



**Helping People
Around the World
Eat and Live
Better.**

2004 Financial Highlights Consolidated Results

<i>(in millions, except per share data)</i>	2004	2003*	% Change
Net revenues	\$ 32,168	\$ 30,498	5.5%
Operating income	4,612	5,860	(21.3%)
Earnings from continuing operations	2,669	3,379	(21.0%)
Net earnings	2,665	3,476	(23.3%)
Diluted earnings per share:			
Continuing operations	1.55	1.95	(20.5%)
Net earnings	1.55	2.01	(22.9%)

Results by Business Segment

North America

U.S. Beverages

Net revenues	\$ 2,555	\$ 2,433	5.0%
Operating companies income**	479	630	(24.0%)

U.S. Cheese, Canada &

North America Foodservice

Net revenues	7,420	6,716	10.5%
Operating companies income**	989	1,271	(22.2%)

U.S. Convenient Meals

Net revenues	4,250	4,058	4.7%
Operating companies income**	771	817	(5.6%)

U.S. Grocery

Net revenues	2,425	2,388	1.5%
Operating companies income**	894	894	—

U.S. Snacks & Cereals

Net revenues	5,410	5,342	1.3%
Operating companies income**	737	1,046	(29.5%)

Total North America

Net revenues	\$ 22,060	\$ 20,937	5.4%
Operating companies income**	3,870	4,658	(16.9%)

International

Europe, Middle East & Africa

Net revenues	\$ 7,522	\$ 7,014	7.2%
Operating companies income**	683	1,002	(31.8%)

Latin America & Asia Pacific

Net revenues	2,586	2,547	1.5%
Operating companies income**	250	391	(36.1%)

Total International

Net revenues	\$ 10,108	\$ 9,561	5.7%
Operating companies income**	933	1,393	(33.0%)

*Results for 2003 have been restated to reflect Kraft's sugar confectionery business as discontinued operations. In addition, net revenues and operating companies income for 2003 have been restated to reflect Kraft's new segment structure, see Note 1. *Background and Basis of Presentation*.

**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*.

Dear Shareholder,

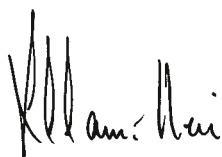
Years from now, we will look back to 2004 as the year in which Kraft entered a new era in its long and successful history. Indeed, last year your company embarked on an ambitious and all-encompassing plan to achieve long-term sustainable and predictable growth in all key performance measures. Management took decisive and timely actions necessary to turn Kraft into a more focused, nimble, innovative and cost-effective competitor in the global food and beverage industry. Undeniably, this has come at a meaningful short-term cost, but I am confident that the actions taken will be amply rewarded going forward. In fact, as the year unfolded, we witnessed top-line momentum – a strategic imperative – and we enter 2005 with more confidence and in better all-around form than we have for some time.

I am confident that Kraft Foods has adopted the appropriate strategies and certainly has the resolve to successfully surmount the inevitable challenges, both old and new, that will affect its operating environment.

Our ambitions and strategies are highlighted articulately in Roger's accompanying letter. I do wish to stress, however, that ultimately our success will rest on our ability to unleash the vast potential of our two greatest assets – our people and our brands. We are determined to do just that, and you rightfully would expect nothing less from us.

I am particularly pleased that we added two incredibly talented individuals to your Board of Directors who will undoubtedly bring a wealth of experience and wisdom to the service of Kraft Foods. They are Jan Bennink, CEO and Chairman of the Executive Board of Royal Numico N.V., and Richard Lerner, M.D., President of The Scripps Research Institute.

We look forward to continued progress in 2005 as the entire Kraft team devotes itself to delighting both our consumers and you, our shareholders.

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

Louis C. Camilleri
Chairman
March 3, 2005

Creating Sustainable Growth

FELLOW SHAREHOLDER,

I'M PLEASED TO REPORT THAT, FOR THE PEOPLE OF KRAFT FOODS, 2004 WAS a year in which we set a strong foundation for our future growth. We created a new organization to capitalize on both our global and local strengths, and put in place a long-term Sustainable Growth Plan. While there is more work to do, we made good progress in creating a stronger, more dynamic Kraft for our consumers, customers, employees and shareholders.

In this report, we chronicle our progress through the achievements of just a few of the many Kraft people who are bringing our Sustainable Growth Plan to life. During a year of many internal and external changes, our employees remained passionate about what matters most – providing consumers with innovative, high-quality products at the right price; working with retail customers to drive mutual success; ensuring that we're focusing on the right businesses; eliminating unnecessary costs; and operating with unquestionable integrity in all that we do.

Throughout 2004, we began to see a clear payoff from these efforts. We generated good top-line growth for the year, with net revenues increasing 5.5% to \$32 billion. Full-year diluted earnings per share were \$1.55, down 22.9%, reflecting restructuring program and impairment charges (\$0.32 per share), significantly higher marketing investments in our brands, and higher commodity costs. We generated \$3 billion in discretionary cash flow (net cash provided from operating activities less capital expenditures), which was equal to 2003, despite lower earnings, cash spending on the restructuring program and higher pension plan contributions as we aggressively managed our working capital. And we increased our dividend to shareholders by 13.9%, to \$0.82 per share on an annualized basis. With an improving share price through the latter part of the year, our total shareholder return in 2004 was 13.2%.

Importantly, during the year, we posted sequential, quarter-over-quarter improvement in top-line growth, with particularly strong momentum in our North American business. We also took significant steps to transform our global portfolio, including key innovations and important acquisitions and divestitures. One particular highlight was our agreement to sell our sugar confectionery business for an excellent price, with the completion of the proposed sale expected in the second quarter of 2005. Lastly, we made good progress in 2004 on our cost reduction efforts, with our restructuring program delivering first-year targeted savings at a lower-than-expected cost, and our ongoing productivity initiatives remaining strong.

Inspired by our company's vision of helping people around the world eat and live better, our Sustainable Growth Plan is the road map that directs us – with focus, speed and renewed energy. Here's just a snapshot of the progress we've made on each of the Plan's seven strategies.

1. Build Superior Consumer Brand Value
We strengthened the value of our brands by significantly increasing marketing spending, and our sequential revenue and market share trends indicate that this investment is working.

In particular, we're pleased with the momentum in our North American business, which delivered quarterly, sequential ongoing constant currency revenue growth of 1.4%, 3.5%, 5.5% and 8.1%, respectively. We also provided consumers with

new product benefits, from great taste and convenience to better nutrition, including:

- *DiGiorno* Thin Crispy Crust pizza, with the great taste of carryout or delivery pizza, and *DiGiorno* Microwave *Rising Crust* pizza, with oven-baked taste after five minutes in the microwave.
- *Honey Maid* Oatmeal cookies, made with whole-grain oats.
- Tazo teas, now available in grocery channels nationwide as a result of our expanded agreement with Starbucks Corporation.
- A new, lower-sodium *Planters NUT-rition* line of nuts.
- *Crystal Light Sunrise* powdered beverages, with 100% of the Daily Value of Vitamin C and 10% of calcium in only five calories per serving.
- *Milka M-joy* chocolate tablets in Germany, Austria and other European markets, offering the great taste of *Milka* in an on-the-go chocolate bar.
- *Kraft* and *Cracker Barrel* natural cheese sticks, providing the wholesomeness of cheese in an individually wrapped, single-serve snack.
- *Lunchables* Chicken Dunks, a good source of protein and 110% of the Daily Value of Vitamin C, with only 290 calories and 1 gram of saturated fat.

We're not only focused on developing new products, but also on improving existing products. Since the middle of 2003, we've enhanced the nutrition on nearly 500 product varieties. We've also made significant progress on our commitment to reduce or eliminate trans fat across our product portfolio, with more progress expected in 2005.

2. Build Shopper Demand Through Superior Customer Collaboration

In early 2005, we added a seventh strategy to our Sustainable Growth Plan that focuses on building mutual success with our retail and away-from-home partners around the world.

Dramatic shifts are taking root in the food retail environment – from the growing types of outlets where food is being sold to the need to attract consumers who are increasingly value conscious but are also willing to pay more for true innovations. We are working collaboratively with our customers to develop marketing initiatives that exceed their consumers' expectations. For example, we're combining the power of Kraft's broad

consumer insights with customer-specific shopper information to customize programs and enhance the shopping experience year-round. And by better integrating our store delivery systems, we're making it easier and more efficient for our customers to do business with Kraft.

3. Transform the Portfolio

We are accelerating the shift in our portfolio toward growth categories and geographies where we can leverage both sustainable competitive advantage and scale.

As we drive for clear leadership in our four global core categories – Cheese & Dairy, Biscuits, Coffee and Specialty Refreshment Beverages – we're also building and maintaining geographic leadership in attractive regional core categories. No matter what the category, the goal remains the same: to focus on opportunities that create long-term value for Kraft.

In all our businesses, we're continuing to transform our product offerings to delight consumers today and anticipate their needs for tomorrow. Today, we're putting particular emphasis on the important trends of health and wellness, and convenience.

To respond to growing interests in healthy lifestyles, we launched a variety of new products and initiatives. For example, we introduced *Nabisco* 100 Calorie Packs – portion-controlled, single-serve snacks that are on track to be a \$75 million business annually. We also launched *Clight* Fibras powdered beverages in Brazil, responding to consumers' interest in adding fiber to their diets. Additionally, we have partnered with *South Beach Diet* creator Dr. Arthur Agatston to flag existing Kraft products that deliver lean protein, complex carbohydrates and healthier fats, and we're launching a new line of *South Beach Diet* products in 2005. We also invested in our newly acquired businesses, for example, by broadening the *Back to Nature* line of natural and organic products.

In the convenience arena, we saw success with innovative new offerings, among them, *Tassimo*, our new, proprietary, hot beverage system. Following the successful launch of *Tassimo* in France in 2004, we are expanding into more countries in 2005.

Acquisitions and divestitures continue to play an important part in our efforts to transform our portfolio. In 2004, we acquired the Veryfine business with its *Fruit₂O* flavored water brand, and reached agreements to divest our sugar confectionery, yogurt and U.K. desserts businesses.

4. Expand Global Scale

We're working to improve our growth prospects in key developing markets that we believe offer us the greatest growth potential.

In particular, we're focusing our marketing and infrastructure investments in large, growing markets, such as China, Brazil, Mexico and Russia. In Russia, revenues grew double digits in the fourth quarter, benefiting from positive mix and higher prices, particularly in coffee. And we increased the number of dedicated sales representatives, which has enabled significant distribution gains for our core brands. In Brazil, we've made important capital investments in our biscuits, powdered beverage and dry desserts plants. Revenues have grown in the country, driven by strong marketing programs, new flavors of *Maguary* refreshment beverages and growth in chocolate confectionery.

5. Drive Out Costs and Assets

Early in 2004, we announced a three-year, cost-restructuring program with plans to close up to 20 manufacturing facilities and eliminate approximately 6,000 positions.

In the program's first year, we announced the planned closure of 13 plants. Total costs to implement the program were about \$640 million in 2004 – over \$100 million better than planned – while savings were on plan at around \$127 million.

Each individual plant closure is a difficult decision because of the impact it has on the employees and communities involved. Yet we believe that these actions will contribute to our sustainable growth, build a stronger company, and ultimately help us create the most value for our consumers, employees, investors and communities.

In 2004, we also began a number of initiatives to simplify our products and processes. From packaging changes to business process modifications, we're focusing on eliminating

unnecessary complexity throughout our organization. This includes an aggressive, worldwide effort to reduce the number of items in our product lines.

6. Strengthen Employee and Organizational Excellence

We realigned our organization at the beginning of 2004 to ensure that we have the best people in the industry building the best food company in the world.

Our Global Marketing & Category Development team is defining clearer strategies for our core global categories and advancing new product growth platforms. Our North American and International commercial units are meeting the needs of local consumers in markets around the world. And our global functions are continuing to develop best-of-class expertise. Not only have we put in place a new organization, but we're also working faster, staying focused and improving the quality of our execution. With the powerful combination of our "best of global, best of local" approach and a new way of working, we believe we've only just begun to unlock our employees' collective potential.

7. Act Responsibly

Kraft continues to take part in the broader societal response to issues relevant to our business, including growing health and wellness concerns.

For example, we were the first major food company to respond to the U.S. Food and Drug Administration's call for clearer nutrition labeling for smaller packages, making it easier for consumers to choose the portion sizes that are right for them. Additionally, at the beginning of 2005, we announced two other important initiatives. Our *Sensible Solution* program, with its easy-to-spot package flag, calls attention to the better-for-you products in our portfolio. And we've taken a leadership position in the industry by deciding to shift the mix of products we advertise in television, radio and print media viewed primarily by children ages six to 11. In these media, we'll advertise products that meet our *Sensible Solution* criteria, and phase out advertising for products that don't.

In 2004, we also created a comprehensive website, www.kraft.com/responsibility, that details our approach, commitment and actions in areas of corporate responsibility that are particularly relevant to our business.

Outlook for 2005

In 2005, we remain fully committed to our Sustainable Growth Plan and expect the momentum we built in 2004 to continue.

Our new product pipeline and marketing programs are stronger than ever, and our cost-restructuring program is on track. We expect our 2005 diluted earnings per share from continuing operations to be in the range of \$1.75 to \$1.80. We anticipate that our earnings growth will be high quality, reflecting additional investments in our brands and positioning Kraft for growth over the long term.

By delivering on our vision and delighting consumers every day, we believe we will continue to drive total shareholder return.

As we look ahead, I anticipate that the pace of change in our industry will only get faster. At Kraft, we'll be doing more than responding to what's happening around us; we will be agents for, and advocates of, change. I want to thank each of our 98,000 employees for helping to create a new path to the future. And I'd like to thank you, our investors, for your continued confidence in Kraft.



Roger K. Deromedi
Chief Executive Officer
March 3, 2005



LOUIS C. CAMILLERI
Chairman

ROGER K. DEROMEDI
Chief Executive Officer



Driving Sustainable Growth

Powerful trends are reshaping the food business – from value-oriented and health-conscious consumers to the shifting retail landscape, and from intense competition to the rising cost of doing business. To drive success in this challenging environment, we are focused on the seven strategies of our Sustainable Growth Plan:

1. Build Superior Consumer Brand Value
2. Build Shopper Demand Through Superior Customer Collaboration
3. Transform the Portfolio
4. Expand Global Scale
5. Drive Out Costs and Assets
6. Strengthen Employee and Organizational Excellence
7. Act Responsibly

Each of these strategies is critical to our success. Yet, we know that, above all, we must delight consumers to grow our business. On the following pages, Kraft employees highlight only a few of the many initiatives under way today – whether it's creating innovative new foods and beverages, coming up with cost-saving ideas to fund our next generation of products, or supporting communities around the world.

With an extraordinary sense of purpose, the people of Kraft are drawn forward – toward new ideas, renewed energy and the shared vision of helping people around the world eat and live better.

Build Superior Consumer Brand Value

Superior brand value means more than just offering the right products at the right price. It's delighting consumers with all of our brands by anticipating their needs and providing the optimal combination of benefits, including innovative product and packaging ideas, helpful services and quality that they can count on every time. And it means spending more on world-class marketing that will continue to enhance brand equity. Without a doubt, building the value of our brands is the best investment we can make in our future.

Our Consumer Relationship Marketing (CRM) program was the first of its kind. With kraftfoods.com, we have the number one consumer website among all food manufacturers. Plus, our *what's cooking* magazine is ranked first in circulation in Canada, while our *food&family* magazine is third in circulation in the U.S. By helping us build an extended family with millions of consumers in North America, CRM leads to more positive attitudes toward Kraft and increased sales across our portfolio.

NURCA YENER
*Manager, Senior Marketing Analytics
Global Marketing & Category Development*

Kraft's Consumer Relationship Marketing program is focused on strengthening loyalty to our brands. We help consumers by delivering – through our websites, magazines and e-mail – customized food ideas, healthy living tips and solutions to simplify their everyday lives. By building even stronger relationships with consumers, we're creating a tremendous long-term asset that will help sustain our growth into the future.

GANNON JONES
*Director, Brand Equity and Integration
Global Marketing & Category Development*



Kraft's food&family magazine brings U.S. consumers simple, delicious recipes five times a year.

DiGiorno Microwave Rising Crust pizza offers oven-baked taste in just five minutes.



KATIE WILLIAMS
Brand Manager,
New Product Development
Kraft North America Commercial



ANGELA DEFRAK
Senior Director, Packaging
Global Technology & Quality

With DiGiorno Microwave Rising Crust pizza, we've reduced the cooking time for a pizza with oven-baked taste from 20 minutes to just five. It's truly like no other product on the market today, and it's exciting to know that we're building superior brand value through increased convenience and unmatched product quality.

Our new DiGiorno Microwave Rising Crust pizza is the first-ever rising crust pizza for the microwave. By combining new technologies from both product formulation and packaging, we've delivered the taste and quality of oven-baked pizza from the microwave. DiGiorno Microwave Rising Crust pizza and new DiGiorno Thin Crispy Crust pizza both help strengthen DiGiorno's market leadership position in the U.S. frozen pizza category.

Ritz Chips aligns with our strategy to find growth opportunities outside our traditional snack cracker category – in this case, chips. This initiative allowed us to extend our brand equity to new eating occasions and further penetrate new distribution channels. Ritz Chips is a big success for Kraft, surpassing \$90 million in sales in 2004.

KATHY PARKER
Senior Director, New Business Group
Kraft North America Commercial



Ritz Chips delivers great taste in a resealable, eye-catching package.

Build Shopper Demand Through Superior Customer Collaboration

By collaborating with our retail partners to meet consumer needs, we expand opportunities for mutual success. We're creating world-class customer marketing initiatives. We're expanding distribution capabilities. And we're continually improving our adaptive and efficient supply chain to leverage our vast network and scale. Through all of these efforts, we're working to be the supplier our customers turn to first – to stock their shelves, attract shoppers and grow their businesses.



We've established dedicated teams to focus on our business with many of our largest customers. With "Team Kroger," we've combined Kraft and Nabisco selling organizations, so we can bring more unique shopper insights to Kroger. This helps them understand their shoppers and customize their programs to grow even more. At the same time, we've strengthened our relationship by gaining a better understanding of Kroger's needs and how we can help support their business objectives concurrently with our own.

LLOYD JOHNSON
*Vice President, Sales, Canada
(Formerly, Customer Vice President, Team Kroger)
Kraft North America Commercial*

Global retailers are a growing force in the worldwide food and beverage market, and they face many of the same challenges that we do. By developing a deeper understanding of our customers' aspirations, processes and capabilities, we can improve the relevance and impact of our programs and build long-term relationships focused on mutual sustainable growth.

STEVE NEWISS
*Vice President, Global Customers
Kraft International Commercial*



Transform the Portfolio

We're accelerating a shift in our portfolio toward businesses – whether global, regional or local – that enhance or offer us sustainable competitive advantage, and that will better enable us to focus on opportunities that will create long-term value to Kraft. Through innovations, alliances, acquisitions and divestitures, we'll strike the right mix of products – a mix that fits simply and deliciously into people's lives today and stays one step ahead of their needs for tomorrow.

More than 27 new South Beach Diet products will offer a delicious way to eat.



Our partnership with Dr. Arthur Agatston, the *South Beach Diet* creator, is an important step toward achieving our vision of helping people around the world eat and live better. The diet isn't about low-carb or low-fat foods. Instead, it relies on whole grains, vegetables and lean sources of protein to help people feel more satisfied on fewer calories. Our new *South Beach Diet* products do just that.

HOWARD BRANDEISKY
*Vice President, Health & Wellness
Kraft North America Commercial*

Meal preparation time can be a barrier to staying on the *South Beach Diet*. So, our new line of products – from cereal and meal replacement bars to frozen entrées and pizzas – provides convenient and delicious options to keep consumers on track all day long.

CAROLYN RODEFFER
*Senior Director, Development
Kraft North America Commercial*

The best compliment we get is when people tell us that our new *South Beach Diet* products “don't taste like diet food.” We worked hard with Dr. Agatston and his dietitian to create products that fit with the diet – and really taste terrific. From the reactions we've been getting to our new *South Beach Diet* line, we've accomplished our goal!

LINDA LETCHER
*Associate Program Director
Global Technology & Quality*



Tassimo hits home with revolutionary technology and quality hot beverages at the touch of a button.

Tassimo is a quantum leap in home-prepared hot beverages. Kraft's proprietary technologies enable consumers to brew a variety of single-serve hot beverages – from cappuccino to tea and hot chocolate – at the touch of a button. Tassimo promises to transform our beverage portfolio, as we offer consumers a whole new spectrum of value-added innovation.

To quickly get Tassimo into our lead market in France, Kraft set up a unique "venture team" to drive the program from research through development to commercialization. Kraft people and our suppliers and alliance partners are all focused on building a global business around a strong consumer proposition – quality, variety and convenience from a competitively priced machine with a portfolio of great-tasting beverages.



HUBERT WEBER
General Manager,
Global Tassimo
Global Marketing & Category Development

ADAM LLOYD
Director of Technology,
Brew Systems
Global Technology & Quality

Offering convenience and portion control, Nabisco 100 Calorie Packs are a snack you can feel good about.



Kraft is doing its part to address consumer concerns about health and wellness by developing innovative "better-for-you" products. Our Nabisco 100 Calorie Packs capitalize on the powerful equity of some of our biggest brand names, but deliver them in a portion-controlled package. If you're working to manage your weight, Nabisco 100 Calorie Packs are a little snack that can fit in a healthy lifestyle.

STEPHANIE FERGUSON
Senior Engineer
Global Technology & Quality



Expand Global Scale

We're driving our international expansion by growing in markets where we're already well established, creating efficient business models in small markets, and investing in the high-growth developing markets of Brazil, Mexico, Russia and China. By leveraging the advantages of our global scale, we're meeting the needs of local consumers around the world and laying the foundation for the greatest growth potential for Kraft.

Clight Fibras, one of several new Clight products in Brazil, responds to consumers' need for more fiber.



At Kraft Foods Brazil, our innovations are not only helping revolutionize Brazil's powdered beverages market, but also have appeal in other markets. Many of our new products – like *Tang Plus*, *Clight Tea* and *Clight Stick* – have been introduced to other regions and countries and are playing a key role in expanding Kraft's global scale.



ANDRÉ VERCELLI
*Category Director, Beverages
 Brazil
 Kraft International Commercial*

MARCELLO IZZO
*Category Director, Cheese & Grocery
 Brazil
 Kraft International Commercial*

Philadelphia cream cheese is now customized for local tastes in Brazil.

With the benefit of Kraft's new global structure, we were able to leverage worldwide expertise in cheese, launching the *Philadelphia* brand in Brazil, while adapting the product to meet local preferences. In São Paulo and Rio de Janeiro – our largest geographic opportunities – our sales team won the market leader position for *Philadelphia* cream cheese in 2004 with 56% category share.

Tang is growing in popularity in China thanks to a variety of new products, including flavored fruit teas.



Our focus on building *Tang* in China is paying off for Kraft. New *Tang* Milk Mixers are leveraging the increasing popularity of fluid milk here and will bring added momentum to the brand. At the same time, increased marketing support for Hot *Tang* is helping us drive more consistent use year-round. As a result of our efforts, in 2004 we achieved a 12% increase in *Tang* volume in China.

PATTY ZHANG
Director of Marketing, China
Kraft International Commercial

As our business in China with global customers began to grow dramatically, we partnered with several key accounts to create joint business development plans. By aligning more closely with these customers, we've gained valuable insights about shoppers' needs and behaviors, helping us strengthen our customer service and in-store promotion execution. The payoff has been tremendous, with sales across these three key customers up 26% over 2003.

JERRY ZHOU
Sales Director, China
Kraft International Commercial



Drive Out Costs and Assets

To help fund our future growth, we're simplifying our processes, eliminating unnecessary costs, and making the best possible use of all our assets. We're implementing a major restructuring program, including the planned closure of up to 20 plants and the elimination of approximately 6,000 positions around the world. We're also building on our excellent track record of productivity savings by driving complexity out of our manufacturing and distribution processes. Clearly, the actions we're taking today will give us greater agility and financial flexibility tomorrow.

With a portfolio as broad as Kraft's, it's important to stay focused and efficient by pruning slower-moving products where we can. Our initiative to do that in North America saves money and reduces complexity. In 2004, we reduced our total number of SKUs (stock keeping units) by 11%, and this effort continues into 2005.

KARA BOYD
*National Controller, Customer Supply Chain
Global Supply Chain*



We are simplifying packaging and centralizing production of boxes of assorted chocolates, including Freia and Marabou brands.



PAUL HASCHKA
*Business Development Manager
Global Supply Chain*



NIGEL KIRTLEY
*Senior Director
Global Technology
& Quality*



We had a number of assorted chocolate products manufactured across multiple plants, but none had real scale. This severely limited our ability to introduce best manufacturing practices. With a goal of long-term viability for each of these businesses, we focused on reducing the number of packages and formats. We centralized the production on one new world-class production line, achieving a significant cost reduction. Additionally, the new lower cost base means we can source products into new geographies, and more aggressively compete with private label products in some key countries for Kraft.

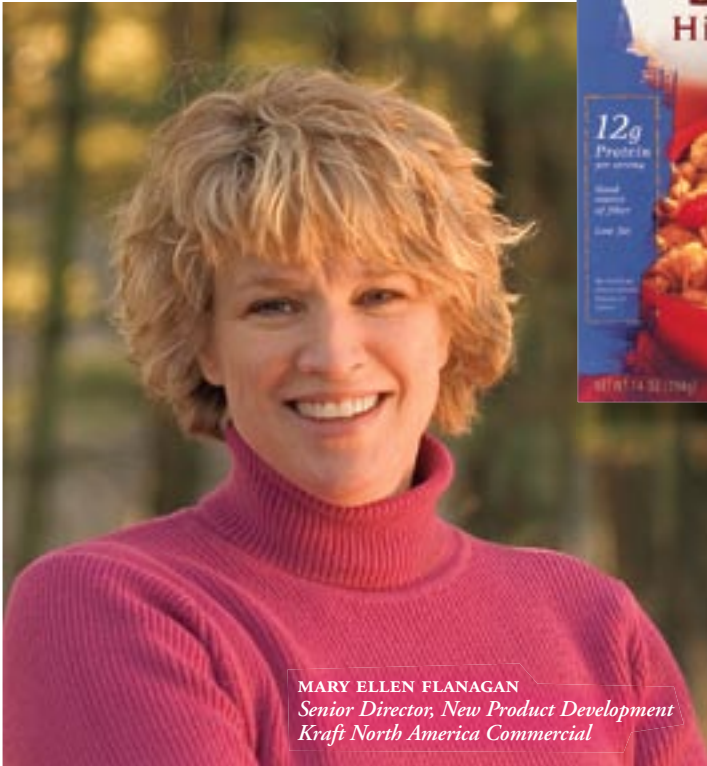
To simplify our processes and drive out costs most effectively, we truly must understand consumers and every way in which they interact with our products. We can't just trim away at the obvious – we have to start with a clean slate, reducing unnecessary complexity while keeping the benefits consumers want. The keys to our success with our assorted chocolate initiative were new consumer insights and an unprecedented technological solution. We reduced costs, consolidated manufacturing and began producing even better products.

Strengthen Employee and Organizational Excellence

We aligned our organization at the beginning of 2004 to ensure that we have the best people in the industry building the best food company in the world. By continuing to transform our culture, skills and processes, we're achieving worldwide category and functional expertise, ensuring superior local execution and developing our management strength around the globe. Plus, we're doing it all at a faster pace than ever before. Simply put, we understand that growing our talent is the best way to grow our future.



Through teamwork and tenacity, Kraft people launched 34 new Back to Nature products in just nine months.



MARY ELLEN FLANAGAN
*Senior Director, New Product Development
Kraft North America Commercial*



CHRIS CARLISLE
*Brand Director
Kraft North America Commercial*

Back to Nature natural and organic products have been an enhancement to the Kraft portfolio. In addition to a strong brand name, it presented exciting challenges for us. We added 34 new products across five categories in the first nine months after acquiring the business. The Back to Nature team has shown amazing adaptability and ingenuity. In demonstrating a faster way to get new products to market, we've developed strategies which may be useful to other Kraft businesses around the world.

More and more people are turning to natural and organic foods, which, in the past, often meant making a trade-off on taste. With our acquisition of Back to Nature and the many new products we've launched under the brand, Kraft now offers a terrific variety of natural and organic products that taste good. In a very short time, Back to Nature has helped us make real headway with organic and natural food stores – a new retail channel for Kraft.

Our new Global Marketing & Category Development teams are driving world-class innovation across our markets. For example, on the global ready-to-drink beverage team, we're working to meet the needs of today's "on-the-go" consumer. We're capturing this trend across our beverage business by making it easier for people to take our products with them anytime, anywhere.

SARAH MITSON
*Marketing Director,
Ready-To-Drink Beverages
Global Marketing & Category Development*



A global employee team is driving innovative products, such as Jacobs IcePresso, across markets to meet the needs of consumers on the go.



To really make our worldwide scale work for us, it's critical that we understand what is different and what is the same from region to region. Our Global Marketing & Category Development team for biscuits manages global brand equity for our large Oreo and Chips Ahoy! brands, among others. We develop category strategies focusing on the biggest ideas to grow the business quickly and more effectively, and we strengthen the connections among regions, helping to drive good ideas into new markets faster than ever before.

ALLAN LINDSAY
*Director of Marketing, Sweet Biscuits
Global Marketing & Category Development*

Ice cold
coffee-kick

Act Responsibly

As we strive for sustainable growth, we're seeking business success in ways that honor ethical and legal standards and that respect people, communities and the natural environment.

We stay close to society's changing expectations of our company and determine where we can help make a meaningful difference on key issues relevant to our business – from the serious public health concern of obesity to the need for sustainable coffee production. Meeting our responsibilities as a public company and global citizen is not only the right thing to do – it's right for our business.

ROSA FLAGG
*Machine Operator, Chicago Bakery
Global Supply Chain*

PATRICIA GARZA
*Senior Manager, Global Community Involvement
Global Corporate Affairs*



As a mom and grandmother, I feel good about Kraft's work to reduce or eliminate trans fat in the foods we make. In 2004, we reformulated 70% of our U.S. Biscuit product volume, which meant that we converted about 49 production lines in our bakeries across the U.S. At the Chicago Bakery, we're proud to be part of the team that's manufacturing better-for-you products for people who want to lead healthier lives.

While obesity has an impact on all sectors of society in the United States, Hispanic children are disproportionately affected. In partnership with the National Latino Children's Institute, Kraft developed Salsa, Sabor y Salud (Food, Fun and Fitness), the first national program to provide creative, culturally relevant tools designed to encourage healthy lifestyles among Latino families. The program has received accolades from participating communities, and helped to enhance Kraft's reputation with key stakeholders in the Hispanic community.

Through our partnership with the Rainforest Alliance, we've been able to help tens of thousands of farm workers grow better coffee more efficiently, improve living conditions and protect the environment. In 2005, Kraft will purchase more than 13 million pounds of Rainforest Alliance certified coffee – more than double our purchase in 2004. While that's still a small amount of all the coffee we buy, we're helping to ensure the long-term supply of quality coffee for our brands and reassuring consumers that the coffees they know and trust are grown and produced in a responsible manner.

ANNEMIEKE WIJN
*Senior Director,
 Commodity Sustainability Programs
 Global Corporate Affairs*



An essential component of a healthy lifestyle is being smart about what and how much you eat. To help consumers make more informed food choices, we voluntarily adopted multi-column labeling after the U.S. Food and Drug Administration called for clearer nutrition communications on smaller packages. The label “does the math” for consumers so they can more easily make nutritional comparisons between a single serving and the amount in the whole package.

CHERYL CALLEN
*Director,
 Scientific Relations
 Global Technology & Quality*





Snacks

Dip, munch, savor, crunch. Whatever the mood, Kraft has the snacks that restore energy, indulge taste buds and satisfy hunger between meals. As consumer demand for more health-conscious choices continues to grow, we're delivering with an expanding better-for-you snack portfolio.

Net Revenues \$9.0 Billion



Beverages

Around the clock and around the world, Kraft's beverage brands warm consumers up, cool them down and keep them going. Through new product innovation, acquisitions and licensing agreements, we're continuing to make a splash in the global beverages market.

Net Revenues \$6.5 Billion



Cheese & Dairy

Dairy's great taste has consumers around the world choosing Kraft cheese. With a wide array of delicious products in every flavor and form, Kraft is the global leader at delighting consumers with cheese and dairy.

Net Revenues \$6.2 Billion



Grocery

Our Grocery sector has something for everyone – from cereals to desserts, from salad dressings to peanut butter, and from steak sauce to mustard. Kraft grocery brands offer great taste for every eating occasion.

Net Revenues \$5.3 Billion



Convenient Meals

When they're hungry for something that tastes great and is easy to make, consumers know they can count on Kraft for palate-pleasing, convenient meals today and every day. We're staying on trend through new product introductions, continual innovation and expansion to new retail channels.

Net Revenues \$5.2 Billion

Sector Highlights

- *Pacific*, the largest soda cracker brand in the People's Republic of China, grew 7% in 2004 based on its health and wellness platform.
- A number of U.S. products with 0 grams trans fat per serving were unveiled in 2004, including *Triscuit* original crackers, *Wheat Thins* original crackers, Reduced Fat *Oreo* cookies and *Golden Oreo* cookies.
- *Planters* achieved double-digit revenue growth and Mr. Peanut was selected to the "Madison Avenue Advertising Walk of Fame" as one of America's favorite advertising icons.

- Launched in Argentina in April, *Milka* Stick already holds a 2.2% share of the chocolate tablet segment.
- With a simple message of calorie control, *Nabisco* 100 Calorie Packs are transforming our cookie and cracker portfolio and addressing Americans' health and wellness concerns. \$36 million of these pre-portioned snacks were shipped from the July 2004 launch through year-end.



- A number of our leading coffee brands launched coffee filter pods in 2004, including *Maxwell House* in the U.S., *Nabob* and *Maxwell House* in Canada and *Jacobs* in Germany, allowing consumers to brew individual cups of coffee in single serve pod machines.
- *Crystal Light Sunrise* was launched in the U.S. in January, and through the first six months, 85% of its volume came from purchases that were incremental to the *Crystal Light* base business, and 24% of its volume came from orange juice sales.

- *Tang* is available in 80 countries, including China where consumers can now enjoy new flavored *Tang* Fruit Teas.
- As part of our expanded licensing agreement with Starbucks Corporation, we now distribute *Seattle's Best* coffees nationwide, giving U.S. consumers greater access to these exceptional coffees.
- *Kool-Aid Sport* ready-to-drink sports drink was one of the biggest innovations in the Canadian shelf-stable ready-to-drink category this year, growing *Kool-Aid* ready-to-drink revenue by 37% and volume by 22%.



- The introduction of *Sweet Chilli Philly* in Australia in August 2004 demonstrates our strategy to offer products that are the best of global and the best of local. This convenient ready-to-serve appetizer has already established itself as one of the top sellers in the dairy case, with more than three-quarters of a million tubs purchased since its launch.
- With the successful launch of products like *Kraft* and *Cracker Barrel* natural cheese sticks and new varieties of *Kraft* Cracker Cuts, *Kraft* cubes and string cheese, the *Kraft* natural snacking cheese business grew 45% in net revenue in the U.S. in 2004.

- *DairyLea* Tri-bites, available in the U.K., are a good source of calcium, making them an ideal healthy snack. This innovative new product has helped grow the *DairyLea* snacks market share faster than the total market.
- The Canadian cheese business continued to deliver strong results in 2004, led by consumption growth in *Philadelphia* cream cheese (8.1%), *Kraft* Singles (4.8%) and the natural cheese businesses (10.1%).



- The *Honey Bunches of Oats* trademark reached its 16th consecutive year of share growth, currently the only major ready-to-eat cereal brand in the industry with such a streak, moving the brand to a 4% share of a multi-billion-dollar market.
- *Miracel Whip*, the number one spoonable salad dressing in Germany, successfully entered the pourable dressing market with the launch of three pourable salad dressing varieties. In less than a year, *Miracel Whip* achieved a market share of more than 2% in a very competitive category.

- Canada's favorite peanut butter, *Kraft* Peanut Butter, continued to deliver strong results, with consumption up 5%.
- Salad-loving consumers in the U.K. now have additional reduced-fat and fat-free varieties of *Kraft* salad dressings to choose from. Sales of *Kraft* reduced-fat and fat-free salad dressings are up 10% overall.
- Flavored *Cool Whip*, including new *Cool Whip* French Vanilla and Strawberry flavors, was a key driver of the brand's 2.1 point share gain in 2004.



- *Kraft* Macaroni & Cheese, the category leader, grew share to 35.4%, thanks in part to double-the-calcium news.
- *Minute Brown Rice* in the U.S. posted consumption growth of 11.1% and velocity increased 10.7% in 2004.
- Germany's convenient meal brand *Miracoli* launched *Miracoli* Spaghetti Tomato Basil to attract new buyers and to offer variety to current users.

- *DiGiorno*, the brand that revolutionized the frozen pizza category, delivered two pizza innovations in the U.S. that generated nearly \$90 million in sales in 2004: a thin and crispy crust pizza, and the first premium pizza that rises and bakes golden brown in the microwave.
- *Oscar Mayer* continued to lead growth and innovation in the lunch combinations category with the introduction of *Lunchables* Chicken Dunks in the U.S. Since its launch in July 2004, the two-item line has become the fastest moving in the category.



Kraft Executive Team

ROGER K. DEROMEDI
Chief Executive Officer
Kraft Foods Inc.

MARK H. BERLIND
Executive Vice President
Global Corporate Affairs

DAVID S. BREARTON
Senior Vice President
Business Process Simplification
& Corporate Controller

JAMES P. DOLLIVE
Executive Vice President &
Chief Financial Officer

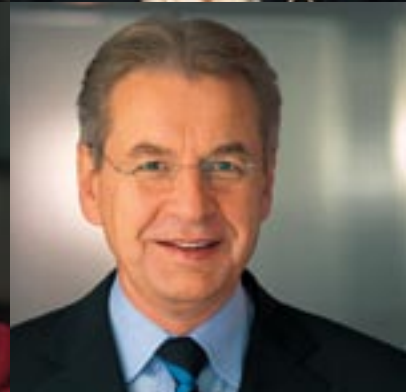


left to right
TERRY M. FAULK
Executive Vice President
Global Human Resources
MARC S. FIRESTONE
Executive Vice President,
General Counsel &
Corporate Secretary
LINDA P. HEFNER
Executive Vice President
Global Strategy &
Business Development

left to right
BETSY D. HOLDEN
President
Global Marketing &
Category Development
DAVID S. JOHNSON
President
North America Commercial
ALENE KORBY
Executive Vice President
Chief Information Officer



left to right
HUGH H. ROBERTS
President
International Commercial
JEAN E. SPENCE
Executive Vice President
Global Technology & Quality
FRANZ-JOSEF VOGELSANG
Executive Vice President
Global Supply Chain



Kraft Foods Inc. Board of Directors

Jan Bennink ^{2,3}
Chief Executive Officer and
Chairman of the Executive Board,
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 and Chief Executive Officer,
Illinois Tool Works Inc.
Glenview, IL

Betsy D. Holden
President,
Global Marketing &
Category Development,
Kraft Foods Inc.
Northfield, 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, President 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

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

E-mail address:
kraft@equiserve.com

To eliminate duplicate mailings, please contact EquiServe (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 website 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 website at www.kraft.com and click on SEC filings in the Investors section.

If you do not have Internet access, you may contact EquiServe 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

2005 Annual Meeting

The Annual Meeting of Shareholders will be held at 9:00 a.m. EDT on Tuesday, April 26, 2005, at Kraft Foods Inc., Robert M. Schaeberle Technology Center, 188 River Road, East Hanover, NJ 07936. For further information, call toll-free: 1-866-655-7238.

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.

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.

