

## Group Profile at December 31, 2001

### The Group

Founded in 1959 by Pasquale Natuzzi, the Natuzzi Group designs, produces and markets sofas, armchairs and furnishing accessories for residential use.

It is Italy's largest furniture manufacturer and the global leader in leather upholstery, with top market shares in North America and Europe.

The holding company Natuzzi SpA was listed on the New York Stock Exchange on May 13, 1993.

Natuzzi's quality system has been certified ISO 9001. In November 2001 the company also obtained the ISO 14001 environmental certification.

As of December 31, 2001 the Group totaled 4,643 employees. 4,341 based in Italy and 302 abroad.

### Markets and Distribution

Natuzzi exports 90% of its production, serving 2,400 clients in 123 countries. Its products are sold in some 13,000 points of sale through a sales network of 98 agents coordinated by sales directors and area managers. In Italy, Greece, Portugal and Spain, Natuzzi sells mainly through the 148 Divani & Divani franchised stores. In addition to the Divani & Divani points of sales, 17 new stores were opened, under the name of Natuzzi, in Switzerland, France, Hungary, Croatia, Slovenia, Cyprus, China and Australia.

### Manufacturing

Production takes place just-in-time and only on receipt of orders, eliminating unsold stock risk.

The Group controls over 92% of its raw materials and semi-finished products ensuring their prompt delivery, improving quality and reducing costs and inventories.

Natuzzi produces over 400 different models in contemporary, modern and classic-traditional styles, at every price points and in all versions (sofas, armchairs, recliners, motion models, sofa beds and sectionals). The covering collection has some 46 articles in leather, fabric and microfiber available in 410 colors – the largest and most complete collection of upholstered furniture available world-wide.

### Services

Assistance for customers and the entire sales network is managed from the Group's headquarters in Santeramo in Colle (Bari), from Natuzzi Americas in High Point, North Carolina (USA) and from Natuzzi Asia, based in Hong Kong.

Deliveries to the dealers' location anywhere in the world, transactions in different currencies and full pre- and after sales assistance are just some of the services provided.

The Group also conducts in-house product research through the Design Centers in Santeramo and near Milan, marketing and communication, and educates its personnel through the Natuzzi Training Center.

It also designs and engineers its own new plants, develops software and manages its information network. This enables the Group companies and Natuzzi operators world-wide to access central headquarters in Santeramo in Colle for on-line transmission of information, improving services and meeting the needs of the 4,000 families a day that choose a Natuzzi product.



Financial Highlights

twelve months ended December 31, 2001  
(Italian GAAP)

	2001			2000			% change		2001	2000
	ITL billions (except as otherwise indicated)	Euro millions		ITL billions (except as otherwise indicated)	Euro millions				USD millions (except as otherwise indicated)	
Net Sales	1,522.2	786.1	100.0%	1,333.1	688.5	100.0%	14.2%	(b)	703.8	635.6
Gross Profit	515.2	266.1	33.8%	507.7	262.2	38.1%	1.5%	(b)	238.2	242.1
Operating Profit	189.3	97.8	12.4%	245	126.5	18.4%	-22.7%	(b)	87.5	116.8
Net Income	146.5	75.7	9.6%	153.3	79.2	11.5%	-4.4%	(b)	67.7	73.1
Net Income per ADS (a)	L. 2,662	€1.3748		L. 2,685	€1.3867		-0.9%	\$ (b)	1.23	1.28
Cash Dividend per ADS (a)	L. 556	€0.2872		L. 560	€0.2892		-0.8%	\$ (b)	0.26	(c) 0.25
Debt	268.6	138.7		6.4	3.3			(d)	123.5	3.1
Long-term Debt	6.3	3.3		0.5	0.3			(d)	2.9	0.2
Short-term Debt	262.3	135.5		5.9	3.0			(d)	120.6	2.9
Stockholders' Equity	829.6	428.5		709.6	366.5			(d)	381.4	344.0
Shares Outstanding	(#) 55,028,446			57,087,391			-3.6%			

(a) Each Natuzzi American Depositary Share (ADS) represents one Ordinary Share		
(b) Average Noon Buying Rate (ITL per USD)	2,162.95	2,097.35
(c) Noon Buying Rate on the date the dividends were paid		2,264.91
(d) Noon Buying Rate on December 31	2,175.34	2,062.50

Quarterly Stock Price - Price per ADS

(amount in USD)

Quarter	2001		2000		1999	
	High	Low	High	Low	High	Low
First	14.30	12.19	13.25	9.69	24.75	16.38
Second	14.14	11.50	12.88	9.63	20.00	16.56
Third	14.10	10.00	12.25	9.75	20.50	16.25
Fourth	14.74	10.80	13.19	11.31	20.00	12.44
Full Year	14.74	10.00	13.25	9.63	24.75	12.44



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## Letter from the Chairman

Dear Shareholders,

2001 was an important year for our company. Having recorded a ITL 241 billion increase in turnover during the year 2000, net sales reached ITL 1,522.2 billion in 2001, a further increase of ITL 189.1 billion (+14.2%).

Net profit margin decreased from 11.5% to 9.6% in line with our forecasts due to: a) unfavorable trends in world raw materials and transport costs, and b) fierce competition in pricing, which limited our capacity to adjust price lists to offset rising costs.

Initiatives in 2001 were therefore aimed at defending margins and creating optimum conditions for increasing our share in all segments of the market.

To this end we implemented the multi-brand strategy announced last year by extending the breadth of the Natuzzi offering with a new brand, Italsofa, created to address the promotional segment.

In 2001 we started production of Italsofa sofas and armchairs in our dedicated facilities in Brazil, China and Rumania. The response from clients was positive. In its launch year this new offering produced a turnover of ITL 112.3 billion.

The introduction of Italsofa will further strengthen the Natuzzi brand's positioning in the medium to medium high end of the market, where we intend to continue expanding, though without compromising our mission to make Natuzzi products widely accessible.

We built two new production units in Italy, in Ginosa and Laterza (both near Taranto), thus boosting production capacity by 1,800 seats a day.

In an already intensely eventful year we decided to launch Natuzzi's new visual identity, to give coherence to the stylistic evolution our products have undergone in recent years.

The brand project, centering on the name Natuzzi, is a very demanding and exciting challenge for everyone in the Group.

Our offering will be enhanced by the new display system, designed to breathe new life into the brand in spaces and dedicated "Natuzzi" stores.

Over the coming years we will continue to develop the wholesale channel by opening Natuzzi spaces in America, Asia Pacific and in the main European markets. Meantime we will be developing the retail channel by creating new Natuzzi points of sales in partnership with our clients.

In 2001 we launched the new Natuzzi Store concept; at the end of the year we had 17 points of sale in France, Switzerland, Croatia, Slovenia, Hungary, Cyprus, China and Australia, in addition to the 148 Divani & Divani stores already opened in Italy, Greece, Portugal and Spain.

Net Sales

billion lire

1998	1,066.2
1999	1,091.7
2000	1,333.1
2001	1,522.2

Net Earnings

billion lire

1998	139.3
1999	159.6
2000	153.3
2001	146.5

Stockholders' Equity

billion lire

1998	657.1
1999	732.2
2000	709.6
2001	829.6

The market is embracing the new products and services offered, which encourages us to follow up these initiatives with vigor. Most of our advertising spending will be on the new Natuzzi brand and on boosting awareness with consumers.

In conclusion, I would like to express the gratitude I feel towards you the shareholders for the support you give us. I'm also grateful to our employees for their commitment to meeting the needs of 4,000 families a day that choose our products.

We will continue to create value with integrity. Value for our clients through innovation in production and design. Value for consumers through continual improvements to the quality of products and services. Value for our employees and the regions in which we operate. And value for our shareholders by continuing to work on projects in which we believe, confident that you will always be right behind us.

A handwritten signature in dark ink, reading "Pasquale Natuzzi". The signature is written in a cursive, flowing style with a large initial 'P'.

Pasquale Natuzzi



## 2001 Results

Giuseppe Desantis

# 2001 results

### Financial Results

Net sales, including sales of leather and fabric-upholstered furniture and other sales (principally polyurethane foam and leather, as well as accessories), increased 14.2% in 2001 to ITL 1,522.2 billion compared to ITL 1,333.1 billion in 2000.

Net sales of leather and fabric-upholstered furniture increased 13.5% to ITL 1,382.6 billion in 2001, compared to ITL 1,218.5 billion reported in 2000. The increase in net sales of upholstered furniture resulted principally from an 11.6% increase in unit sales, a 1.2% increase stemming from the devaluation of the lira against the U.S. dollar, and a 0.7% increase resulting from a change in the mix of products sold.

In 2001 approximately 90% of the Group's net furniture sales were derived from exports. Net sales in Europe (including Italy) represented 44.5% of net upholstered furniture sales, compared to 43.3% in the previous year. The Americas (mainly the US) represented 49.9%, compared to 50.7% in 2000. The Rest of the World (ROW) represented 5.6% of total upholstery sales, down from 6.0% in 2000.

Net sales of leather-upholstered furniture rose to ITL 1,209.1 billion, an 11.6% increase over ITL 1,083.7 billion in 2000. Net sales of fabric-upholstered furniture were ITL 173.5 billion, a 28.8% increase over ITL 134.8 billion in the prior year.

In the Americas, net sales of leather and fabric-upholstered furniture increased 11.8% to ITL 690.1 billion in 2001, compared to ITL 617.4 billion in 2000.

In Europe, 2001 net sales increased 16.7% to ITL 615.5 billion, compared to ITL 527.2 billion in 2000.

ROW net sales rose 4.1% to ITL 77.0 billion from ITL 74.0 billion in the previous year. Over the same period, other net sales were ITL 139.6 billion, a 21.8% increase over the ITL 114.6 billion reported in 2000.

Unit sales of upholstered furniture increased 11.6%, from 2,577,323 seats sold in 2000 to 2,876,258 seats invoiced in 2001. The rise in 2001 unit sales included an increase of 11.3% to in Europe (1,323,736 seats), a 12.0% increase in the Americas (1,376,818 seats), and a 10.4% increase in ROW sales (175,704 seats). Unit sales of fabric-upholstered furniture in 2001 were 465,628 seats, a 29.1% increase compared to the 360,801 seats sold in the prior year. In terms of seats sold, the Group achieved significant results in 2001 in European countries like Ireland (+142.3%), France (+50.5%), Sweden (+27.8%), Spain (+20.8%), and the United Kingdom (+15.1%). Smaller increases were reported in primary markets like Germany (+4.5%), the Netherlands (+5.7%) and Italy (+1.8%). Lower sales were reported in Austria and Belgium. The marked revenue increase in France, one of Europe's largest furniture markets, was due, in part, to the Company's partnership with the Roche Bobois Group, which opened four new Natuzzi Stores during the year.

Giuseppe Desantis  
with Nicola Dell'Edera, Renato Quaranta and Giacomo Ventolone

In the Americas, seats sold in the United States and Canada rose 7.9% and 68.5%, respectively. Growth in the US was largely driven by the success of the Natuzzi Group's SoFast production program as well as the launch of the new promotional brand, Italsofa.

The increase in seats sold in the rest of the world stemmed mainly from strong growth in Singapore (+69.7%) and New Zealand (+48.1%). This increase was partially offset by a 4.7% decline in sales to Japan, which continues to suffer an economic slowdown.

Cost of goods sold as a percentage of net sales increased from 61.9% in 2000 to 66.2% in 2001. This increase was principally due to higher raw leather prices, which rose approximately 19.0% (in constant exchange rates), as well as a general increase in other raw materials prices such as polyurethane foam, polyester fibers and chemicals. The significant increase in raw leather prices was mainly a consequence of "mad cow" disease, which resulted in a dramatic reduction in the consumption of beef; the number of cattle slaughtered for meat consumption dictates the availability of leather, which is used in the production of numerous consumer goods. The rise in the Group's cost of goods sold was also due to inefficiencies stemming from the start-up of new plants in Brazil, China and Italy, where most of the workers are new and inexperienced.

Natuzzi Group's gross profit increased 1.5% in 2001 to ITL 515.2 billion. Selling expenses as a percentage of net sales increased from 15.8% in 2000 to 17.2% in 2001, mainly due to higher marketing expenses and transportation costs. The latter increase reflects a general rise in marine transport prices during the year.

General and administrative expenses as a percentage of net sales increased slightly from 4.0% in 2000 to 4.3% in 2001.

As a result of the aforementioned increases in SG&A expenses, operating income decreased 22.7% to ITL 189.3 billion in 2001.

Other expenses were ITL 0.4 billion in 2001 versus ITL 42.3 billion in 2000. Net interest income in 2001 was ITL 4.6 billion compared to ITL 11.6 billion in the prior year. This decrease was due to lower interest rates accruing on a smaller positive net financial position. Foreign exchange transactions resulted in a loss of ITL 12.0 billion in 2001, compared with a loss of ITL 54.7 billion in 2000. The smaller loss was mainly due to a smaller difference between forward rates resulting from domestic currency swaps used by the Company to reduce its exposure to the risks of short-term declines in the value of its foreign currency denominated revenues and spot rates reported at the date of expiration of the domestic currency swaps. In addition, the Group recorded other income in 2001 of ITL 7.0 billion compared to ITL 0.8 billion reported in the previous year. This substantial increase was mainly due to

ITL 4.4 billion in employment incentives granted by regional governments in the countries in which the Natuzzi Group operates. These grants are related to hiring full-time employees and include subsidies of up to 100% of the cost of training courses for these employees as well as temporary workers.

The Group's effective income tax rate for 2001 was 22.5% versus 24.3% in the prior year. The lower rate was due to a greater portion of the consolidated pre-tax earnings received from member companies that are entitled to tax exemptions, as well as tax deductions related to investment incentives granted by the Italian government.

Net earnings decreased from ITL 153.3 billion in 2000 to ITL 146.5 billion in 2001. On a per Ordinary Share, or ADS basis, net earnings decreased from ITL 2,685 to ITL 2,662, respectively. As a percentage of net sales, net earnings decreased from 11.5% in 2000 to 9.6% in 2001.

## Liquidity and Capital Resources

Nicola Dell'Edera

The Natuzzi Group's net financial position - cash plus marketable securities less debt - decreased from ITL 177.0 billion at December 31, 2000, to ITL 134.5 billion at December 31, 2001.

In 2001, despite the decrease in net earnings and a significant increase in the cost of raw materials, cash flows from operations remained effectively unchanged at ITL 146.6 billion. For the year, the Company reported higher depreciation and amortization costs as well as higher provisions for unrealized foreign exchange losses.

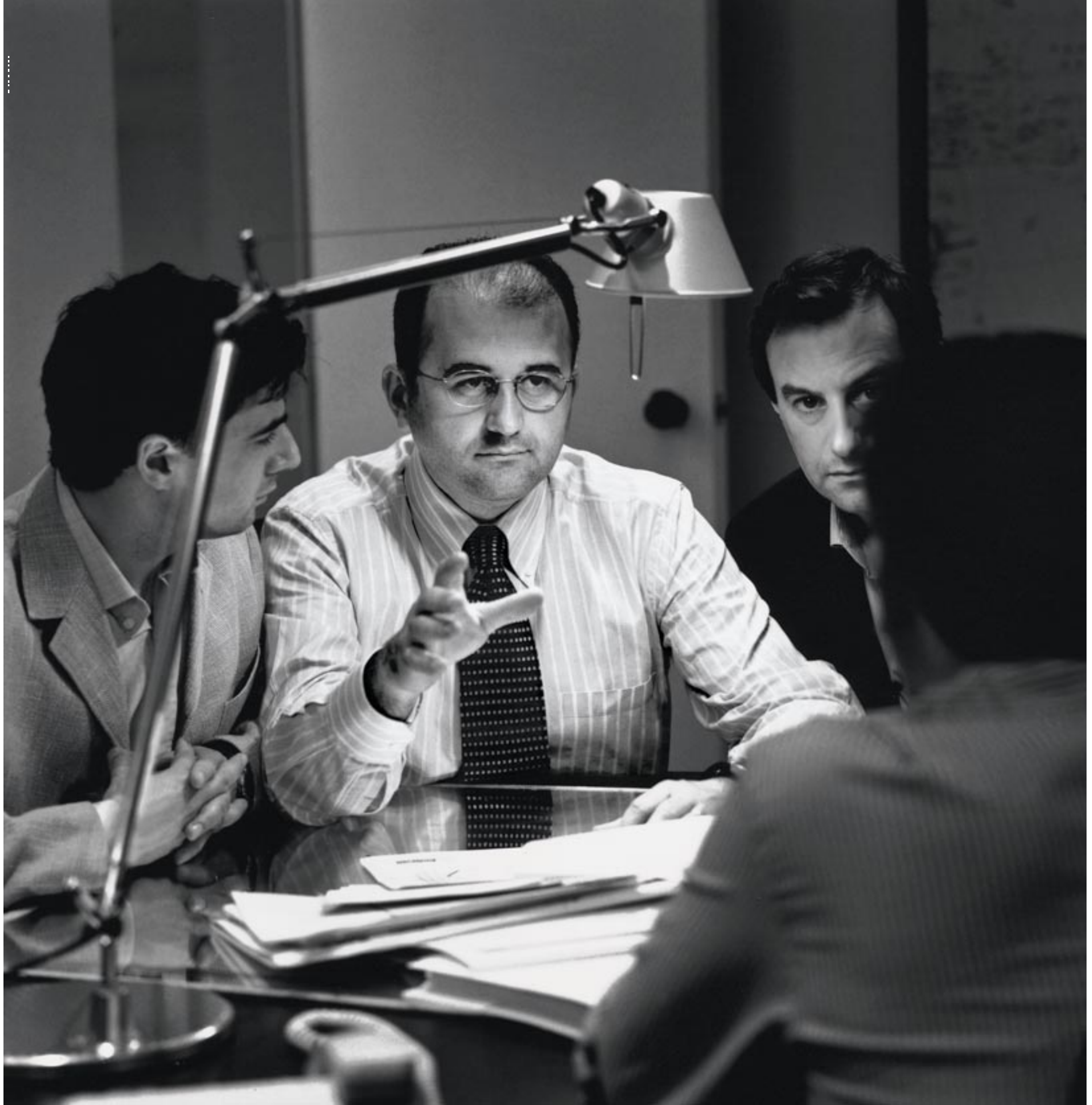
Cash used for investing activities in 2001 totaled ITL 132.2 billion versus ITL 53.6 billion in the previous year. Capital expenditures were ITL 133.9 billion and ITL 53.9 billion in 2001 and 2000, respectively. In 2001, the Natuzzi Group acquired land in Shanghai, China, High Point, North Carolina, and Santeramo, Italy. Also during the year, the Group built new factories in Ginosa, Laterza and Udine, Italy, Salvador de Bahia, Brazil, and Baia Mare, Rumania. Additionally, two new buildings were purchased in High Point and Milan.

New investments were also made during the year at existing facilities in order to increase productivity and production capacity. To facilitate travel by top management, an executive aircraft was purchased in 2001.

Financing activities provided net cash of ITL 204.4 billion, primarily as a result of a substantial increase in short-term borrowings employed under the Group cash management activities. The net cash position was partially offset by ITL 28.3 billion invested in treasury shares and a ITL 30.8 billion dividend paid to shareholders for fiscal year 2000.

As of December 31, 2001, the Group's credit facilities totaled ITL 445.0 billion. The unused portion of these facilities amounted to approximately ITL 185.0 billion. The Group's long-term debt represented less than 1% of shareholders' equity at December 31, 2001 and 2000.





## New Facilities in Italy and Abroad

Giambattista Massaro

# investments

In 2001 we invested ITL 81 billion on upgrading our production capacity in Italy and abroad.

### Initiatives in Italy

Regarding investments to increase output of upholstered furniture, construction of the new Ginosa facility (172,200 sq. ft. of covered space on a site of 301,000 sq. ft.) was completed in March 2001, after little over five months work. When fully operational, it will employ 400 people and turn out 1,200 seats a day.

In June 2001, work started on construction of a new 430,000 sq. ft. industrial complex in Laterza. The first unit (107,600 sq. ft.) produces sofas and armchairs and came into service in October 2001. It employs 200 people (rising to 400 at full capacity) and has an output of 600 seats a day.

Two other plants will be finished in the first half of 2002. One is a central warehouse for hides, which will have a cutting department attached to it. The other will be a central warehouse for various articles, accessories, wood and components. All the Group's current warehouses will thus be concentrated on the Laterza site.

In 2001, a new 62,400 sq. ft. plant was started up in our Natco tanning factory, near Udine. It will dry-process hides, thus closing the circle of processes involved and helping to increase leather quality and production efficiency.

### Initiatives outside Italy

In October 2000, we opened a professional training school for 50 people in Salvador de Bahia, Brazil.

In February 2001, work began on construction of a new 172,200 sq. ft. plant, which started up in September 2001. As of December 2001 it had a workforce of 156 and an output of 320 seats a day. At full capacity this new plant will employ 350 people and turn out 750 seats a day.

In China, in December 2000, production started up in a 129,100 sq. ft. facility in the Shanghai industrial zone. As of December 2001 it produced 700 seats a day.

2002 will see the building of another plant on a 1,356,200 sq. ft. site (already acquired) in the Shanghai industrial zone.

In October 2001, a training school was opened in the north of Rumania, in Baia Mare (75 km from the Ukrainian and Hungarian borders). It provides training for 71 Rumanian employees and is annexed to a 21,500 sq. ft. plant which is being leased.

In November 2001, work began on a 2,152,700 sq. ft. site purchased in May 2001

Giambattista Massaro  
with Vito Dagostino, Giuseppe Trevisoi and Pasquale Zullo

to build new industrial units (592,000 sq.ft. of covered space) to manufacture semi-finished products and upholstery.

As already stated, the Group's manufacturing units abroad will be dedicated exclusively to Italsofa products. Our exports of these sofas and armchairs will reach the west coast of the USA from China and the east coast from Brazil, whilst all the Old Continent markets will be served by Rumania.



The Natuzzi plant in Ginosa (TA),  
in service since March 2001

The new 430,000 sq. ft. Natuzzi  
plant in Laterza (TA)

The Italsofa plant in Shanghai

Plan of the Italsofa plant under  
construction in Baia Mare, Rumania

Facing page:  
the Italsofa plant  
in Salvador de Bahia, Brazil





## Research and Development

Giovanni Costantino

# products

R&D activities in 2001 centered mainly on technical improvements, stylistic evolution of products and on the introduction of environmentally responsible selection criteria for materials and production.

In recent years the need to be competitive on international markets with a strongly diversified offering in terms of styles, coverings and functions has engaged product R&D in a campaign to upgrade the company’s technical and stylistic know-how.

In 2001 that upgrading enabled an extremely rapid introduction of products featuring our top-quality, high-tech electrical mechanisms. Added to which was the development of 122 new models, 8 new articles and 111 new leather colors, 6 new fabrics in 30 new shades and 45 new furnishing accessory models. These innovations successfully met clients’ growing demands for extra comforts. The Group’s R&D capability is already looking at more advanced and sophisticated technologies for the future.

To support this product innovation drive it was necessary to upgrade our engineering area, which is now capable of developing a wide range of components for highly specific purposes.

We opened a second Style Center near Milan, so our creative development is in direct contact with Italy’s “cradle of design” and enjoys synergy with the major Italian and international designers who often choose Milan as a test ground for new product concepts.

In its ongoing commitment to implementing the highest possible standards of quality in the industry, the company decided, having already obtained ISO 9001 certification, to adopt a voluntary standard designed to measure and improve its performance in terms of safeguarding the environment and the community. This led to our being granted ISO 14001 certification on November 26, 2001.

The aim is to improve the quality of life of employees at the same time as raising wider social awareness. In this connection, the company has stepped up the number of experts engaged in constant study and improvement of workplace ergonomics. Some 27 innovations were introduced in 2001.

Giovanni Costantino  
with Willy Lo Savio and Naohiko Mitsui

On the following pages:  
Francesca Porfido, Anna Manicone, Anna Labarile, Francesco Dileo,  
Domenico Cinque, Giuseppe Ninivaggi







## The Design Center

Bruno Mele

# products

The Natuzzi collection includes the widest offering of sofas in the world in terms of styles, coverings, colors, functions and price ranges. It has over 400 models in casual-contemporary, modern and classic style.

“Casual-contemporary” is the Natuzzi style we launched in the Seventies-Eighties and that made us recognizable, and imitated, all over the world. This style became the foundation of our collection and turnover, and we continually reinterpret it to reflect new trends.

The second most important style is the “classic”, which we offer in both the traditional American (rounded arms, studs, aged leather) and European version (wood-trim, models with capitonné finishing).

The “modern style” represents our commitment to the top end of the design spectrum. This range has been further enhanced by major collaborations with prestigious Italian designers such as Mario and Claudio Bellini, Massimo Iosa Ghini and Paola Navone.

Each of these styles is produced in different price ranges, from promotional (Italsofa) to medium to medium high end (Natuzzi) so consumers can find in our collection the sofa that reflects their living room tastes and style.

Around half of all Natuzzi models are “versatile”, i.e. available in both leather or fabric and microfiber. A versatile model guarantees retailers maximum profitability per square foot, in that they can sell the fabric version of a leather unit on display and viceversa. This is one of the major strengths of our “Natuzzi Stores” and “Natuzzi Spaces”.

As world leader in the sector, Natuzzi offers the world’s widest leather collection. The collection has around 270 colors in two families (Natural and Protecta), with 30 articles in 10 different price ranges. Thanks to its experience in the leather industry, Natuzzi can advise consumers on the articles best suited to their needs. “Natural” for people who love leather unconditionally, with all its natural characteristics and the marks of its individual history, or “Protecta”, for people who decide they want a natural covering but without sacrificing functionality.

The ultra-microfiber collection (“Dreamfibre”) consists of three articles in two different prices ranges, available in 60 colors.

The fabrics collection includes 13 different articles in five price ranges, all top quality, Teflon-treated and in a total of 80 fashion colors.

Now for the functions: bed, manual or electric recliner, massage. 50 models in the Natuzzi collection incorporate a comfortable bed. Some 40 models have the motion function, operating either manually or by pressure of the foot or electrically.

There are around 70 recliner armchairs, making it possible to create dedicated corners in points of sales to display the variety of mechanisms available: mechanical with a lever or simply push-back, and electrical with or without the massage function.

Bruno Mele  
with Ariana Agyropoulos and Anna Maria Natuzzi

Lastly the versions: normal and large 3-seat sofa, loveseat sofa, armchair, “occasional” armchairs, poufs, corner sofa with and without mechanism, chaise lounge. These diverse elements (models, versions, coverings, paddings) can be combined in over two million ways to give our consumers a practically infinite choice.

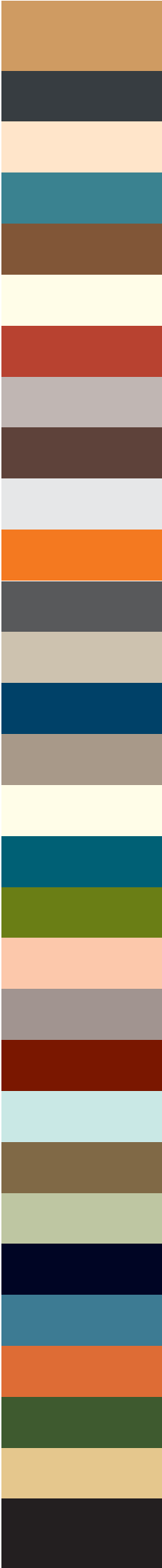
For the North American market we created the Sofast collection (now with 25 models available in seven leather articles, contemporary and classic, totaling 40 colors) and an ultra-microfiber collection in 10 colors.

The Sofast collection meets the needs of clients whose business is based on large volumes and who therefore want fast moving inventories.

Launched in 1999, this program has generated an additional business with a turnover of around \$100m.

Natuzzi also provides “living room interior decoration” services. A team of product managers and decorators from the Design Center, coordinated by Pasquale Natuzzi, designs harmonious living room furnishing solutions combining sofas and armchairs with various styles and coverings, accessories and decorations, enhanced by certain “fashion accents” – variously sized and shaped cushions and poufs in colors and materials reflecting the latest trends. These furnishing solutions are studied down to the smallest details, even the colors of the wooden feet are carefully selected to combine with the colors of the coverings and accessories, thanks to a choice of around 40 different finishes.

The result is the elegant yet warm atmosphere that can be found in the Harmony Spaces, where each living room display is the expression of a different lifestyle, reflecting the personality and values of the people living in it. It is the essence of Natuzzi’s new brand claim– It’s How You Live.





## The Italsofa collection

In 2001 we launched a new collection of sofas and armchairs bearing a new brand, Italsofa, designed specifically to address the promotional segment of the market with an offering of good quality products at highly competitive prices.

Created in Italy and made in our new foreign production facilities, Italsofa models confirm our Group's creativity and experience in meeting the expectations and needs of price-sensitive clients who want to enjoy the *Italian Touch*.

At the Cologne International Furniture Fair in January 2002 we unveiled 12 new models in our Casual Contemporary style, with leather and ultramicrofiber coverings and a selection of new colors ranging from beiges to greens, browns, blues and yellows. This collection is to be enlarged with new models and coverings.

**Italsofa**  
*The Italian touch*



## The Key Growth Factor

Enrico Carta

# human resources

Human resources policy in 2001 focused mainly on developing the managerial capacities of strategic roles, on strengthening the management structure, on enhancing and communicating the know-how and competencies of the Company (an extraordinary and distinctive success factor), and on consolidating the motivation and fidelity of Natuzzi's employees.

The Group's expansion programs have always been based on training courses addressing people seeking first employment, given that local markets do not offer, either in Italy or abroad, the professional skills needed for Natuzzi production processes.

In 2001, 2,049 people participated in a total of 48,382 man/hours of training. New employees underwent an intensive educational program to provide the necessary role competencies and knowledge of the company's main management processes.

Subsequent on-the-job training and tutoring in the plants provides a "soft" transfer into the production cycle, 659 people participated in 32,115 man/hours of basic training.

The work force numbered 4,643 as of December 31, 2001, thus continuing the growth trend recorded the previous year.

The number of new employees increased by 943, of which 89% were channeled towards production units and 11% towards strengthening the services area (production – logistics – R&D – sales and post-sales).

Further, to support and strengthen certain business areas (retail, communication, etc.) the Company took on new managers with the right know-how to guarantee and accelerate the growth process underway in these strategic areas.

Low personnel turnover and absence of disputes consolidated Natuzzi's image as a company whose human resources management is a priority value and a hallmark success factor.

This constant commitment was given official recognition when Bari University awarded Pasquale Natuzzi an honorary degree in Educational Science.



Group Employees, 1998 – 2001

1998	3,363
1999	3,492
2000	3,700
2001	4,643



December 10th, 2001  
Pasquale Natuzzi receives an honorary degree  
in Educational Science at Bari University

Christmas 2001  
a traditional event for all Group employees





## The new Visual Identity

Gianluca Monteleone

# the brand

The strategy informing Natuzzi's new visual identity is based on a very strong concept: everyone should have the possibility to have an “ideal” living room that reflects their taste, expresses their personality and asserts their way of living.

Natuzzi's mission is to be a reliable, authoritative brand at the service of everyone: a brand of sofas, armchairs and furnishing accessories that delivers the certainty of a wide range, selected with typical Italian taste, that will always form the ideal living room in terms of style, price, quality and comfort.

“It's how you live” is the claim that sums it all up. With Natuzzi you can express your full personality and style — the unique, unrepeatable essence of you. Natuzzi is how you are. Natuzzi is how you live.

### Visual identity system

Such is the vision underpinning the design of the brand's entire visual identity, which has three main elements:

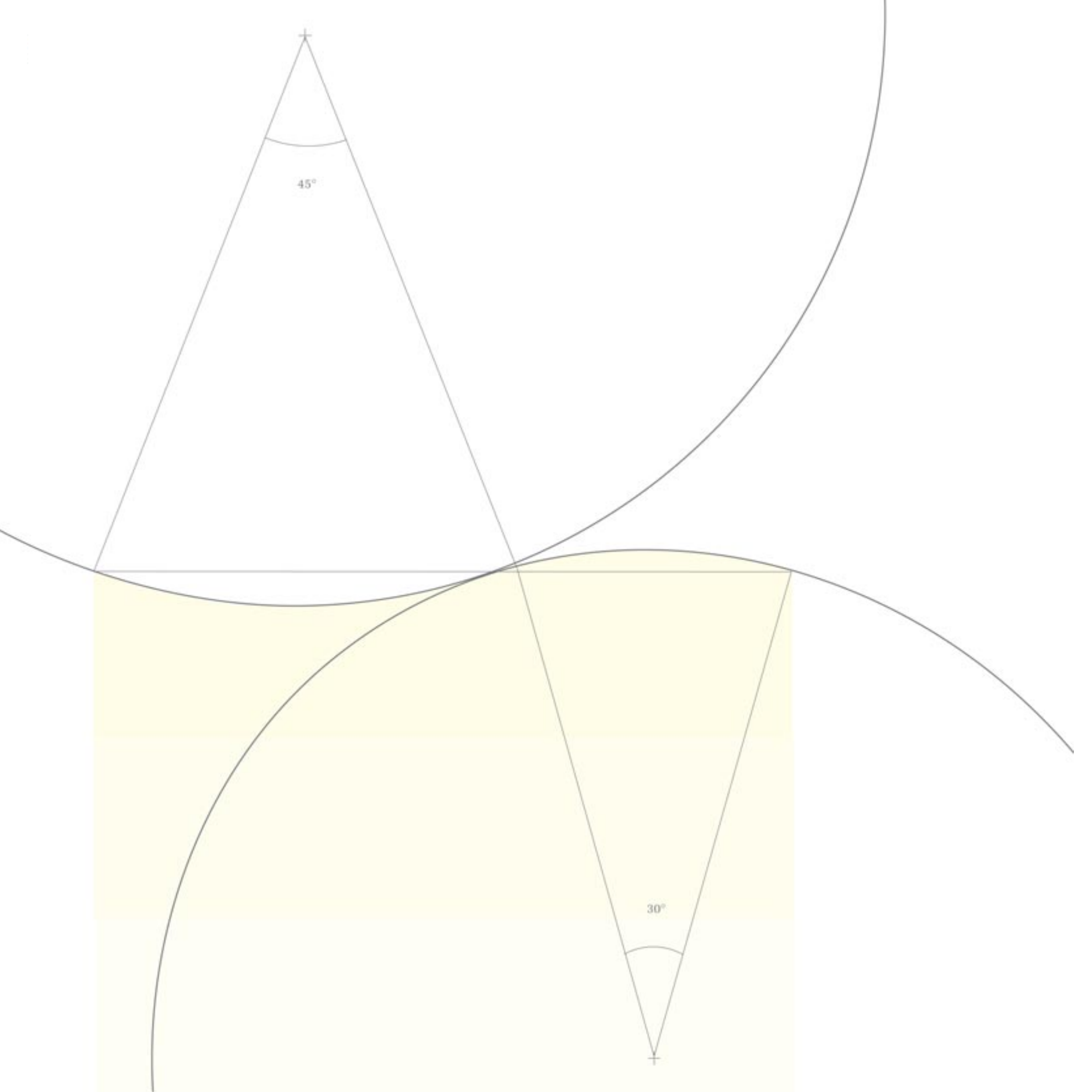
- The *logo*, with its clean and elegant design, its distinctive curved lines recalling the values of comfort and softness.
- The *color green* (woodland green and sage green), speaking of harmony, balance, well-being and relaxation.
- The *U* (= you), the very essence of the brand vision. In the exact middle of the logo and highlighted by a different color and font, it expresses Natuzzi's consumer-centric mission. Natuzzi is you, your tastes, your desires, your expectations, your lifestyle.

### Communication system

Designed to discipline the ways in which the brand must operate in the world, the communication system is organized on a menu basis. All the necessary communication tools are produced at corporate level, in Italy, whilst the optimum, balanced mix in relation to the relevant objectives and context is defined locally.

The levels in this model are:

- *pure branding*: this is the corporate level of communication used to convey the brand philosophy. Communication is focused on the relationships that grow between people and their living rooms, which become “discreet” witnesses of the most diverse “slices of life”.
- *product branding*: this level is designed to exalt the exclusivity of Natuzzi products. The focus of these communications are specific product models whose aesthetic and functional aspects are highlighted and exalted from time to time.
- *store attractions*: the aim here is to attract consumers to the point of sale, with various kinds of initiatives (announcements of new openings, promotions, events).
- *in store communication*: the aim is to use language and content consistent with





that used outside the point of sale, thus providing a shopping experience in line with the "spirit of the brand".

### Display system

For a brand to assert its identity, it must also leave its mark on distribution. The Natuzzi Display System defines and disciplines all possible display solutions in which the brand may be required to operate, thus making it possible to manage situations in all markets/channels.

The system works on three levels:

- the *store*, which guarantees maximum control over how the brand is presented;
- the *space*, which provides “controlled” display facilities in the context of the wholesale channel, using the shop within the shop formula;
- the *point*, which signals the presence of Natuzzi products using “soft”, non-invasive signage in situations where a space isn’t practicable.

### Conclusions

The new visual identity, communication and display system were presented during the Cologne International Furniture Fair in January 2002.

Reactions were extremely positive and encouraging.

The market understood the project and its purposes and appreciated the rigor and professionalism with which it was developed.

This recognizes the merits of the whole Corporate Marketing Team and their months of preparatory work. It encourages all of us to carry forward this exciting challenge.

January 2002: the Natuzzi stand  
at the Cologne International Furniture Fair

NATUZZI

A man and a woman are in a modern living room. The man, wearing a white shirt and light-colored pants, is kneeling on a grey carpet, holding a camera on a gimbal. He is smiling and looking at the camera. The woman, wearing a white shirt and light-colored pants, is lying on her back on the carpet, with her legs raised in the air. She is also smiling. In the background, there is a white sofa, a glass coffee table, and large windows with sheer curtains. The text "It's how you live" is overlaid on the image in a dark green, sans-serif font.

It's  
how  
you  
live



# The Evolution of the Wholesale and Retail Networks

Fred Starr, Dino Lorusso, Valeria Lanzilotta, Antonello Bracalello

## distribution

### The Evolution of the Wholesale Network

#### The Americas

2001 in the Americas was characterized by a positive trend in the sales of sofas and armchairs under the Natuzzi name through the wholesale distribution channel and by the launch of the new brand, Italsofa. Our retailers received initial Italsofa deliveries in January 2001. Sales grew significantly thanks to a collection of 16 new models, with new leathers and new Dreamfibre coverings being added in the course of the year. Italsofa produced a turnover of ITL 79.8 billion in 2001.

The new offer performed alongside the Natuzzi brand, which represented 88.6% of total turnover in the Americas.

The Sofast program continued to achieve positive results and sales were up 30.1% on 2000 thanks to the introduction of nine new models.

The Natuzzi collection developed in step with our retailers' needs, with new leathers, coverings and models enabling us to offer highly competitive products for our clients' business plans. The Natuzzi Space program will be started up in 2002 with around 20 new openings.

#### EMEA

In 2001 wholesale business in Europe, the Middle East and Africa produced a turnover of ITL 475.7 billion, up 18.9% on 2000. Turnover in the eight main markets (UK, Germany, The Netherlands, Belgium, France, Eire, Norway and Spain) accounted for 80% of revenues from the EMEA area. UK and Germany represented 19% and 14% respectively of total revenues.

A breakdown of sales by type of offer shows a positive trend for Natuzzi brand products, which produced 94.2% of total turnover in the region. The other 5.8% was produced by Italsofa products.

Development programs for 2002 include the opening of 20 Natuzzi Spaces in a pilot project for the use of the new Display System, ahead of the definitive roll-out in 2003. The first Natuzzi Space was officially opened in Frechen (Cologne, Germany) on 6th June 2002.

Sales forecasts for Europe reflect the unfavorable situation that will affect Germany, Austria, The Netherlands, Belgium and Denmark in 2002, with consumption falling back in our sector as well.

### Asia Pacific

Sales were substantially stable in the Asian and Pacific region. Net sales were slightly down in Australia and Japan (5% and 10% respectively). New Zealand, on the other hand, showed strong growth (51%), Singapore did even better (up 57%) and China moved up 33%. In May 2002 we opened an office in Hong Kong to supervise the region more closely.

New shops were opened in China in 2001, bringing the chain to four (one in Beijing and three in Shanghai). 2002 will see new openings in Australia, where there is already a shop in Sydney and one in Brisbane, and where we will be concentrating on both the retail channel and the opening of Natuzzi Spaces with the new corporate identity and display system. These initiatives will also involve our long-standing partners, who will continue to endorse our development plans with their enthusiastic participation.



## The Evolution of the Retail Network

### The Retail project

The strengthening of the Natuzzi brand must be supported by a distribution strategy providing integrated control of all activities related to the retail business.

The strategy is based on a formula that is innovative in our particular industry. As the world's leading maker of upholstered furnishing, Natuzzi has integrated production and points of sale to complete the value chain downstream.

Natuzzi's brand project thus involves a natural development of retail business by creating a direct distribution channel under the name of Natuzzi and capitalizing on the ten-year success story of Divani & Divani.

### The Retail Division

The first stage in the project was organizational - the creation of a special Retail Division to provide the necessary services for effective growth of the retail business. Central control and coordination are ensured by two staff structures operating within sales management, one responsible for "Retail Marketing" and the other for "Retail Sales & Operations".

### Implementation strategy: Divani & Divani by Natuzzi and Natuzzi Store

Given the substantial differences between countries and the maturity of their distribution chains and past experience, the final aim of creating a global network of single-brand Natuzzi stores obviously requires implementation that's carefully geared to situations in local markets.

As of December 31, 2001 the network of over 160 single-brand points of sale world-wide can be divided in two main blocs:

- Divani & Divani shops opened in Italy, Spain, Portugal and Greece, characterized by capillary coverage of the regions, undisputed leadership in terms of market share (around 10% on average) and a high degree of consumer awareness.
- Natuzzi stores opened in other countries (France, Switzerland, Slovenia, Croatia, Hungary, Cyprus, Australia, China) since the second half of 2000.

The implementation strategy for Divani & Divani stores must focus, in line with the global brand project, on building a strong and unequivocal bond with the Natuzzi brand, to create a new competitive positioning for the chains and eliminate the risk of losing brand identity, especially in Italy (Divani & Divani could end up being a synonym for any upholstered furniture specialist instead of a brand name with a specific personality and values).

The first Divani & Divani by Natuzzi store, in Bari



The decision to change the name of the Italian, Greek and Portuguese chains to Divani & Divani by Natuzzi was dictated by the need to maintain the assets that the original brand represents for consumers and to enhance their value by associating them with the Natuzzi brand and values.

The new positioning of Divani & Divani does not, however, mean abandoning the traditional client base (which will be served with top end products at democratic prices). It will also involve a widening of the offer to new higher bracket targets through the Harmony concept.

The implementation strategy in countries where Natuzzi Stores have been opened is to accelerate the growth of the network in order to achieve, as quickly as possible, the critical mass needed to support the volumes on which the success of the stores will depend.

#### **Objectives for 2002**

In line with the implementation strategy outlined above, the objectives defined for 2002 are:

- to consolidate the development of Natuzzi Stores launched in 2001 (2 points of sale in Switzerland, 4 in France, 1 in Croatia, 1 in Hungary, 2 in Australia and 1 in China) by opening around 40 more outlets in those countries;
- to upgrade existing Divani & Divani chains in Italy, Portugal and Greece by creating a strong bond with the Natuzzi brand through adoption of the new name Divani & Divani by Natuzzi and by re-positioning points of sale not in line with the new, more competitive positioning.



Board of Directors

at June 30, 2002



Pasquale Natuzzi  
Chairman of the Board  
of Directors



Giuseppe Desantis  
Vice Chairman of the Board  
of Directors



Giambattista Massaro  
Director



Gianluca Monteleone  
Director



Stelio Campanale  
Director



Claudio Dematté  
Outside Director



Pietro Gennaro  
Outside Director



Giuseppe Russo Corvace  
Outside Director



Cataldo Sferra  
Outside Director



Enrico Vitali  
Outside Director



Armando Branchini  
Outside Director

Team Natuzzi

(seated, from right)  
Pasquale Natuzzi  
Anna Maria Natuzzi  
Giovanni Mercadante  
Emanuele Valente  
Vito Dagostino  
Amedeo Buzzacchino  
Giuseppe Trevisoi  
Bruno Mele  
Dino Lorusso  
Ottavio Milano  
Enrico Carta  
Stefano Lorizio  
Gianni Massaro  
Gianluca Monteleone

(standing, from left)  
Willy Lo Savio  
Tommaso Melodia  
Nicola Lassandro  
Luigi Scocuzza  
Nicola Masotina  
Loredana Mariani  
Antonello Bracalello  
Nicola Coropulis  
Nicola Dell'Edera  
Giuseppe Stano  
Luigi Vitolo  
Gaetano Del Re  
Stelio Campanale  
Giuseppe Firrao  
Giuseppe Desantis  
Giuseppe Catalano  
Giovanni Costantino

(not in the photo)  
Steve Bailey  
Angela Barney  
Anna Beccari  
Gaetano De Cataldo  
Michele D'Ercole  
Enrico Giovene  
Sylvain Grisé  
Lars Hovang  
Cesare Laberinti  
Valeria Lanzilotta  
Nunzia Natuzzi  
Filippo Petrera  
John Phillips  
Rino Ragazzo  
Stefano Sette  
Fred Starr  
Vito Testini  
Antonio Ventricelli





The Muse's Sofa, 21st September 2001  
The world's biggest sofa (Guinness 2001)  
36 meters, seating 120  
in Bologna's prestigious Piazza Maggiore



