

One sip, one snack, one meal...
one delicious moment at a time.



Kraft Foods Inc.
2005 Annual Report

While Kraft is the world's second-largest food and beverage company, we know that what matters most are the individual moments each of our consumers shares with our brands. That's why **consumers are the focus of everything we do.** Whether they are connecting over coffee with friends, or enjoying a family meal or treat at the end of the day, we win when we make those moments a bit tastier, easier or better-for-them. Hundreds of millions of times a day, around the world, we're helping people eat and live better.





Snacks

Crunchy, sweet, savory, satisfying. Whatever the flavor, consumers hunger for great-tasting snacks that are delicious, convenient and increasingly more nutritious. In the snacks sector, Kraft's key brands include *Milka*, *Planters*, *Oreo*, *Ritz*, *Chips Ahoy!*, *Trakinas*, *Wheat Thins* and *Côte d'Or*.



Beverages

Around the world, Kraft offers an array of beverage choices to quench every thirst – from refreshment to nutrition to relaxation. In the beverages sector, our key brands include *Carte Noire*, *Gevalia*, *Jacobs*, *Maxwell House*, *Capri Sun*, *Kool-Aid*, *Tang* and *Clight*.



Cheese & Dairy

At breakfast, dinner and every eating occasion in between, cheese and dairy products are an important and delicious part of consumers' diets around the world. In the cheese & dairy sector, Kraft's key brands include *Kraft*, *Philadelphia*, *Velveeta*, *Cracker Barrel*, *Breakstone's* and *Dairylea*.



Grocery

Whether it's a salad dressing, breakfast cereal, dessert or condiment, Kraft has the grocery brands that feature prominently in consumers' shopping baskets. In the grocery sector, our key brands include *Post*, *Jell-O*, *Miracle Whip*, *Kraft*, *Cool Whip* and *A.1.*



Convenient Meals

Great tasting, quick, convenient, a good value. These are the qualities that consumers are looking for in meal products and Kraft delivers in a big way. In the convenient meals sector, our key brands include *Oscar Mayer*, *DiGiorno*, *Lunchables*, *Kraft*, *Tombstone* and *Simmenthal*.



Key Financial Metrics*

2005 Highlights

Reported Net Revenues
in Billions

\$9.5

Revenues as Percent
of Contribution



27.9%

Revenue Change
vs. Prior Year



+5.9%

- Today's consumers are faced with an explosion of snack choices across a number of categories, beyond just cookies and crackers. We're extending our powerful snack brands into adjacent categories and winning with consumers through innovative new global product platforms like cracker chips, including *Ritz* Chips and *Wheat Thins* Chips. The chips platform achieved 2005 net revenue of more than \$90 million.
- Kraft is tapping into people's growing health and wellness concerns by improving the nutritional profile of our snacks portfolio. We've reduced or eliminated trans fat in hundreds of products; introduced whole-grain versions of snacks, including 100% Whole Grain Fig *Newtons* cookies and 100% Whole Grain *Wheat Thins* crackers; and driven our successful *Nabisco* 100 Calorie Packs platform to new heights, achieving 2005 net revenue of more than \$100 million.

Reported Net Revenues
in Billions

\$7.2

Revenues as Percent
of Contribution



21.0%

Revenue Change
vs. Prior Year



+10.2%

- In the specialty refreshment category, consumers are seeking convenience, portability, great taste and better nutrition. With growing consumer demand for better-for-you beverage options, the global *Crystal Light/Clight* brand saw net revenue rise more than 12% in 2005. In the U.S., *Crystal Light* is the #1 non-carbonated diet beverage.
- Mothers across the world share a common desire to serve their children a great-tasting beverage with nutritional benefits. Thanks to Kraft's proprietary powdered beverage fortification technology, *Tang* is meeting their needs in 80 countries. The brand achieved 10% net revenue growth worldwide in 2005.

Reported Net Revenues
in Billions

\$6.5

Revenues as Percent
of Contribution



19.1%

Revenue Change
vs. Prior Year



+4.9%

- Consumers love the fact that *Philadelphia* cream cheese offers both a heavenly taste and the goodness of dairy. And the winning combination of Kraft's global strength and local expertise has made the brand a category leader worldwide. Global *Philadelphia* net revenue was up 7% in 2005. The "spreading" success of *Philadelphia* can also be attributed to a global advertising campaign that has delivered business-building results in local markets around the world.
- Consumers increasingly want innovative snack alternatives and Kraft has responded with a cheese and dairy snacks portfolio that provides dairy nutrition, great taste and portability. Successful additions to our dairy snacks line-up included *Kraft Cheesy Pops* in Australia, *Philadelphia Splendips* in the U.K., and the U.S. launch of *Kraft To Go!* cheese and cracker combinations. Our cheese snacks businesses in Australia, the U.K. and the U.S. grew net revenue 15%, 9% and 7% respectively in 2005.

Reported Net Revenues
in Billions

\$5.5

Revenues as Percent
of Contribution



16.1%

Revenue Change
vs. Prior Year



+3.4%

- Consumers are seeking a balance – they want to control their calories, but still want to enjoy their food and have a great-tasting dessert. Products like *Jell-O Sugar Free Ready-to-Eat* pudding snacks help them do just that. *Jell-O Refrigerated Ready-to-Eat* puddings net revenues are up 42% over 2004.
- Whole grains are rapidly gaining in popularity, but consumers want great taste to go along with their nutritional benefits. The whole-grain goodness of a number of our products, including *Post Selects*, *Post Shredded Wheat* and *Post Honey Bunches of Oats* cereals, meets this consumer need, helping to drive solid net revenue growth of 7% in our U.S. ready-to-eat cereal business in 2005.

Reported Net Revenues
in Billions

\$5.4

Revenues as Percent
of Contribution



15.9%

Revenue Change
vs. Prior Year



+5.1%

- As life for parents gets more hectic, they're seeking ever-greater convenience. At the same time, they want to give their children meal options they feel good about. Kraft is committed to developing products that are better for children while still keeping all the taste and fun kids love. It starts with our six *Lunchables* lunch combinations that qualify as a *Sensible Solution*, like *Chicken Dunks*, made with all-white-meat chicken. And we're continuing to improve the nutrition profile of *Lunchables* in the U.S. and the U.K. *Lunchables* remain the clear leader of the U.S. and U.K. lunch combinations categories with a market share of 88% in the U.S. and 83% in the U.K.
- Kraft is grabbing a bigger slice of the U.S. frozen pizza market with a pipeline of innovations designed to both delight consumers and address their emerging needs. For example, our thin crust pizza platform, which we leverage across our *DiGiorno*, *California Pizza Kitchen* and *Tombstone* brands, achieved more than \$175 million net revenue in 2005. The frozen pizza category's growth potential makes it one of Kraft's core regional businesses in North America.

\$34.1

Total Net Revenues
in Billions

100%

+6%

Revenue Change
vs. Prior Year

* The company's 2005 results include an extra shipping week versus 2004. The company estimates that this week positively impacts volume, net revenues and operating income growth rates by approximately 2 pp.

Dear Shareholder,



Louis C. Camilleri
Chairman

2005 proved to be a difficult and disappointing year. Our performance lagged our expectations. The surge in commodity costs, coupled with our deliberate pricing actions to sustain the vitality of the categories in which we compete and our shares thereof, eroded our profit margins. Your Board of Directors and management are acutely aware of our shortcomings in terms of our financial performance. While there was strategic progress in some key areas that are highlighted in Roger's accompanying letter, we all recognize that our actions must deliver consistent and predictable revenue and income growth year after year.

Management and the entire Kraft organization are intensely focused on securing such growth and addressing our strategic challenges. We recognize that this has taken more time than we had originally anticipated due to the economic and competitive adversity that has and continues to prevail. I am, nevertheless, confident that the steps we are taking and the strategies that are being pursued will prove to be successful and that a solid foundation has been laid for growth based on innovation and executional excellence.

Our performance ultimately rests on the immense talent of Kraft's employees and the strength of our brands. We are blessed with both and together they will unleash the vast potential of this wonderful company and reward you with enhanced shareholder value.

A handwritten signature in black ink, appearing to read "Louis C. Camilleri". The signature is stylized and cursive.

Louis C. Camilleri
Chairman
March 3, 2006

Fellow Shareholder,

Focusing on Consumers; Guiding Kraft to Sustainable Growth

2005 was a challenging year for Kraft Foods. However, we made significant progress against our Sustainable Growth Plan, which will ensure enduring momentum for our company over the long term. We improved our Brand Value propositions, aggressively took costs out of the business and better leveraged our global scale. Through these actions and others, we are gaining momentum toward creating a stronger, simpler, more innovative Kraft – one that moves quickly to deliver both the products our consumers want and the growth you rightly expect. Our overall financial performance in 2005 lagged the progress we’re making in fixing our business, but by the time you’re finished reading this letter, I hope you’ll share my conviction that we’re doing what’s needed to generate stronger growth in 2006 and beyond.

I’ll review in more detail below the key elements of our 2005 performance. But first, I want to say a few words about the individuals I believe are the most significant driver of our ability to deliver shareholder value for Kraft and who, for that reason, are the focal point of this report: our consumers.

Putting Consumers First

For more than 100 years, our success has depended upon our ability to create a special relationship between consumers and our portfolio of trusted brands. This relationship is reinforced whenever a consumer buys a Kraft product, which happens hundreds of millions of times a day, all around the world. We built our company by finding new and innovative ways to delight our consumers – to anticipate and fulfill their unmet needs. And offering them the most attractive Brand Value

propositions that we can remains the surest way for us to create value for each of you.

That’s why every day when we make decisions, we always try to think about our consumers first. Will the decision make it easier for consumers to find our products? Will it make our products more attractive to them, by offering the right bundle of benefits at the right price? Will it add to their enjoyment of our products? We’re convinced that focusing relentlessly on the consumer impact of our decisions is the single most important thing we can do to ensure future success for all our stakeholders, including our employees, our retail customers and you, our shareholders.

And that’s why “Put Consumers First” is the first, and most important, of Kraft’s three guiding principles (*Put Consumers First, Work Simply; Act Quickly and Play to Win*). These principles, together with the seven strategies that make up our Sustainable Growth Plan, ensure that we stay focused on what really matters.

Throughout this report, you will see these guiding principles at work – in both what we do and how we do it. In the pages that follow this letter, your Kraft Executive Team will share with you just a few of the many examples where we put consumers first, simplified our business and played to win in 2005. To help bring these examples to life, we’ve also included some representative comments drawn from the millions of consumer contacts we receive each year. We hope that these quotes give you a sense of how consumers around the world express their feelings for how we are meeting their needs – one sip, one snack, one meal...one delicious moment at a time.



Roger K. Deromedi
Chief Executive Officer

Disappointing Financial Performance in 2005, But Making Progress in Fixing our Business

In 2005, like many of you, we were dissatisfied with our overall financial performance. While full-year diluted earnings per share rose 11% to \$1.72, this gain was largely attributable to lower restructuring costs than in 2004, an extra shipping week and tax favorabilities. Our earnings were negatively impacted by \$800 million in higher commodity costs, coupled with our strategic decision not to increase pricing on certain brands in order to maintain competitiveness. Full-year ongoing volume was essentially flat versus 2004 excluding divestitures due to our focus on revenue and mix improvement, our product item or SKU reduction program and the impacts of pricing and competition – particularly in Europe – where store brands generally either lagged or didn't follow our commodity-cost-driven price increases.

However, we did grow ongoing constant currency revenues by approximately 3%, adjusting for comparable numbers of shipping weeks, consistent with our Sustainable Growth Plan's goal for this critical metric. We achieved our target of approximately \$260 million in savings from the restructuring program announced in 2004, while incurring lower-than-expected charges. We continued to make progress in focusing our portfolio on core businesses by completing a number of divestitures, including our global sugar confectionery business and the bulk of our Canadian grocery business. And we returned approximately \$2.6 billion in cash to you through our dividend – which we increased by 12.2% to \$0.92 and through full-year share repurchases of \$1.2 billion. But, most important in my view, we made good progress in fixing our business in some critical ways that will enable us to achieve more attractive results – in both our top and bottom lines – in 2006 and beyond.

Highlights of those improvements include:

Brand Value Improvements. To win with consumers we must continuously improve our Brand Value propositions. Whether we do this by creating world-class marketing like the "Our House" campaign for *Maxwell House*; by introducing innovative growth platforms, like our *Tassimo* hot beverage system; by enhancing existing brands with technological innovations, like our rising crust pizza dough for *DiGiorno* pizza; or by pursuing important trends that cut across our sectors, such as consumers' increasing

focus on whole grains, we're spending as much of our time as possible on finding exciting new ways to provide consumers with the right bundle of benefits at the right price. During 2005, our efforts were rewarded in the U.S. by a market share gain across our top 25 earnings categories, despite a number of pricing actions. In fact, in the fourth quarter, we achieved our highest quarterly share increase in these critical categories in more than three years. 2006 will see even more focus on building Brand Value.

New Product Successes. Our "fewer, bigger, better" approach to innovation led to a record \$1.5 billion in revenues from new products in 2005 – up more than 50% over 2003. Importantly, these new products have higher revenue and profit per pound, which is improving the "mix" (or profitability) of what we sell. Additionally, new products such as the *South Beach Diet* line are proving to be incremental, rather than simply replacing sales of our existing products. And, we expect this to continue with more new products in 2006, including expansion of the *South Beach Diet* line into additional categories like breakfast wraps, and the introduction of our *Ritz* chips platform across developing markets.

Health & Wellness. Sales of products that qualify for our *Sensible Solution* nutritional criteria grew quickly, and accounted for around 30% of our U.S. retail food revenues (excluding coffee, tea and pet snacks) for the nine months ending September 2005. In 2006, we will continue to increase the number of our offerings which qualify to carry the *Sensible Solution* flag.

Simplification. We've eliminated more than 20% of our product items during the past two years (and plan to eliminate another 10% in 2006), allowing us to focus more attention on our faster-selling items. We streamlined our North American commercial unit by flattening the organization, by integrating our Canadian operation and by broadening spans of control overall. We also reorganized management in the European Union around core categories to more effectively run our business in this competitive environment. And, in 2006, we expect to reduce the amount of time we spend on our planning processes by half so we can spend more time growing our business.

Growth in Developing Markets. Our increased focus on developing markets created solid revenue growth of approximately 8% (on a comparable 52-week basis) this past year. In 2006, we expect improved distribution and an expanded portfolio of offerings,

including new fortified *Tang* beverages in Latin America, to help us continue to grow in these critical markets. Moreover, these high-growth countries still represent only 12% of our revenues, so there's plenty more room for us to grow in the years ahead.

Cost reductions. Strong execution this past year against our initial restructuring program enabled us to increase our estimate for ongoing annual savings from \$400 million to \$450 million. Equally important, the actions we've taken put us in a position to lower our cost base even more aggressively going forward. Our expanded restructuring program, announced in January of 2006, will provide additional ongoing pre-tax savings of approximately \$700 million a year – funds that we can invest in our brands and that will help improve our total shareholder return.

As illustrated by these examples, although there's clearly more to be done, we made a lot of progress in 2005. We know we must now translate our improving business fundamentals into stronger growth and better financial performance in 2006 and I believe we are up to the challenge.

Improving Outlook for 2006 and Beyond

In order to deliver stronger growth this year and beyond, we will prioritize three things above all else:

1. Put Consumers First in order to maximize our Brand Value propositions and new product innovations. We expect new product revenues in 2006 to remain around 2005 levels. To help us maintain this pace, much of our focus will continue to be on driving and expanding our global growth platforms – for example, expanding our whole grain choices, increasing our offerings of *Crystal Light* and *Kool-Aid* on-the-go beverage sticks and launching new *Oreo* wafer sticks.

2. Work Simply; Act Quickly to increase our affordability and flexibility. 2006 will see continued emphasis on simplifying and speeding up what we do and how we do it. From the implementation of clearer decision-making models with specific accountabilities, to global work teams that more efficiently share learnings regarding global product launches, to more streamlined approval processes, we will continue to improve our ability to increase both the pace and effectiveness of everything we do.

3. Play to Win by continuing the transformation of both our portfolio and our organization. In 2006 we'll be continuing to look for ways to focus our portfolio on categories where we have sustainable competitive advantage and to hold ourselves accountable for world-class execution of all of our initiatives.

With the help of these actions and everything else we're doing as part of our Sustainable Growth Plan, we believe that our momentum will build as 2006 progresses, that our market shares will continue to improve and that we'll continue to better position ourselves to deliver on our long-term targets.

More specifically, we expect to continue to grow our ongoing, constant currency revenues in 2006 by 3% or greater (on a comparable 52-week basis), driven by new products, positive mix and developing market growth. We expect to achieve diluted earnings per share of \$1.38-\$1.43, including approximately \$0.50 in restructuring and impairment costs. And, we expect to generate \$2.7 billion in discretionary cash flow, which is operating cash less capital expenditures.

As you'll see when you turn to the rest of this report, by delighting consumers every day, we can both win in the marketplace and improve our results. The Kraft Executive Team and our employees around the world are aligned with what needs to be done and energized to tackle the challenges we face to drive growth. I'm proud of each and every Kraft employee who, by working together in our new global organization, made our progress in 2005 possible. One of the things I've learned during my career is that when you work with great people, the challenges are more manageable and the successes more satisfying. I thank our employees for their unwavering commitment to embracing change, and thank each of you, our investors, for your continued support.



Roger K. Deromedi
Chief Executive Officer
March 3, 2006

Whatever the mood,
we have the **snacks** consumers want.



Recent Innovation Examples



Wheat Thins Chips cracker chips (U.S.)



Planters NUT-rition Go-Nuts packs (U.S.)



Côte d'Or Truffé Orange chocolate tablet (France)



Club Social red berries flavored crackers (Brazil)

David Johnson
 President
 Kraft North America Commercial



Franz-Josef Vogelsang
 Executive Vice President
 Global Supply Chain

Karen May
 Executive Vice President
 Global Human Resources



Creating Great-Tasting Options that Deliver Whole Grains. U.S. public health

officials are urging consumers to increase their consumption of whole grains – and Kraft’s North American team is helping them do just that. Our health and wellness initiatives enable us to offer consumers new products that provide the improved nutrition they increasingly expect, while maintaining the great taste, fun and convenience they demand. **100% Whole Grain Chips Ahoy!** cookies are just one example of an iconic Kraft brand that continues to delight consumers by keeping pace with their ever-changing needs. This and other whole grain variations of our most popular snacks are proving to be good for consumers and good for Kraft – helping them eat and live better, and helping us grow our business in North America.

“I love these Chips Ahoy! cookies because they are whole grain and taste great!”

– Anne S., Illinois

“These cookies are at least as good as the original. I can’t believe they’ve got whole grains in them.”

– Sue D., Maryland



Leveraging Our Scale to Deliver Innovative New Products, Quickly.

People around the world love both cookies and chocolate confections, and consumer research told us they’d love them even more together. So, we recently launched **Oreo ChocoStix**, an exciting new product that combines the crispness of our world-famous Oreo cookies with the richness of our world-class chocolate bars and tablets. Thanks to our new global organization, we were able to draw on the expertise of Kraft marketing and product development groups in the U.S. and Europe. We then combined this consumer understanding with our manufacturing expertise from facilities in Lithuania, Bulgaria and Mexico to bring a product to the U.S. market quickly and efficiently. *Oreo ChocoStix* is another example of our global scale, combined with the tremendous talents of our employees, delivering a winning consumer proposition.

“Cookie crunch with the smoothness of milk chocolate. What could be better? Oreo ChocoStix are an inspired combination!”

– Sandy Y., Pennsylvania



Nabisco 100 Calorie Packs Ritz Snack Mix baked snacks (U.S.)



Milka chocolate-covered crunchy biscuit (France)



Pacific Wholegrain Digestive biscuits (China)



Ritz Chips cracker chips (China)

Around the world,
people love our **beverages.**



Recent Innovation Examples



Maxwell House Maxiccino coffee sticks with Côte d'Or chocolate (France)



Jacobs Cappuccino coffee sticks with Milka chocolate (Romania)



Kenico Sustainable Development coffee (U.K.)



Kool-Aid Singles soft drink mix (U.S.)

James Dollive
Executive Vice President
& Chief Financial Officer

Linda Hefner
Executive Vice President
Global Strategy
& Business Development



John Baxter
Executive Vice President
Global Category Development



Strategic Acquisitions Adding Value for Both Consumers and Kraft. *Fruit2O* is a great example of how Kraft makes financially disciplined acquisitions that enhance shareholder value while helping us ensure that our portfolio evolves with consumers' changing needs. Drinking water is a healthy choice, but not everyone likes plain water. **Fruit2O fruit-flavored waters** are a wonderful option for people who want the benefits of water, but with the great taste of a refreshing fruit drink. Kraft's scale enabled us to transform this regional brand into a national product line. We've added several great new flavors, including Natural Apple, Strawberry and Watermelon Kiwi – flavors that have quickly become favorites with *Fruit2O* consumers. We were confident that investing in this brand would help our consumers eat and live better.

"I have used *Fruit2O* since it came out. Without a doubt it is the best thirst quencher on the market."

– Robert K., Nebraska

"This is very good for my family. They won't drink plain water."

– Marie B., New Jersey



Delivering Variety and Coffee-House Quality...with Simplicity.

Innovation has always been one of the cornerstones of Kraft's success. In anticipation of emerging marketplace trends, we wanted to create the best-in-class solution to consumer demand for high-quality hot beverages at home, at the push of a button. By combining local brands consumers know and love with proprietary technologies unique to the industry, our global *Tassimo* team is transforming the way consumers think about hot beverages at home. Whether making your kids a cup of hot chocolate; grabbing your morning espresso, cappuccino or latte made with real milk before heading off to work; or enjoying a mid-afternoon cup of coffee without having to make an entire pot, **Tassimo hot beverage system** makes it easy to have coffee-house quality hot beverages at home, whenever you want.

«Tassimo est un véritable petit bijou dans ma cuisine!!! Aucune autre machine ne donne le même résultat.» (Tassimo is truly a small jewel in my kitchen!!! No other machine gives the same result.)

– Cécile B., Villeneuve D'Acq, France



Jacobs IcePresso ready-to-drink espresso coffee (Russia)



Tang Milk Mixers powdered beverage (China)



Crystal Light Sunrise soft drink mix (U.S.)



Capri Sun Roarin' Waters flavored water (U.S.)

Every day we delight families with **cheese & dairy.**



Recent Innovation Examples



Kraft To Go! Cheddar with Ritz snack combinations (U.S.)



Dairylea Tri-Bites cheese portions (U.K.)



Philadelphia Splendips cream cheese dipping snacks (U.K.)



Kraft Natural Cheese Crumbles (U.S.)

Hugh Roberts
 President
 Kraft International Commercial



Jean Spence
 Executive Vice President
 Global Technology & Quality



Growing Our Business in Developing Markets by Tailoring Products to Local Needs.

Families in Russia need affordable protein sources for their children. We knew that cheese would be a great option – if we could find a way to improve its shelf life and make it affordable to the average Russian family. To address this challenge, an international team worked to develop dairy products specifically formulated to meet the unique needs and circumstances of consumers in this important developing market. The result of their efforts was the 2005 launch of **Kraft processed cheese spread** in Russia. So far, consumer response indicates we’ve succeeded, both in meeting their needs and growing our international business.

«Только когда в России появился в продаже сыр **Крафт**, я нашла для себя и для моей семьи идеальное сочетание отменного качества и прекрасного вкуса». (*Kraft cheese is the first cheese in Russia I trust to consistently combine the quality I want for my family with a taste they love.*)

– Maria V., Moscow, Russia



Philadelphia Swirls cream cheese spread (U.S.)



Kraft Singles Less Fat, Extra Calcium, processed cheese slices (Mexico)



El Caserío Mini Caseríos cheese portions (Spain)



Kraft Light Cheestik cheese (Australia)



Creating a Win-Win Solution.

Consumers are increasingly looking for products that provide the bone health benefits of calcium while at the same time not adding unwanted fat or calories to their daily diets. Our unique technologies and innovative utilization of Vitamin D enabled Kraft to create processed cheese slices that taste great, have less fat and deliver double the calcium of our traditional slices. **Kraft Deli Deluxe 2% Milk Slices** are one of many products that qualify for our *Sensible Solution* flag – new, better-for-you choices of Kraft brands that people have loved for decades.

“Deli Deluxe 2% slices are great for giving me the extra calcium and vitamins I want but without the calories I don’t need.”

– Heather C., Pennsylvania

“This product is great. I like the flavor and the added benefits.”

– Edie S., Alaska

Our **grocery** brands offer great taste for every occasion.



Recent Innovation Examples



A.1. seafood marinades (U.S.)



Jell-O Sugar Free Ready-to-Eat pudding snacks (U.S.)



Kraft yogurt salad dressing with fine herbs (Germany)



Post Honeycomb cereal (U.S.)

David Brearton
 Senior Vice President
 Business Process Simplification & Corporate Controller



Alene Korby
 Executive Vice President
 & Chief Information Officer



Consumer Driven Simplification.

Packaging is just one way we take account of consumer demand to help us drive our process simplification initiatives around the world. Brazilian consumers expressed a desire for a simple pouch package that wasn't complicated by an external box that needs to be opened separately. Kraft teams were able to respond quickly by using existing production lines and pouch designs from other countries to bring the new **Royal 5-minute instant pudding** package to market. The effort resulted in a true win-win: reduced complexity, fewer SKUs and ongoing cost reductions for Kraft and, even more important, a new packaging solution that consumers in one of our key markets have enthusiastically embraced.



Connecting with Consumers One-on-One.

Intimate insights about consumer needs are at the heart of achieving consumer satisfaction. That's why Kraft's marketing and information technology teams work together to get up-close and personal with consumers around the world. Our two-way conversations create opportunities for ongoing dialogue that generates insights into consumer needs, desires and preferences. **Good Seasons Premium Dressings** was born out of listening, understanding and responding to Kraft consumers. In this case, our scanning capabilities helped us spot growing consumer interest in Asian-style salads in restaurants. With this insight and support from our food service group, we developed a dressing that perfectly captures the Asian flavor consumers want for home use.

"Sempre compro produtos Kraft, principalmente os Pudins Royal. Agora com a nova embalagem, as sobremesas ficaram muito mais fáceis de fazer e também muito mais bonitas." (I always buy Kraft products, mostly Royal pudding. The new packaging looks much nicer and desserts are easier to make.)

– Roberta L., Bragança Paulista, Brazil

"Your new Good Seasons Asian Sesame with Ginger dressing is terrific. I use it on everything – salads, sandwiches, chicken..."

– Lena L., Connecticut

"I have to tell you that Good Seasons Asian Sesame with Ginger is wonderful."

– Cindy J., Wisconsin



Kraft Light Italian salad dressing (U.K.)



Jell-O Dessert Cup Kits (U.S.)



Jell-O Sugar Free, Fat Free instant pudding (U.S.)



Cool Whip Sugar Free whipped topping (U.S.)

Consumers count on
our **convenient meals.**



Recent Innovation Examples



DiGiorno Harvest Wheat Rising Crust pizza (U.S.)



Mirácoli Tagliatelle Tomato & Mozzarella dinner (Germany)



South Beach Diet frozen entrees (U.S.)



DiGiorno Microwave Thin Crispy Crust pizza (U.S.)

Paula Sneed
 Executive Vice President
 Global Marketing Resources & Initiatives



Marc Firestone
 Executive Vice President
 General Counsel & Corporate Secretary



Reinventing an American Favorite by Aligning with Societal Expectations.

Millions of times a day, parents delight their kids by reaching for that familiar blue box of Kraft Macaroni & Cheese. And last year, Kraft responded to parents' concerns by implementing a new worldwide policy that limits our advertising to children ages 6-11 on TV, radio, print and the Internet to products that qualify for our *Sensible Solution* nutritional criteria. New **Kraft Supermac & Cheese** is just one of the terrific new products that have been developed in line with this policy – it meets the criteria by adding whole grains to the pasta, and delivers lower fat, sodium and calories than classic blue box. Kids love the taste and parents love that we now only advertise our *Supermac* version of this iconic brand to younger children.



Making Smart Nutrition Easy and Delicious.

Busy lives and hectic schedules often make eating right difficult. To better understand the changing nutritional requirements of a balanced, healthy diet, Kraft developed an innovative licensing and consulting agreement with Dr. Arthur Agatston – creator of the famous *South Beach Diet*. We combined our scale and world-class product quality with Dr. Agatston's unique nutritional expertise and the tremendous brand equity of the *South Beach Diet* name. This enabled us to provide American consumers with a range of products that are tasty, filling and easy to prepare, while delivering the right carbs, the right fat and lean sources of protein – at home or on the go. It's clear that we're on to something special, as 2005 revenues from our **South Beach Diet** line topped \$170 million.

"I love the whole grain in this Kraft Supermac & Cheese. It tastes better than the regular and is cheesier."

– Ronnie B., Ohio

"This is so awesome! My kids love the shape and flavor."

– Kim W., Idaho

"Thank you! Thank you! Thank you! South Beach lunch wraps are the best thing to come along since fruit. I'm so glad someone finally came up with a simple, fast, grab-and-go, affordable, healthy lunch option!"

– Laverne G., Virginia

"I bought the turkey and ham wrap last week and I liked it so much I had to tell you how wonderful it is."

– Vera H., Texas



Oscar Mayer Shaved Deli Fresh Meats (U.S.)



California Pizza Kitchen Crispy Thin Crust pizza (U.S.)



Easy Mac Cups macaroni & cheese dinner (U.S.)



Oscar Mayer Lunchables Chicken Shake-Ups lunch combinations (U.S.)

2005 Financial Highlights Consolidated Results

<i>(in millions, except per share data)</i>	2005	2004	% Change*
Volume (in pounds)	19,212	19,002	1.1%
Net revenues	\$ 34,113	\$ 32,168	6.0%
Operating income	4,752	4,612	3.0%
Earnings from continuing operations	2,904	2,669	8.8%
Net earnings	2,632	2,665	(1.2%)
Diluted earnings per share:			
Continuing operations	1.72	1.55	11.0%
Net earnings	1.55	1.55	—

Results by Business Segment

North America

U.S. Beverages

Net revenues	\$ 2,852	\$ 2,555	11.6%
Operating companies income**	458	479	(4.4%)

U.S. Cheese, Canada &

North America Foodservice

Net revenues	7,774	7,420	4.8%
Operating companies income**	1,018	989	2.9%

U.S. Convenient Meals

Net revenues	4,497	4,250	5.8%
Operating companies income**	741	771	(3.9%)

U.S. Grocery

Net revenues	2,421	2,425	(0.2%)
Operating companies income**	743	894	(16.9%)

U.S. Snacks & Cereals

Net revenues	5,749	5,410	6.3%
Operating companies income**	871	737	18.2%

Total North America

Net revenues	\$ 23,293	\$ 22,060	5.6%
Operating companies income**	3,831	3,870	(1.0%)

International

Europe, Middle East & Africa

Net revenues	\$ 7,999	\$ 7,522	6.3%
Operating companies income**	798	683	16.8%

Latin America & Asia Pacific

Net revenues	2,821	2,586	9.1%
Operating companies income**	324	250	29.6%

Total International

Net revenues	\$ 10,820	\$ 10,108	7.0%
Operating companies income**	1,122	933	20.3%

* The company's 2005 results include an extra shipping week versus 2004. The company estimates that this week positively impacts volume, net revenues and operating income growth rates by approximately 2 pp.

** Kraft's management reviews operating companies income, which is defined as operating income before general corporate expenses and amortization of intangibles, to evaluate segment performance and allocate resources. For a reconciliation of operating companies income to operating income, see Note 14. Segment Reporting.



Kraft Foods Inc. Board of Directors

Jan Bennink ^{2,3}
President and
Chief Executive Officer
Royal Numico N.V.
The Netherlands

Louis C. Camilleri
Chairman of the Board
Kraft Foods Inc., and
Chairman and Chief Executive Officer
Altria Group, Inc.
New York, NY

Roger K. Deromedi
Chief Executive Officer
Kraft Foods Inc.
Northfield, IL

Dinyar S. Devitre
Senior Vice President and
Chief Financial Officer
Altria Group, Inc.
New York, NY

W. James Farrell ^{2,3}
Chairman
Illinois Tool Works Inc.
Glenview, IL

Richard A. Lerner, M.D. ^{1,3}
President
The Scripps Research Institute
La Jolla, CA

John C. Pope ^{1,2}
Chairman
PFI Group, LLC
Lake Forest, IL

Chairman
Waste Management, LLC
Houston, TX

Mary L. Schapiro ^{1,3}
Vice Chairman
NASD, Inc.
President
Regulatory Policy and Oversight
Washington, DC

Charles R. Wall
Senior Vice President and
General Counsel
Altria Group, Inc.
New York, NY

Deborah C. Wright ^{1,2}
Chairman and Chief Executive Officer
Carver Bancorp, Inc.
New York, NY

Committees
1 Member of Audit Committee
John C. Pope, Chair
2 Member of Compensation Committee
W. James Farrell, Chair
3 Member of Nominating and Governance Committee
Mary L. Schapiro, Chair

Corporate and Shareholder Information

Kraft Foods Inc.
Three Lakes Drive
Northfield, IL 60093-2753
www.kraft.com

Shareholder Services

Transfer Agent and Registrar
Computershare Trust Company, N.A., our shareholder services and transfer agent, will be happy to answer questions about your accounts, certificates or dividends.

U.S. and Canadian shareholders may call:
1-866-655-7238

From outside the U.S. or Canada, shareholders may call: 1-781-575-3500

Postal address:
Computershare Trust Company, N.A.
P.O. Box 43069
Providence, RI 02940-3069

E-mail address:
kraft@computershare.com

To eliminate duplicate mailings, please contact Computershare (if you are a registered shareholder) or your broker (if you hold your stock through a brokerage firm).

Shareholder Publications

Kraft Foods Inc. makes a variety of publications and reports available to its shareholders. These include the Annual Report, proxy statement, news releases and other publications. For copies, please visit our web site at: www.kraft.com.

Legal Filings

Kraft Foods Inc. also makes a variety of legal filings (10-K, 10-Q) available to its shareholders free of charge and as soon as practicable. For copies, please visit our web site at www.kraft.com and click on SEC filings in the Investors section.

If you do not have Internet access, you may contact Computershare at 1-866-655-7238 to request these materials.

Stock Exchange Listing

Kraft Foods Inc. is listed on the New York Stock Exchange (ticker symbol KFT).

KFT
LISTED
NYSE

2006 Annual Meeting

The Annual Meeting of Shareholders will be held at 9:00 a.m. EDT on Tuesday, April 25, 2006, at Kraft Foods Inc., Robert M. Schaeberle Technology Center, 188 River Road, East Hanover, NJ 07936. For further information, call toll-free: 1-800-295-1255.

Independent Auditors

PricewaterhouseCoopers LLP
One North Wacker Drive
Chicago, IL 60606-2807

Trademarks

Trademarks and service marks in this report are the registered property of or licensed by the subsidiaries of Kraft Foods Inc. and are italicized or shown in their logo form. *South Beach Diet* is a trademark owned by SBD Trademark Limited Partnership SBD Trademarks, Inc.

Internet Access Helps Reduce Costs

As a convenience to shareholders and an important cost-reduction measure, you can register to receive future shareholder materials (i.e., Annual Report and proxy statement) via the Internet. Shareholders also can vote their proxy via the Internet. For complete instructions, visit www.kraft.com.

The brands the world loves.

Select International Brands

Snacks

Alpen Gold
belVita
Bis
Chips Ahoy!
Club Social
Côte d'Or
Daim
Estrella
Freia
Karuna
Lacta
Lux
Marabou
Maarud
Milka
Mirabell
Nabisco
Oreo
Pacific

Prince Polo & Siesta
Ritz
Sonho De Valsa
Suchard
Terry's
Toblerone
Trakinas

Beverages

Blendy
Carte Noire
Clight
Dadak
Fresh
Frisco
Gevalia
Grand'Mère
Jacobs
Jacques Vabre
HAG
Kenco
Kool-Aid
Maxim
Maxwell House

Beverages (continued)

Onko
Q-Refres-Ko
Saimaza
Splendid
Tang
Tassimo
Verao

Cheese & Dairy

Cheez Whiz
Dairylea
Eden
El Caserio
Philadelphia
Kraft
Sottilette

Grocery

Dream Whip
Kraft
Miracel Whip
Post
Royal
Vegemite

Convenient Meals

Kraft
Lunchables
Miracoli
Simmenthal



The brands the world loves.

Select North American Brands

Snacks

Back to Nature
Balance
Barnum's
Better Cheddars
Cheese Nips
Chips Ahoy!
Dad's
Harvest Crisps
Honey Maid
Lorna Doone
Mallomars
Nabisco
Newtons
Nilla
Nutter Butter
Oreo
Peek Freans
Planters
Premium
Ritz
SnackWell's
Teddy Grahams
Triscuit
Wheat Thins

Beverages

Capri Sun
Country Time
Crystal Light
Fruit₂O
General Foods International
Kool-Aid
Maxwell House
Nabob
Sanka
Seattle's Best Coffee
Starbucks
Tang
Tazo
Veryfine
Yuban

Cheese & Dairy

Athenos
Breakstone's
Cheez Whiz
Churny
Cracker Barrel
Deli Deluxe
Knudsen
Kraft
Light n' Lively
Philadelphia
Polly-O
Velveeta

Grocery

A.1.
Baker's
Back to Nature
Bull's-Eye
Calumet
Claussen
Cool Whip
Cream of Wheat
Dream Whip
Good Seasons
Grey Poupon
Jell-O
Kraft
Milk-Bone
Miracle Whip
Oven Fry
Post
Seven Seas
Shake 'n Bake
South Beach Diet

Convenient Meals

Boca
California Pizza Kitchen
Delissio
DiGiorno
Jack's
Louis Rich
Lunchables
Kraft
Minute
Oscar Mayer
Tombstone
South Beach Diet
Stove Top

Helping people around the world eat and live better.



THE PAPERS, PAPER MILLS AND THE PRINTERS FOR THIS PUBLICATION ARE ALL CERTIFIED BY THE RAINFOREST ALLIANCE'S SMARTWOOD PROGRAM FOR MEETING THE STRICT STANDARDS OF THE FOREST STEWARDSHIP COUNCIL (FSC), WHICH PROMOTES ENVIRONMENTALLY APPROPRIATE, SOCIALLY BENEFICIAL, AND ECONOMICALLY VIABLE MANAGEMENT OF THE WORLD'S FORESTS.

