees of \$413.3 million. In 2006, Anheuser-Busch recognized equity income of \$588.8 million and received cash distributions from investees of \$247.0 million. In 2005, equity income was \$498.1 million and cash received was \$210.1 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 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. All the company’s derivative holdings are designated as hedges of specific underlying business activities, which creates the potential for matching gains and losses on derivatives with corresponding losses and gains on the underlying transactions. Given the company’s policy to use only derivatives that are closely related to the underlying transactions, the accounting alternative would be to voluntarily forgo the opportunity for income statement matching of gains and losses, 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 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, 2007 rate is being used for 2008 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 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 U.S. and foreign suppliers, dividends from equity investees 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 2007, 2006 and 2005, particularly cost pressures 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 nature of the underlying hedged item, the magnitude and volatility of the exposure, the cost and availability of appropriate hedging instruments, the anticipated time horizon, commodity basis exposure and potential opportunity cost. 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 the majority of its hedging structures through regression analysis used to measure both the retrospective and prospective relationships between the expected cash flows or fair value associated with the underlying hedged exposure and the fair value of the derivative hedging instrument. The fair value of derivatives used is the amount the company would pay or receive if terminating any contracts in the open market at a specified point in time. Where there is no basis risk and the anticipated time horizon makes regression analysis impractical, the company monitors effectiveness by measuring the cash offset between changes in the value of the underlying hedged exposure and changes in the fair value of the derivative.

Counterparty default risk is considered low because derivatives are either highly liquid exchange-traded instruments with frequent margin position requirements, 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 same collateral posting requirements and thresholds apply to Anheuser-Busch and its credit ratings if the fair value of its derivatives is unfavorable to the company. All collateral must be cash, U.S. Treasury securities or letters of credit. At December 31, 2007, 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. Collateral thresholds are based on 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

Following is a summary of potential unfavorable changes in the fair value of the company's derivative holdings under certain assumed market movements during the last two years (in millions).

	2007	2006
Foreign Currency Risk — Forwards and Options	\$ 0.6	\$ 0.7
Interest Rate Risk — Interest Rate Swaps	\$ 0.4	\$ 0.3
Commodity Price Risk — Futures, Swaps and Options	\$10.9	\$13.8

The potential earnings volatility from derivatives is measured using 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 2007 was \$164,000, with a computed one-day high of \$1.0 million and a one-day low of zero. The average daily change in fair value for foreign exchange derivatives in 2007 was \$100,000, with a computed one-day high of \$270,000 and a one-day low of \$10,000. 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, 2007, fixed-rate debt with an approximate average maturity of 15.1 years represented 88% of the company's outstanding debt. Assuming the percentage of floating-rate debt at year-end remains constant in 2008, 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 \$11 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, 2007, was \$8.7 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 2007 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); code 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 and through 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 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.