

ANHEUSER-BUSCH COMPANIES, INC.
Form 10-Q
October 26, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

- QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD
ENDED SEPTEMBER 30, 2007
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD
FROM TO

COMMISSION FILE NUMBER: 1-7823

ANHEUSER-BUSCH COMPANIES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(State of Incorporation)

43-1162835
(I.R.S. Employer Identification No.)

One Busch Place, St. Louis, Missouri 63118

(314) 577-2000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

\$1 Par Value Common Stock – 733,837,351 shares as of September 30, 2007.

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Anheuser-Busch Companies, Inc. and Subsidiaries
Consolidated Balance Sheet (Unaudited)

| <u>In millions, except per share</u> | Sept. 30, 2007 | Dec. 31, 2006 |
|--|-------------------|-------------------|
| Assets | | |
| Current Assets: | | |
| Cash | \$301.5 | \$219.2 |
| Accounts receivable | 1,048.8 | 720.2 |
| Inventories | 666.5 | 694.9 |
| Other current assets | 202.6 | 195.2 |
| Total current assets | 2,219.4 | 1,829.5 |
| Investments in affiliated companies | 3,817.5 | 3,680.3 |
| Plant and equipment, net | 8,773.1 | 8,916.1 |
| Intangible assets, including goodwill of \$1,112.5 and \$1,077.8 | 1,472.4 | 1,367.2 |
| Other assets | 639.3 | 584.1 |
| Total Assets | \$16,921.7 | \$16,377.2 |
| Liabilities and Shareholders Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$1,450.0 | \$1,426.3 |
| Accrued salaries, wages and benefits | 338.2 | 342.8 |
| Accrued taxes | 294.1 | 133.9 |
| Accrued interest | 117.8 | 124.2 |
| Other current liabilities | 240.5 | 218.9 |
| Total current liabilities | 2,440.6 | 2,246.1 |
| Retirement benefits | 1,165.8 | 1,191.5 |
| Debt | 8,344.2 | 7,653.5 |
| Deferred income taxes | 1,207.7 | 1,194.5 |
| Other long-term liabilities | 225.5 | 152.9 |
| Shareholders Equity: | | |
| Common stock, \$1.00 par value, authorized 1.6 billion shares | 1,480.1 | 1,473.7 |
| Capital in excess of par value | 3,205.9 | 2,962.5 |
| Retained earnings | 17,950.3 | 16,741.0 |
| Treasury stock, at cost | (17,942.4) | (16,007.7) |
| Accumulated non-owner changes in equity | (1,156.0) | (1,230.8) |
| Total Shareholders Equity | 3,537.9 | 3,938.7 |
| Commitments and contingencies | -- | -- |
| Total Liabilities and Shareholders Equity | \$16,921.7 | \$16,377.2 |

See the accompanying footnotes on pages 5 to 12.

Anheuser-Busch Companies, Inc. and Subsidiaries
Consolidated Statement of Income (Unaudited)

| <u>In millions, except per share</u> | Third Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|--------------------------------------|-----------|------------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Gross sales | \$5,237.4 | \$4,876.5 | \$14,769.2 | \$14,026.8 |
| Excise taxes | (619.7) | (595.8) | (1,777.7) | (1,734.5) |
| Net Sales | 4,617.7 | 4,280.7 | 12,991.5 | 12,292.3 |
| Cost of sales | (2,868.5) | (2,644.6) | (8,201.1) | (7,723.0) |
| Gross profit | 1,749.2 | 1,636.1 | 4,790.4 | 4,569.3 |
| Marketing, distribution and administrative expenses | (777.4) | (738.2) | (2,199.3) | (2,068.2) |
| Gain on sale of distribution rights | 26.5 | -- | 26.5 | -- |
| Operating income | 998.3 | 897.9 | 2,617.6 | 2,501.1 |
| Interest expense | (119.4) | (111.3) | (359.0) | (341.6) |
| Interest capitalized | 4.5 | 4.4 | 12.2 | 13.4 |
| Interest income | 0.7 | 0.6 | 2.7 | 1.4 |
| Other income/(expense), net | (12.6) | 0.9 | (8.9) | (2.2) |
| Income before income taxes | 871.5 | 792.5 | 2,264.6 | 2,172.1 |
| Provision for income taxes | (350.0) | (311.5) | (902.7) | (846.9) |
| Equity income, net of tax | 185.2 | 156.5 | 539.3 | 449.3 |
| Net income | \$706.7 | \$637.5 | \$1,901.2 | \$1,774.5 |
| Basic earnings per share | \$.96 | \$.83 | \$2.53 | \$2.30 |
| Diluted earnings per share | \$.95 | \$.82 | \$2.49 | \$2.28 |

See the accompanying footnotes on pages 5 to 12.

Anheuser-Busch Companies, Inc. and Subsidiaries
Consolidated Statement of Cash Flows (Unaudited)

| <u>In millions</u> | Nine Months Ended September 30, | |
|---|------------------------------------|-----------|
| | 2007 | 2006 |
| Cash flow from operating activities: | | |
| Net income | \$1,901.2 | \$1,774.5 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 748.3 | 740.3 |
| Decrease in deferred income taxes | (71.1) | (38.8) |
| Stock compensation expense | 46.4 | 52.1 |
| Undistributed earnings of affiliated companies | (126.0) | (202.2) |
| Gain on sale of business | (42.5) | -- |
| Other, net | 79.6 | (131.2) |
| Operating cash flow before the change in working capital | 2,535.9 | 2,194.7 |
| (Increase) / Decrease in working capital | (83.4) | 30.8 |
| Cash provided by operating activities | 2,452.5 | 2,225.5 |
| Cash flow from investing activities: | | |
| Capital expenditures | (564.8) | (486.5) |
| Acquisitions | (84.7) | (82.3) |
| Proceeds from sale of business | 41.6 | -- |
| Cash used for investing activities | (607.9) | (568.8) |
| Cash flow from financing activities: | | |
| Increase in debt | 906.4 | 317.3 |
| Decrease in debt | (257.8) | (902.8) |
| Dividends paid to shareholders | (691.8) | (645.0) |
| Acquisition of treasury stock | (1,934.9) | (580.2) |
| Shares issued under stock plans | 215.8 | 119.4 |
| Cash used for financing activities | (1,762.3) | (1,691.3) |
| Net increase / (decrease) in cash during the period | 82.3 | (34.6) |
| Cash, beginning of period | 219.2 | 225.8 |
| Cash, end of period | \$301.5 | \$191.2 |

See the accompanying footnotes on pages 5 to 12.

Anheuser-Busch Companies, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

1. Unaudited Financial Statements

The unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles and applicable SEC guidelines pertaining to quarterly financial reporting, and include all adjustments necessary for a fair presentation. These statements should be read in combination with the consolidated financial statements and notes included in the company's annual report on Form 10-K for the year ended December 31, 2006.

2. Business Segments Information

Following is comparative business segments information for the third quarter and nine months ended September 30 (in millions):

| Third Quarter | U.S. Beer | International Beer | Packaging | Entertainment | Corporate & Elims | Consolidated |
|----------------------------|-----------|--------------------|-----------|---------------|-------------------|--------------|
| 2007 | | | | | | |
| Gross Sales | \$3,810.0 | 373.7 | 698.6 | 479.5 | (124.4) | \$5,237.4 |
| Net Sales: | | | | | | |
| - Intersegment | \$0.8 | 0.1 | 256.9 | -- | (257.8) | \$-- |
| - External | \$3,258.1 | 305.0 | 441.7 | 479.5 | 133.4 | \$4,617.7 |
| Income Before Income Taxes | \$814.4 | 33.7 | 50.6 | 175.0 | (202.2) | \$871.5 |
| Equity Income | \$1.8 | 183.4 | -- | -- | -- | \$185.2 |
| Net Income | \$506.7 | 204.3 | 31.4 | 108.5 | (144.2) | \$706.7 |

| 2006 | | | | | | |
|----------------------------|-----------|-------|-------|-------|---------|-----------|
| Gross Sales | \$3,594.2 | 319.1 | 641.8 | 444.4 | (123.0) | \$4,876.5 |
| Net Sales: | | | | | | |
| - Intersegment | \$0.7 | -- | 240.4 | -- | (241.1) | \$-- |
| - External | \$3,054.9 | 262.0 | 401.4 | 444.4 | 118.0 | \$4,280.7 |
| Income Before Income Taxes | \$776.6 | 27.3 | 39.0 | 157.3 | (207.7) | \$792.5 |
| Equity Income | \$1.4 | 155.1 | -- | -- | -- | \$156.5 |
| Net Income | \$482.8 | 172.0 | 24.2 | 97.5 | (139.0) | \$637.5 |

| Nine Months | U.S. Beer | International Beer | Packaging | Entertainment | Corporate & Elims | Consolidated |
|--------------------|------------|--------------------|-----------|---------------|-------------------|--------------|
| 2007 | | | | | | |
| Gross Sales | \$11,022.6 | 1,002.5 | 2,048.0 | 1,065.1 | (369.0) | \$14,769.2 |
| Net Sales: | | | | | | |
| - Intersegment | \$2.5 | 0.6 | 738.6 | -- | (741.7) | \$-- |
| - External | \$9,425.6 | 818.7 | 1,309.4 | 1,065.1 | 372.7 | \$12,991.5 |
| Income Before | | | | | | |
| Income Taxes | \$2,372.3 | 79.9 | 150.1 | 270.4 | (608.1) | \$2,264.6 |
| Equity Income | \$3.4 | 535.9 | -- | -- | -- | \$539.3 |
| Net Income | \$1,474.2 | 585.4 | 93.1 | 167.6 | (419.1) | \$1,901.2 |
| 2006 | | | | | | |
| Gross Sales | \$10,480.4 | 916.1 | 1,985.9 | 984.5 | (340.1) | \$14,026.8 |
| Net Sales: | | | | | | |
| - Intersegment | \$2.2 | -- | 709.6 | -- | (711.8) | \$-- |
| - External | \$8,913.2 | 746.6 | 1,276.3 | 984.5 | 371.7 | \$12,292.3 |
| Income Before | | | | | | |
| Income Taxes | \$2,334.1 | 75.4 | 122.9 | 248.2 | (608.5) | \$2,172.1 |
| Equity Income | \$3.1 | 446.2 | -- | -- | -- | \$449.3 |
| Net Income | \$1,450.2 | 492.9 | 76.2 | 153.9 | (398.7) | \$1,774.5 |

In 2007, the company changed management reporting responsibility for certain administrative and technology support costs from Corporate to the U.S. beer segment. 2006 segment results have been updated to conform to this reporting convention.

3. Stock Compensation

Under the terms of the company's stock option plans, officers, certain other employees and non-employee directors may be granted options to purchase the company's common stock at a price equal to the New York Stock Exchange closing composite tape on the date the option is granted. Options generally vest over three years and have a maximum term of 10 years. At September 30, 2007, existing stock plans authorized issuance of 140 million shares of common stock. The company has the choice of issuing either new shares or from treasury stock when options are exercised under employee stock compensation plans. Under the plan for the board of directors, shares are issued from treasury stock.

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. Unrecognized stock compensation expense as of September 30, 2007 totaled \$72 million, which will be recognized over a weighted average period of approximately 1.5 years.

The following table provides additional information regarding options outstanding and options that were exercisable as of September 30, 2007 (options and in-the-money values in millions).

| Range of Exercise Prices | Options Outstanding | | | Pretax In-The-Money Value | Options Exercisable | | |
|--------------------------|---------------------|--------------------------|--------------------------|---------------------------|---------------------|--------------------------|---------------------------|
| | Number | Wtd. Avg. Remaining Life | Wtd. Avg. Exercise Price | | Number | Wtd. Avg. Exercise Price | Pretax In-The-Money Value |
| \$20 - \$29 | 3.2 | 1.0 years | \$29.06 | \$67.4 | 3.2 | \$29.06 | \$67.4 |
| \$30 - \$39 | 6.6 | 2.1 years | \$37.84 | 78.6 | 6.6 | \$37.84 | 78.6 |
| \$40 - \$49 | 56.1 | 5.7 years | \$46.50 | 209.7 | 40.3 | \$46.95 | 94.0 |
| \$50 - \$53 | 27.7 | 6.0 years | \$51.29 | -- | 24.1 | \$51.44 | -- |
| \$20 - \$53 | 93.6 | 5.3 years | \$46.71 | \$355.7 | 74.2 | \$46.82 | \$240.0 |

4. Derivatives

Anheuser-Busch accounts for its derivatives in accordance with FAS 133, "Accounting for Derivatives and Other Hedging Instruments," and therefore defers in accumulated non-owner changes in shareholders equity the portion of cash flow hedging gains and losses that equal the change in cost of the underlying hedged transactions. As the underlying hedged transactions occur, the associated deferred hedging gains and losses are reclassified into earnings to match the change in cost of the transaction. For fair value hedges, the changes in value for both the derivative and the underlying hedged exposure are recognized in earnings each quarter.

Following are pretax gains and losses from derivatives which were recognized in earnings during the third quarter and nine months (in millions). These gains and losses effectively offset changes in the cost or value of the company's hedged exposures.

| Third Quarter | | | | Nine Months | | | |
|---------------|--------|-------|--------|-------------|--------|-------|--------|
| 2007 | | 2006 | | 2007 | | 2006 | |
| Gains | Losses | Gains | Losses | Gains | Losses | Gains | Losses |
| \$4.9 | \$7.8 | \$5.4 | \$8.5 | \$11.4 | \$17.2 | \$5.9 | \$49.4 |

The company immediately recognizes in earnings any portion of derivative gains or losses that are not 100% effective at offsetting price changes in the underlying transactions. Anheuser-Busch recognized net pretax gains due to this hedge ineffectiveness of \$5.1 million for the third quarter of 2007 compared to net ineffective gains of \$0.5 million for the third quarter of 2006. For the nine months, the company recognized net ineffective gains of \$3.7 million in 2007 and losses of \$0.9 million in 2006.

5. Earnings Per Share

Earnings per share are calculated by dividing net income by weighted-average common shares outstanding for the period. The difference between basic and diluted weighted-average common shares is the dilutive impact of unexercised in-the-money stock options. There were no adjustments to net income for any period shown for purposes of calculating earnings per share. Weighted-average common shares outstanding for the third quarter and nine months ended September 30 are shown below (millions of shares):

| | Third Quarter | | Nine Months | |
|---------------------------------|---------------|-------|-------------|-------|
| | 2007 | 2006 | 2007 | 2006 |
| Basic weighted average shares | 738.6 | 769.0 | 752.3 | 771.6 |
| Diluted weighted average shares | 745.4 | 775.9 | 763.0 | 778.0 |

6. Non-Owner Changes in Shareholders Equity

The components of accumulated non-owner changes in shareholders equity, net of applicable taxes, as of September 30, 2007 and December 31, 2006 follow (in millions):

| | Sept. 30, 2007 | Dec. 31, 2006 |
|--|----------------|------------------|
| Foreign currency translation loss | \$(415.6) | \$(452.2) |
| Deferred hedging gains / (losses) | (5.5) | 2.1 |
| Deferred securities valuation gains | 0.6 | 1.3 |
| Deferred retirement benefits costs | (735.5) | (782.0) |
| Accumulated non-owner changes in shareholders equity | \$(1,156.0) | \$(1,230.8) |

Combined net income and non-owner changes in shareholders equity, net of applicable taxes, for the third quarter and nine months ended September 30 follows (in millions):

| | Third Quarter | | Nine Months | |
|--|---------------|---------|-------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Net income | \$706.7 | \$637.5 | \$1,901.2 | \$1,774.5 |
| Foreign currency translation gains / (losses) | (69.3) | 130.9 | 36.6 | (71.2) |
| Net change in deferred hedging gains / (losses) | (3.7) | -- | (7.6) | (3.4) |
| Net change in deferred securities valuation | (0.5) | (0.7) | (0.7) | 0.3 |
| Change in deferred retirement benefits costs | 15.5 | -- | 46.5 | -- |
| Combined net income and non-owner changes in shareholders equity | \$648.7 | \$767.7 | \$1,976.0 | \$1,700.2 |

In its 2006 annual report on Form 10-K, the company disclosed combined net income and non-owner changes in shareholders equity of \$1,648.2 million, which included the impact of recognizing certain deferred retirement benefits costs in accordance with FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." Excluding these costs, combined net income and non-owner changes in shareholders equity for the year ended December 31, 2006 would have been \$2,060.2 million. The company plans to report combined net income and non-owner changes in shareholders equity for 2006 excluding the impact of FAS 158 adoption when it publishes its 2007 annual report on Form 10-K.

7. Inventories

The company's inventories were comprised of the following as of September 30, 2007 and December 31, 2006 (in millions).

| | Sept. 30, 2007 | Dec. 31, 2006 |
|-------------------|----------------|------------------|
| Raw Materials | \$294.3 | \$385.6 |
| Work-in-Process | 109.3 | 110.8 |
| Finished Goods | 262.9 | 198.5 |
| Total Inventories | \$666.5 | \$694.9 |

8. Goodwill

Following is goodwill by business segment, as of September 30, 2007 and December 31, 2006 (in millions). Goodwill is included in either other assets or investment in affiliated companies, as appropriate, in the consolidated balance sheet. The change in goodwill during the nine months of 2007 is primarily due to fluctuations in foreign currency exchange rates.

| | Sept. 30, 2007 | Dec. 31, 2006 |
|--------------------|----------------|------------------|
| Domestic Beer | \$21.2 | \$21.2 |
| International Beer | 1,315.3 | 1,283.0 |
| Packaging | 21.9 | 21.9 |
| Entertainment | 288.3 | 288.3 |
| Total goodwill | \$1,646.7 | \$1,614.4 |

9. Pension and Postretirement Health Care Expense

The components of expense for pensions and postretirement health care benefits are shown below for the third quarter and nine months of 2007 and 2006 (in millions). In order to enhance the funded status of its defined benefit pension plans, the company made discretionary pension contributions of \$85 million and \$214 million in January 2007 and 2006, respectively. These contributions are in addition to the company's required pension funding for those years.

In the first quarter, the company recognized previously deferred actuarial losses resulting from the retirement of certain executive officers in the fourth quarter 2006, in accordance with FAS 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans." The company recognized the FAS 88 impact in the first quarter of 2007 because these individuals retired subsequent to the company's pension accounting measurement date of October 1, 2006.

| | Pensions | | | |
|---|---------------|--------|-------------|---------|
| | Third Quarter | | Nine Months | |
| | 2007 | 2006 | 2007 | 2006 |
| Service cost (benefits earned during the period) | \$23.2 | \$26.6 | \$73.3 | \$79.7 |
| Interest cost on benefit obligation | 44.6 | 42.6 | 133.9 | 127.6 |
| Assumed return on plan assets | (52.0) | (49.6) | (156.3) | (148.8) |
| Amortization of prior service cost and net actuarial losses | 21.6 | 28.4 | 64.3 | 85.4 |
| FAS 88 Settlement | -- | -- | 19.0 | -- |
| Expense for defined benefit plans | 37.4 | 48.0 | 134.2 | 143.9 |
| Cash contributed to multi-employer plans | 4.4 | 4.3 | 12.6 | 12.2 |
| Cash contributed to defined contribution plans | 5.6 | 4.9 | 15.9 | 14.6 |
| Total expense | \$47.4 | \$57.2 | \$162.7 | \$170.7 |

| | Postretirement Health Care | | | |
|---|----------------------------|--------|-------------|--------|
| | Third Quarter | | Nine Months | |
| | 2007 | 2006 | 2007 | 2006 |
| Service cost (benefits earned during the period) | \$6.7 | \$6.2 | \$20.1 | \$18.5 |
| Interest cost on benefit obligation | 11.3 | 8.6 | 33.9 | 26.0 |
| Amortization of prior service cost and net actuarial losses | 4.1 | 1.3 | 12.3 | 4.0 |
| Total expense | \$22.1 | \$16.1 | \$66.3 | \$48.5 |

10. Equity Investment in Grupo Modelo

Summary financial information for Anheuser-Busch's equity investee Grupo Modelo for the third quarter and nine months of 2007 and 2006 is presented below (in millions). The amounts shown represent 100% of 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 the company's purchase accounting adjustments.

| | Results of Operations | | | |
|---------------------------|-----------------------|-----------|-------------|-----------|
| | Third Quarter | | Nine Months | |
| | 2007 | 2006 | 2007 | 2006 |
| Gross sales | \$1,936.6 | \$1,391.2 | \$5,211.4 | \$4,097.7 |
| Net sales | \$1,818.9 | \$1,299.1 | \$4,894.9 | \$3,815.8 |
| Gross profit | \$962.7 | \$677.2 | \$2,626.1 | \$2,016.1 |
| Minority interest expense | \$83.8 | \$0.5 | \$194.2 | \$1.3 |
| Net income | \$340.5 | \$296.1 | \$1,033.3 | \$869.8 |

| | As of September 30 | |
|------------------------------|--------------------|-----------|
| | 2007 | 2006 |
| Cash / marketable securities | \$1,871.9 | \$1,880.5 |
| Other current assets | \$1,394.8 | \$1,005.8 |
| Non-current assets | \$4,904.7 | \$4,524.5 |
| Current liabilities | \$702.7 | \$484.8 |
| Non-current liabilities | \$335.1 | \$366.2 |

On October 1, 2007, Mexico enacted an additional supplemental flat tax structure to its existing income tax requirements. Under the new structure, taxpayers will owe the greater of either the flat tax or the income tax. Anheuser-Busch is currently evaluating the impact of this new law.

11. Uncertain Tax Positions

Effective January 1, 2007, Anheuser-Busch adopted FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes." On adoption, the company had \$96.8 million in gross unrecognized tax benefits, resulting in \$45.9 million of net uncertain tax benefit positions that would reduce the company's effective income tax rate if recognized. To comply with FIN 48, Anheuser-Busch reclassified \$102.6 million of tax liabilities from current to noncurrent on the balance sheet and also separately recognized \$53.1 million of deferred tax assets which had previously been netted against tax liabilities. The company made no adjustments to retained earnings related to adoption and there have been no material changes in the amount of unrecognized tax benefits since adoption. It is anticipated that settlements in foreign tax jurisdictions will reduce gross unrecognized tax benefits by approximately \$12 million within the next 12 months. Net unrecognized tax benefits are expected to remain unchanged due to the offset of U.S. foreign tax credits.

The company's policy is to accrue interest related to potential underpayment of income taxes within the provision for income taxes. The liability for accrued interest totaled \$7.8 million as of January 1, 2007. Interest is computed on the difference between the company's uncertain tax benefit positions under FIN 48 and the amount deducted or expected to be deducted in the company's tax returns.

The principal jurisdictions for which Anheuser-Busch files income tax returns are U.S. federal and the various city, state, and international locations where the company has operations. The company participates in the IRS Compliance Assurance Process program for the examination of U.S. federal income tax returns, and examinations are substantively complete through 2006. City and state examinations are substantially complete through 2001. The status of international tax examinations varies by jurisdiction. The company does not anticipate any material adjustments to its financial statements resulting from tax examinations currently in progress.

Management's Discussion and Analysis of Operations and Financial Condition

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity and cash flows of Anheuser-Busch Companies, Inc. for the third quarter and nine months ended September 30, 2007, compared to the third quarter and nine months ended September 30, 2006, and the year ended December 31, 2006. This discussion should be read in conjunction with the consolidated financial statements and notes included in the company's annual report to shareholders for the year ended December 31, 2006.

This discussion contains forward-looking statements regarding the company's expectations concerning its future operations, earnings and prospects. On the date the forward-looking statements are made, the statements represent the company's expectations, but the company's expectations concerning its future operations, earnings and prospects may change. The company's expectations involve risks and uncertainties (both favorable and unfavorable) and are based on many assumptions that the company believes to be reasonable, but such assumptions may ultimately prove to be inaccurate or incomplete, in whole or in part. Accordingly, there can be no assurances that the company's expectations and the forward-looking statements will be correct. Please refer to the company's most recent SEC Form 10-K for a description of risk factors that could cause actual results to differ (favorably or unfavorably) from the expectations stated in this discussion. Anheuser-Busch disclaims any obligation to update any of these forward-looking statements.

Results of Operations

Anheuser-Busch reported that third quarter 2007 net sales increased 7.9% and diluted earnings per share increased 15.9%. For the nine months of 2007, net sales increased 5.7% and diluted earnings per share increased 9.2%. The company is pleased with its earnings performance this quarter, with all operating segments reporting higher sales and profits. Sales volume and revenue growth in the company's U.S. beer business benefited from its broadened beer portfolio, with greater participation in the high end segment, and the wholesaler transition and supply issues encountered earlier this year regarding the InBev European brands have been resolved. Additionally, the earnings contribution from our international segment accelerated, led by Grupo Modelo. The company continues to expect the full-year 2007 earnings per share increase to exceed our long term growth target of 7% to 10%.

The third quarter of 2007 includes normalization items that impact the comparability of reported operating results versus prior year. The company recorded a \$26.5 million pretax gain (\$.02 per share) 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 its domestic distribution system and C-store closings. Excluding the impact of these normalization items, which the company believes allows a better comparison of underlying operating results, diluted earnings per share increased 15.9% for the third quarter. Additionally, results for the nine months of 2007 include the second quarter gain on the sale of

the company's remaining interest in its Spanish theme park, and year-to-date 2006 results include the one-time deferred income tax benefit from state income tax reform legislation in Texas. Excluding all normalization items for better comparison of underlying results, diluted earnings per share for the nine months increased 9.3% (see additional discussion and reconciliation on pages 17 through 20).

Beer Sales Results

Following is a summary and discussion of the company's beer volume and sales results for the third quarter and nine months of 2007 versus comparable 2006 periods.

| | Reported Beer Volume (millions of barrels) for Periods Ended September 30 | | | | | |
|-----------------------------|---|-------------|---------|-------------|-------------|---------|
| | Third Quarter | | | Nine Months | | |
| | 2007 | Versus 2006 | | 2007 | Versus 2006 | |
| | Barrels | % | | Barrels | % | |
| U.S. | 28.0 | Up 0.6 | Up 2.0% | 81.3 | Up 1.3 | Up 1.7% |
| International | 7.1 | Up 0.5 | Up 8.2% | 18.2 | Up 1.1 | Up 6.1% |
| Worldwide A-B Brands | 35.1 | Up 1.1 | Up 3.2% | 99.5 | Up 2.4 | Up 2.4% |
| Int'l Equity Partner Brands | 9.9 | Up 0.7 | Up 7.6% | 25.6 | Up 1.5 | Up 6.4% |
| Total Brands | 45.0 | Up 1.8 | Up 4.1% | 125.1 | Up 3.9 | Up 3.2% |

U.S. beer volume represents beer shipments to wholesalers in the United States. U.S. beer shipments-to-wholesalers increased 2% for the third quarter, while sales-to-retailers increased 2.2%. Import brands contributed 160 basis points of growth to shipments and 170 points to sales-to-retailers. For the nine months of 2007, shipments-to-wholesalers increased 1.7%, and sales-to-retailers increased 0.9% with acquired and import brands contributing 170 basis points of growth to both shipments and sales-to-retailers. Wholesaler inventories for Anheuser-Busch produced brands at the end of the third quarter were approximately half a day higher than at the end of the third quarter 2006. The company's estimated U.S. beer market share for the nine months of 2007 was 48.8% compared to prior year market share of 48.7%. 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 consisting of Anheuser-Busch brands produced overseas by company-owned breweries and under license and contract brewing agreements, plus exports from the company's U.S. breweries, increased 8.2% for the third quarter and 6.1% for the nine months of 2007, driven primarily by volume increases in China, Mexico and Canada in both periods, partially offset by lower volume in the United Kingdom for the nine months. Worldwide Anheuser-Busch brands volume is comprised of U.S. and international volume, and increased 3.2% for the third quarter and 2.4% year-to-date, to 35.1 million and 99.5 million barrels, respectively.

Equity partner brands volume, which represents the company's share of its foreign equity partners' volume reported on a one-month lag, increased 7.6% for the third quarter of 2007, to 9.9 million barrels, and increased 6.4% for the nine months to 25.6 million barrels, due to Modelo and Tsingtao volume growth in both periods. Total brands volume, which combines worldwide Anheuser-Busch brand volume with equity partner brands volume was 45.0 million barrels in the third quarter and 125.1 million barrels for the nine months, up 4.1% and 3.2%, respectively.

2007 Financial Results

Following is a summary and discussion of key operating results for the third quarter and nine months of 2007 versus comparable 2006 periods.

| \$ in millions, except per share | Third Quarter | | 2007 vs. 2006 | |
|----------------------------------|---------------|---------|---------------|----------|
| | 2007 | 2006 | \$ | % |
| Gross Sales | \$5,237 | \$4,877 | Up \$360 | Up 7.4% |
| Net Sales | \$4,618 | \$4,281 | Up \$337 | Up 7.9% |
| Income Before Income Taxes | \$872 | \$793 | Up \$79 | Up 10.0% |
| Equity Income | \$185 | \$157 | Up \$28 | Up 18.4% |
| Net Income | \$707 | \$638 | Up \$69 | Up 10.9% |
| Diluted Earnings per Share | \$.95 | \$.82 | Up \$.13 | Up 15.9% |

| \$ in millions, except per share | Nine Months | | 2007 vs. 2006 | |
|----------------------------------|-------------|----------|---------------|----------|
| | 2007 | 2006 | \$ | % |
| Gross Sales | \$14,769 | \$14,027 | Up \$742 | Up 5.3% |
| Net Sales | \$12,992 | \$12,292 | Up \$700 | Up 5.7% |
| Income Before Income Taxes | \$2,265 | \$2,172 | Up \$93 | Up 4.3% |
| Equity Income | \$539 | \$449 | Up \$90 | Up 20.0% |
| Net Income | \$1,901 | \$1,775 | Up \$126 | Up 7.1% |
| Diluted Earnings per Share | \$2.49 | \$2.28 | Up \$.21 | Up 9.2% |

Anheuser-Busch reported gross sales of \$5.2 billion during the third quarter 2007, an increase of \$360 million, or 7.4%. Gross sales increased 5.3%, or \$742 million, to \$14.8 billion for the nine months. Net sales were \$4.6 billion and \$13 billion, increases of \$337 million and \$700 million, respectively, or 7.9% for the quarter and 5.7% year-to-date. The differences between gross and net sales in 2007 are due to beer excise taxes of \$619 million and \$1.8 billion, respectively. The sales increases were driven by higher sales for all operating segments. For the third quarter and nine months, respectively, U.S. beer segment net sales increased 7%, or \$203 million, and 6%, or \$512 million on higher volume and

increased revenue per barrel; international beer net sales increased 16% and 10%, respectively, primarily due to volume gains in China, Mexico and Canada in both periods, partially offset by lower volume in the United Kingdom year-to-date; packaging operations net sales increased 10% and 3% for the third quarter and nine months, respectively, on higher aluminum can and recycling revenues; and entertainment segment sales increased 8% in both periods due to increased attendance, higher ticket pricing and higher in-park spending.

U.S. beer revenue per barrel was up 3.1% in the third quarter 2007 and grew 2.8% compared to the nine months of 2006, due to the successful implementation of price increases and discount reductions on over half the company's U.S. volume earlier in the year, higher promotional prices over the key summer holiday periods, and favorable brand mix. 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 total volume of beer shipped to U.S. wholesalers. Net pricing actions and favorable mix accounted for \$100 million and \$267 million, respectively, of the increases in U.S. beer net sales in the third quarter and nine months, while higher beer volume contributed \$69 million and \$162 million, respectively, and non-beer revenues added \$34 million and \$83 million, respectively, to the increases for the same periods. Consistent with its pattern for pricing actions in recent years, the company plans to implement increases on the majority of its volume early next year, with a few selective increases in the fourth quarter 2007. As in the past, pricing initiatives will be tailored to selected markets, brands and packages.

The cost of sales for the third quarter 2007 was \$2.9 billion, an increase of \$224 million, or 8.5%, and was up \$478 million, or 6%, to \$8.2 billion for the nine months. The increases in cost of sales are primarily attributable to increased costs associated with higher U.S. and international beer volume, higher costs for brewing and packaging materials and higher labor and operating costs for entertainment operations, partially offset by lower energy costs and lower can manufacturing operating costs. Costs associated with higher U.S. and international beer volumes were \$84 million and \$23 million, respectively, for the third quarter and \$215 million and \$42 million, respectively, for the nine months. Gross profit as a percentage of net sales was 37.9% for the third quarter and 36.9% year-to-date, down 30 basis points for both periods.

Marketing, distribution and administrative expenses were \$777 million for the third quarter and \$2.2 billion year-to-date, representing a \$39 million increase for the quarter and a \$131 million increase year-to-date. The changes versus prior year periods are due to higher U.S. beer marketing costs, including incremental marketing and selling expense for the company's new import beer portfolio, increased marketing costs for international beer and entertainment operations and higher delivery costs for company-owned beer wholesalerships, partially offset by lower administrative expenses in both periods. Administrative expenses

in 2007 include asset disposition gains in both the third quarter and nine months and a FAS 88 settlement charge year-to-date.

Operating income was \$998 million, an increase of \$100 million, or 11% for the third quarter 2007. For the nine months of 2007, operating income was \$2.6 billion, an increase of \$117 million, or 5%. Operating margins improved 60 basis points for the third quarter and declined 20 basis points for the nine months, to 21.6% and 20.1%, respectively. The increases in operating income are due to improved results for all business segments plus the one-time gain on the sale of distribution rights in California and lower administrative expenses. Excluding the \$26.5 million gain on the sale of distribution rights to better convey the company's results, operating margin was level in the third quarter and declined 40 basis points year-to-date, to 21.0% and 19.9%, respectively, as shown below.

| | Third Quarter | | | Nine Months | | |
|---------------------------|---------------|-------|----------|-------------|-------|----------|
| | 2007 | 2006 | Change | 2007 | 2006 | Change |
| Reported Operating Margin | 21.6% | 21.0% | 60 bps | 20.1% | 20.3% | (20) bps |
| Gain on Sale of Rights | (0.6)% | -- | (60) bps | (0.2)% | -- | (20) bps |
| Excluding Gain on Sale | 21.0% | 21.0% | 0 bps | 19.9% | 20.3% | (40) bps |

Interest expense less interest income was \$119 million for the third quarter and \$356 million for the nine months of 2007, increases versus respective 2006 periods of \$8 million and \$16 million. The increases are due to higher average outstanding debt partially offset by lower interest rates during the quarter and a combination of higher interest rates and higher average debt balances year-to-date. Interest income was greater in both 2007 periods versus 2006. Interest capitalized of \$4.5 million in the third quarter and \$12 million for the nine months was level for the quarter and down slightly year-to-date due to the timing of capital spending and project in-service dates.

Other income/(expense), net reflects the impact of numerous items not directly related to the company's operations. For the third quarter of 2007, the company had net other expense of \$13 million versus other income of \$1 million in 2006. The third quarter expense includes a charge associated with the early redemption of the company's 7.125% debentures due 2017. Year-to-date the company recognized net expense of \$9 million in 2007 compared to expense of \$2 million in 2006. Other expense for the nine months of 2007 includes the \$16 million gain from the second quarter sale of the company's remaining interest in its Spanish theme park investment. For business segment reporting purposes, the theme park disposition gain and the loss on debt redemption are reported as corporate items.

Income before income taxes for the third quarter 2007 was \$872 million, an increase of \$79 million, or 10%, due to improved results for all segments. Year-to-date, pretax income was \$2.3 billion, an increase of \$93 million or 4%, due to higher earnings from all business segments, the one-time gain on

the sale of distribution rights in southern California and lower administrative costs, partially offset by higher interest expense.

U.S. beer pretax profits improved \$38 million in both periods, or 4.9% in the third quarter and 1.6% for the nine months, on higher beer sales volume, increased pricing and the gain on the sale of distribution rights, partially offset by higher marketing and beer production costs. Excluding the gain on the sale of distribution rights to better illustrate underlying U.S. beer results, pretax profits would have increased 1.5% and 0.5% for the third quarter and nine months of 2007, respectively, as shown below.

| | Third Quarter | Nine Months |
|---|---------------|-------------|
| <u>2007</u> | | |
| Reported U.S. Beer Pretax Income | \$814.4 | \$2,372.3 |
| Gain on Sale of Distribution Rights | (26.5) | (26.5) |
| U.S. Beer Pretax Income Excluding Gain | \$787.9 | \$2,345.8 |
| <u>2006</u> | | |
| Reported | \$776.6 | \$2,334.1 |
| <u>Percentage Change -- 2007 vs. 2006</u> | | |
| Reported | 4.9% | 1.6% |
| Excluding Gain on Sale | 1.5% | 0.5% |

International beer pretax income increased \$6 million in the third quarter and \$5 million year-to-date. For the quarter, profit growth in Canada, Ireland and Mexico from volume increases was partially offset by lower results in China due to higher selling costs associated with the rollout of Budweiser and Harbin brands into new markets. Year-to-date, international beer pretax income is up on increased profits in China, Canada, Mexico and Ireland, partially offset by lower results in the United Kingdom driven by unfavorable industry fundamentals.

Packaging segment pretax profits were up \$12 million and \$27 million, respectively, primarily due to increased profits from can manufacturing and aluminum recycling on a combination of improved pricing and higher volume in the third quarter, with improved pricing partially offset by lower volume for the nine months. Label manufacturing earnings also improved year-to-date.

Entertainment segment pretax profits grew \$18 million and \$22 million, respectively, due to increased attendance, increased ticket pricing and higher in-park spending in both periods, partially offset by higher marketing and park operating costs.

Equity income of \$185 million for the third quarter and \$539 million year-to-date increased \$28 million and \$90 million, respectively, reflecting the benefit of improved Grupo Modelo earnings from higher volume and benefits associated with the new Crown import joint venture. Equity income for the nine months includes a \$29 million benefit from the return of advertising funds that were part of prior import contracts. This benefit was partially offset by a timing change in the recognition of Modelo's export sales to the U.S. Additionally, equity income for both the third quarter and nine months of 2007 includes a \$16 million

charge representing Anheuser-Busch's pro rata share of a charge recorded by Grupo Modelo for restructuring related to its domestic distribution system and C-store closings. Excluding the \$16 million from both periods, equity income was up 29%, or \$45 million for the quarter and 24%, or \$106 million year-to-date.

Anheuser-Busch's effective income tax rate was 40.2% for the third quarter 2007 and 39.9% for the nine months, representing increases of 90 basis points for both periods, primarily due to higher taxes on foreign earnings and the favorable impact of the Texas state income tax legislation in 2006, partially offset by a percentage step-up in the federal domestic manufacturing deduction rate in 2007.

Net income of \$707 million in the third quarter of 2007 represented an increase of \$69 million, or 11%. Net income grew 7%, to \$1.9 billion for the nine months of 2007. Diluted earnings per share were \$.95 and \$2.49, respectively, for the third quarter and nine months of 2007, representing increases of 15.9% and 9.2%, respectively. Diluted earnings per share for the nine months benefited from the repurchase of over 38 million shares under the company's share repurchase program.

The company believes excluding the normalization items previously discussed – the gain from the sale of the Spanish theme park investment, the beer distribution rights sale gain and the Grupo Modelo restructuring in 2007, plus the favorable income tax legislation benefit in 2006 – provides more meaningful comparisons between periods. As shown in the following table, pretax income, equity income, net income and diluted earnings per share excluding these normalization items increased 6.6%, 28.6%, 10.8% and 15.9%, respectively for the third quarter, while the effective income tax rate increased 90 basis points. For the nine months, income before income taxes increased 2.3%, while equity income, net income, diluted earnings per share and the effective income tax rate increased 23.6%, 7%, 9.3% and 60 basis points, respectively.

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| (\$ in millions, except per share) | Income Before Income Taxes | Provision for Income Taxes | Equity Income | Net Income | Diluted Earnings Per Share | Effective Tax Rate |
|------------------------------------|----------------------------|----------------------------|---------------|------------|----------------------------|--------------------|
|------------------------------------|----------------------------|----------------------------|---------------|------------|----------------------------|--------------------|

Third Quarter

2007

| | | | | | | |
|-------------------------------------|---------|-----------|---------|---------|--------|-------|
| Reported | \$871.5 | \$(350.0) | \$185.2 | \$706.7 | \$.95 | 40.2% |
| Gain on Sale of Distribution Rights | (26.5) | 10.2 | -- | (16.3) | (.02) | |

Rights

| | | | | | | |
|----------------------|----|----|------|------|-----|--|
| Modelo Restructuring | -- | -- | 16.0 | 16.0 | .02 | |
|----------------------|----|----|------|------|-----|--|

| | | | | | | |
|-------------------------------|---------|-----------|---------|---------|--------|-------|
| Excluding Normalization items | \$845.0 | \$(339.8) | \$201.2 | \$706.4 | \$.95 | 40.2% |
|-------------------------------|---------|-----------|---------|---------|--------|-------|

2006

| | | | | | | |
|----------|---------|-----------|---------|---------|--------|-------|
| Reported | \$792.5 | \$(311.5) | \$156.5 | \$637.5 | \$.82 | 39.3% |
|----------|---------|-----------|---------|---------|--------|-------|

Percentage Change – 2007 vs.

2006

| | | | | | | |
|----------|-------|--|-------|-------|-------|--------|
| Reported | 10.0% | | 18.4% | 10.9% | 15.9% | 90 pts |
|----------|-------|--|-------|-------|-------|--------|

| | | | | | | |
|-------------------------------|------|--|-------|-------|-------|--------|
| Excluding Normalization items | 6.6% | | 28.6% | 10.8% | 15.9% | 90 pts |
|-------------------------------|------|--|-------|-------|-------|--------|

Nine Months

2007

| | | | | | | |
|------------------------------------|-----------|-----------|---------|-----------|--------|-------|
| Reported | \$2,264.6 | \$(902.7) | \$539.3 | \$1,901.2 | \$2.49 | 39.9% |
| Gain on Sale of Spanish Theme Park | (16.0) | 6.1 | -- | (9.9) | (.01) | |

Theme Park

| | | | | | | |
|-------------------------------------|--------|------|----|--------|-------|--|
| Gain on Sale of Distribution Rights | (26.5) | 10.2 | -- | (16.3) | (.02) | |
|-------------------------------------|--------|------|----|--------|-------|--|

Rights

| | | | | | | |
|----------------------|----|----|------|------|-----|--|
| Modelo Restructuring | -- | -- | 16.0 | 16.0 | .02 | |
|----------------------|----|----|------|------|-----|--|

| | | | | | | |
|-------------------------------|-----------|-----------|---------|-----------|--------|-------|
| Excluding Normalization items | \$2,222.1 | \$(886.4) | \$555.3 | \$1,891.0 | \$2.48 | 39.9% |
|-------------------------------|-----------|-----------|---------|-----------|--------|-------|

2006

| | | | | | | |
|----------|-----------|-----------|---------|-----------|--------|-------|
| Reported | \$2,172.1 | \$(846.9) | \$449.3 | \$1,774.5 | \$2.28 | 39.0% |
|----------|-----------|-----------|---------|-----------|--------|-------|

Texas Income Tax Legislation Benefit

| | | | | | | |
|--|----|-------|----|-------|-------|--|
| | -- | (7.8) | -- | (7.8) | (.01) | |
|--|----|-------|----|-------|-------|--|

| | | | | | | |
|-------------------------|-----------|-----------|---------|-----------|--------|-------|
| Excluding One-Time Item | \$2,172.1 | \$(854.7) | \$449.3 | \$1,766.7 | \$2.27 | 39.3% |
|-------------------------|-----------|-----------|---------|-----------|--------|-------|

Percentage Change – 2007 vs.

2006

| | | | | | | |
|----------|------|--|-------|------|------|--------|
| Reported | 4.3% | | 20.0% | 7.1% | 9.2% | 90 pts |
|----------|------|--|-------|------|------|--------|

| | | | | | | |
|-------------------------------|------|--|-------|------|------|--------|
| Excluding Normalization items | 2.3% | | 23.6% | 7.0% | 9.3% | 60 pts |
|-------------------------------|------|--|-------|------|------|--------|

Liquidity and Financial Condition

The primary source of the company's cash flow is generated by operations. Principal uses of cash are capital expenditures, share repurchase, dividends and business investments. Cash generated by the company's business segments is projected to exceed funding requirements for each segment's anticipated capital spending. The net issuance of debt provides an additional source of cash as necessary for share repurchasing, dividends and business investments. The nature, extent and timing of debt financing vary depending on the company's evaluation of existing market conditions and other factors.

Cash at September 30, 2007 was \$302 million, an increase of \$82 million from the December 31, 2006 balance. The company generated operating cash flow before the change in working capital of \$2.5 billion for the nine months of 2007, an increase of \$341 million compared to 2006 due primarily to increased earnings, higher Grupo Modelo dividends and a lower discretionary defined benefit pension contribution in 2007, \$85 million versus \$214 million in 2006. See the consolidated statement of cash flows for additional information on the company's sources and uses of cash.

The company's debt balance increased \$691 million for the nine months of 2007 compared to a decrease of \$580 million in 2006. The changes in debt for the nine months of 2007 and 2006 are summarized below (in millions).

| Description | Amount | Interest Rate (Fixed Unless Noted) |
|----------------------------|---------|---------------------------------------|
| <u>Nine Months of 2007</u> | | |
| Increases: | | |
| U.S. Dollar Debentures | \$500.0 | 6.45% |
| U.S. Dollar Notes | 317.3 | \$300.0 at 5.6% and \$17.3 at 5.54% |
| Commercial Paper | 74.7 | 5.34% wtd. avg., floating |
| Industrial Revenue Bonds | 14.6 | Various |
| Other, net | 42.0 | Various |
| Total increases | \$948.6 | |
| Decreases: | | |
| U.S. Dollar Debentures | \$250.0 | 7.125% |
| Other, net | 7.9 | Various |
| Total decreases | \$257.9 | |
| Net Increase in Debt | \$690.7 | |
| <u>Nine Months of 2006</u> | | |
| Increases: | | |
| U.S. Dollar Debentures | \$300.0 | 5.75% |
| Industrial Revenue Bonds | 17.7 | Various |
| Other, net | 7.3 | Various |
| Total increases | \$325.0 | |
| Decreases: | | |
| Commercial Paper | \$698.7 | 4.77% wtd. avg., floating |
| U.S. Dollar EuroNotes | 100.0 | 4.51% |
| U.S. Dollar Notes | 52.0 | \$50.0 at 5.6%; \$2.0 at 5.35% |
| Other, net | 53.8 | Various |
| Total decreases | \$904.5 | |
| Net Decrease in Debt | \$579.5 | |

The company commercial paper obligation was \$733 million at September 30, 2007. This debt is classified as long-term since commercial paper is maintained on a long-term basis with on-going support provided by the company's \$2 billion revolving credit agreement. The interest rates for commercial paper at September 30, 2007 and 2006 were 5.04% and 5.45%, respectively.

There have been only normal and recurring changes in the company's cash commitments since December 31, 2006.

Capital expenditures during the third quarter 2007 were \$219 million, compared to \$168 million for the third quarter 2006. Capital expenditures totaled \$565 million and \$487 million, respectively, for the nine months of 2007 and 2006. Full year 2007 capital expenditures are expected to be approximately \$900 million.

At its October 2007 meeting, the Board of Directors declared a regular quarterly dividend of \$.33 per share on outstanding shares of the company's common stock, payable December 10, 2007, to shareholders of record November 9, 2007.

Item 3. Disclosures About Market Risks

The company's derivatives holdings fluctuate during the year based on normal and recurring changes in purchasing and production activity. Since December 31, 2006, there have been no significant changes in the company's interest rate, foreign currency or commodity exposures. There have been no changes in the types of derivative instruments used to hedge the company's exposures.

Item 4. Controls and Procedures

It is the responsibility of the chief executive officer and chief financial officer to ensure the company maintains disclosure controls and procedures designed to provide reasonable assurance that material information, both financial and non-financial, and other information required under the securities laws to be disclosed is identified and communicated to senior management on a timely basis. The company's disclosure controls and procedures include mandatory communication of material subsidiary events, automated accounting processing and reporting, management review of monthly and quarterly results, periodic subsidiary business reviews, an established system of internal controls and rotating internal control reviews by the company's internal auditors.

The chief executive officer and chief financial officer evaluated the company's disclosure controls and procedures as of the end of the quarter ended September 30, 2007 and have concluded that they are effective as of September 30, 2007 in providing reasonable assurance that such information is identified and communicated on a timely basis. Additionally, there were no changes in the company's internal control over financial reporting during the quarter that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

PART II – OTHER INFORMATION**Item 1. Legal Proceedings**

For a description of certain litigation to which the company is a party, reference the company's Form 10-K for the year ended December 31, 2006 and the company's Form 10-Q for the quarter ended June 30, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Following are the company's monthly common stock purchases during the third quarter 2007 (in millions, except per share). All shares are repurchased under Board of Directors authorization. The Board's most recent authorization to repurchase 100 million shares occurred in December 2006. There is no prescribed termination date for this program. The numbers of shares shown include shares delivered to the company to exercise stock options.

| | Shares | Avg. Price |
|--|--------|---------------|
| Repurchases Remaining Authorized Under Disclosed Programs at June 30, 2007 | 92.4 | |
| <u>Share Repurchases</u> | | |
| July | 8.6 | \$51.06 |
| August | 7.1 | \$48.28 |
| September | 0.4 | \$49.56 |
| Total | 16.1 | |
| Repurchases Remaining Authorized Under Disclosed Programs at Sep. 30, 2007 | 76.3 | |

Item 6. Exhibits

| <u>Exhibit</u> | <u>Description</u> |
|----------------|--|
| 10.21 | Summary of Compensation Arrangements with Non-Employee Directors of the Company |
| 12 | Ratio of Earnings to Fixed Charges |
| 31.1 | Certification of Chief Executive Officer required by Rule 13a-14(a) or 15d-14(a) under the Exchange Act |
| 31.2 | Certification of Chief Financial Officer required by Rule 13a-14(a) or 15d-14(a) under the Exchange Act |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ANHEUSER-BUSCH
COMPANIES, INC.
(Registrant)

/s/ W. Randolph
Baker
W. Randolph Baker
Vice President and
Chief Financial
Officer
(Chief Financial
Officer)
October 26, 2007

/s/ John F. Kelly
John F. Kelly
Vice President and
Controller
(Chief Accounting
Officer)
October 26, 2007