challenges
of the future

Corporate Profile

Values

Integrity and respect for people and the environment are our most important values. We are an Italian and an international company. Our mission is to create value for our customers, employees and shareholders.

Leadership

Natuzzi was founded in 1959 by Pasquale Natuzzi. The Group designs and produces sofas, armchairs and living room accessories. It is the largest Italian furniture company with 2002 revenues of 805 million euro, and it is the worldwide leader in the production of leather upholstery.
In 1993, Natuzzi became the only foreign furniture company to list on Wall Street. It is a solid company with a sound financial structure that allows it to finance its growth internally: almost 80% of its earnings have been reinvested into the Company over the past years.
The Group exports its products to 135 countries in five continents. In the 1980s, Natuzzi introduced substantial innovations in the design and manufacturing that made leather upholstery affordable for everybody. Until then, only a small elite group could afford it. Today, more than 6,500,000 families in the world own a Natuzzi sofa.
As of December 31, 2002, the Group employed 5,742 people, 4,477 in Italy and 1,265 abroad.
Innovation, efficiency, quality and service are the basis of Natuzzi's culture.

Innovation

Natuzzi is one of the largest investors in research and development in the furniture industry. Pasquale Natuzzi directly manages this strategic activity through the two Design Centers located in Santeramo in Colle, Bari and Bovisio Masciago, Milan. In these Centers, 180 persons are dedicated to the design, the study of the market trends, and the selection of materials. The Design Centers are factories of ideas. Every year the designers draw 4,000 new models. Pasquale Natuzzi's team chooses the best models and follows the entire product evolution, from the first prototype to the introduction in the market. Every year more than 100 new models, in different styles, coverings and colors, set new trends in the world of furniture. This strong commitment to innovation has produced the widest collection of sofas and armchairs in the world with more than 2 million combinations of styles, coverings and functions.

Efficiency

Natuzzi is vertically integrated through 12 factories in Italy and 3 abroad (China, Brazil and Rumania).
Raw materials are purchased directly from the primary markets and then processed in the company's facilities, specialized in manufacturing leather, wood or metal frames, foam and finished products. Controlling the entire supply chain, the Group increases efficiency and achieves excellent quality levels.
Natuzzi's products are hand-made by expert craftsmen, whose know-how Natuzzi preserves and passes on through its own Training School.

Quality

Every day 280 people are committed to guarantee high quality standards. This constant effort gained Natuzzi the ISO 9001 System of Quality certification in 1995. Natuzzi was among the first companies in the world to obtain this prestigious recognition after a scrupulous analysis of the Company's activities in design, research and development, raw-materials control, semi-finished and finished products, manufacturing, logistic, training and after-sale service.
Furthermore, in December 2001 the Company received the ISO 14001 certification for environmental control, thus confirming its strong sense of responsibility.
Natuzzi products are covered by a 10 year guarantee on the frame and 2 years on foam and leather coverings.

Service

Customer service and the entire sales network are managed from different locations in the world: the headquarter in Italy, Natuzzi Americas in the U.S., Natuzzi Asia in Hong Kong, Natuzzi Nordic in Scandinavia, Natuzzi Benelux in Belgium and the Netherlands, Natuzzi Iberica in Spain and Portugal and Natuzzi Switzerland in Switzerland.
The Group guarantees a high level service to its customers: delivery at retailer's premises, anywhere in the world, products invoiced in the retailer's currency, and complete on-line pre- and after-sales assistance through the technologically advanced "Natuzzi Business Portal".
The Group directly carries out the research and development of its products; engineers its new factories; and develops the management information systems and the extranet that allow customers, from any location in the world, to directly manage their orders.

Financial Highlights

twelve months ended December 31, 2002
(Italian GAAP)

		2002		2001		change %		2002	2001
		Euro millions (except as otherwise indicated)						USD millions (except as otherwise indicted)	
Net Sales		805.1	100.0%	786.1	100.0%	2.4%	(b)	761.5	703.7
Gross Profit		287.7	35.7%	266.0	33.8%	8.2%	(b)	272.1	238.1
Operating Income		101.8	12.6%	97.7	12.4%	4.2%	(b)	96.3	87.5
Net Income		91.4	11.4%	75.6	9.6%	20.9%	(b)	86.5	67.7
Net Income per ADS (a)	(€)	1.67		1.37		21.9%	$ (b)	1.58	1.23
Cash Dividend per ADS (a)	(€)	0.33		0.29		13.8%	$ (b)	0.35	(c) 0.29
Debt		132.3		255.8			(d)	138.7	227.7
Long-term Debt		128.7		3.3			(d)	134.9	2.9
Short-term Debt		3.6		252.5			(d)	3.8	224.8
Stockholders' Equity		495.8		428.5			(d)	519.8	381.4
Shares Outstanding	(#)	54,681,628		54,681,628					

	2002	2001
(a) Each Natuzzi American Depositary Share (ADS) represents one Ordinary Share		
(b) Average Noon Buying Rate (USD per EUR)	0.9459	0.8952
(c) Noon Buying Rate on the date the dividends were paid		0.9904
(d) Noon Buying Rate on December 31	1.0485	0.8901

Quarterly Stock Price - Price per ADS

(amount in USD)

	2002		2001		2000	
	High	Low	High	Low	High	Low
First	15.70	13.70	14.30	12.19	13.25	9.69
Second	16.25	13.10	14.14	11.50	12.88	9.63
Third	15.14	10.92	14.10	10.00	12.25	9.75
Fourth	11.02	8.95	14.74	10.80	13.19	11.31
Full Year	16.25	8.95	14.74	10.00	13.25	9.63

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Letter from the Chairman

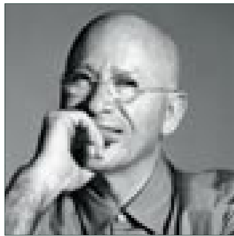
Dear Shareholders,

This year was one of difficult international economic conditions. The uncertainties caused by the conflict in Middle East, strong appreciation of the euro against other major currencies, decreasing consumer confidence and growing price competition, negatively affected the furniture industry and limited the growth opportunities for our Group. In 2002 we reported consolidated revenues of 805.1 million euro, a 2.4% increase over the previous year.
Net profit increased 20.9% as a result of considerably lower leather costs and gains from the hedging of the currency risk.

Despite the complex situation, which will also have a severe impact on 2003, we will continue to invest in the *Natuzzi* brand with the goal of positioning it in the medium-high end of the market. At the same time we will support the growth of *Italsofa*, that successfully competes in the low-end of the market, with a further increase of the production capacity of our foreign factories.

Innovation continues to be a strategic asset for the Group. During 2002 we invested 1.6% of revenues in research and development. For us, being a trendsetter means to focus on effective research, to constantly improve our collections and to support our customers guaranteeing quality and reliability.

In 2002 we enhanced our range of models, coverings and living room accessories. Today, more than ever, we are able to offer a full range of products for the living room: from the single armchair to the coordinated set.
We have introduced the *Partnership Program* aimed at strengthening the relationship with the customers of the *Natuzzi* brand. The program is very flexible, integrating the product with display modules like the *Point* or the *Gallery*, which fit our customers' needs and stores' size.



In 2002, we opened *Galleries* in Germany, Belgium and the U.S., and a substantial increase in sales per square meter was soon recorded. Thanks to these results and the confidence shown by our retailers, we are planning to open approximately 250 *Galleries* and 40 new *Natuzzi Stores* all over the world in 2003.

The stores' look and feel, which reflects the image and the values of the *Natuzzi* brand, adds strength to our investments in communication. Also in 2002, the Group launched its first international consumer advertising campaigns.

In order to deliver quality and reliability to our customers, we continue to make considerable investments in training our staff, located in our factories in Apulia and Basilicata, Southern Italy. Moreover, the new Italian factory in Laterza, close to Taranto, has been completed and our plant in Salvador de Bahia, Brazil is currently being expanded. In 2003, the completion is scheduled of the new 59,000 square meters plant in Baiamare, Rumania, where a full manufacturing cycle is planned.

Under circumstances of economic uncertainty like these, only clear and solid strategies guarantee a profitable future. Your trust and irreplaceable support, together with the extraordinary commitment of the management and all the people working for the Group, is necessary for us to face the challenges of the future. I am confident that the investments we are making will produce the expected results and that they will allow us to come out from the currently difficult environment stronger than we were before. The values of our Group, its financial solidity and the experience we have gained in the international markets, give us confidence in the future and in our mission: to create value for our customers, employees and shareholders.

Pasquale Natuzzi

Pasquale Natuzzi
Chairman of the Board of Directors

2002 Compared to 2001

Giuseppe Desantis

Net sales for 2002, including sales of leather- and fabric-upholstered furniture and other sales (principally polyurethane foam and leather sold to third parties, as well as accessories), increased 2.4% to € 805.1 million versus € 786.1 million in 2001. Net sales of upholstered furniture increased 2.9% to € 734.7 million. The increase was due to a 5.3% increase in units sold, a 0.7% increase resulting from a change in the mix of products sold, and a 3.1% decrease from the appreciation of the euro against the U.S. dollar.

Net upholstered furniture sales in 2002 reflected substantially the same geographic distribution as reported in 2001: Europe (44.4% in 2002, compared to 44.5% in 2001); Americas (49.9% in both 2002 and 2001); and the rest of the world (5.7% in 2002, compared to 5.6% in 2001).

Net sales of leather-upholstered furniture in 2002 decreased 0.1% to € 623.7 million compared to 2001, while net sales of fabric-upholstered furniture increased 23.9% to € 111.0 million. In the Americas, net sales of upholstered furniture increased 2.8% to € 366.4 million in 2002, compared to € 356.4 million in 2001. In Europe, 2002 net sales of upholstered furniture increased 2.7% to € 326.5 million, compared to € 317.9 million in 2001. In the rest of the world, 2002 net sales of upholstered furniture increased 5.3% to € 41.8 million from € 39.7 million reported in 2001.

In 2002, net sales of Natuzzi-branded furniture were € 609.4 million, down 7.2% versus 2001. During the same period, net sales of Italsofa furniture were € 125.3 million, up 119.8% compared to € 57.0 million reported in 2001.

In 2002, total seats sold increased 5.3% to 3,027,658 from 2,876,258 sold in 2001. The growth in 2002 unit sales was due to an increase of 14.2% in the Americas (1,572,879 seats), a 3.4% decrease in Europe (1,278,296 seats), and a 0.4% increase in the rest of the world (176,483 seats). The performance in some European countries was strong: France (+19.4%), Ireland (+21.0%), Sweden (+16.3%), Greece (+9.9%) and United Kingdom (+5.4%). However, we reported slower performance in other countries: Germany (-8.8%), Belgium (-19.0%), the Netherlands (-29.6%), Austria (-21.6%) and Portugal (-10.1%). Seats sold in the United States and Canada increased 15.7% and 0.8%, respectively. Growth in the United States was mainly the result of the growing success of the Group's low-end brand, Italsofa. In the rest of the world, seats sold increased from 175,704 to 176,483. The rise in 2002 unit sales in the rest of the world included an increase in Australia (+1.8%), Korea (+65.3%), the United Arab Emirates (+81.7%) and Taiwan (+15.6%). This increase was partially offset by declines in Japan (-9.0%), Israel (-7.4%), New Zealand (-13.2%) and China (-5.6%).

Unit sales of leather-upholstered furniture were 2,433,509 in 2002, a 0.9% increase compared to 2,410,630 seats sold in 2001, while the Group sold 594,149 fabric-upholstered seats in 2002, a 27.6% increase compared to the 465,628 seats sold in 2001.

Giuseppe Desantis
Vice Chairman of the Board of Directors

The Natuzzi brand sold 2,313,186 seats in 2002, 10.0% less than 2001. Italsofa increased 133.1% to 714,472 units.

Total net sales to Divani & Divani by Natuzzi and Natuzzi stores increased 15.2% in 2002 to € 96.2 million. During the year, a total of 31 new stores were opened in Italy, Australia, France, Switzerland, Spain, Malta, Hungary, Bosnia and Iceland. As of December 31, 2002, the total number of Divani & Divani by Natuzzi and Natuzzi stores was 125 in Italy and 69 outside Italy.

Other net sales decreased 2.4% to € 70.4 million compared to € 72.1 million reported in 2001.

Cost of goods sold as a percentage of net sales decreased from 66.2% in 2001 to 64.3% in 2002. This decrease was principally due to a decrease of approximately 14% in the cost of leather, expressed at constant exchange rates. The prices of other principal raw materials, such as polyurethane foam, polyester fibers and chemicals, remained substantially unchanged.

The Group's gross profit increased 8.2% in 2002 to € 287.7 million. Selling expenses increased 7.9% to € 145.4 million and as a percentage of net sales increased from 17.2% in 2001 to 18.1% in 2002, mainly due to higher marketing expenses and exhibition costs. This increase was partially offset by lower transportation costs.

General and administrative expenses also increased. The Group reported € 40.5 million in 2002 compared to € 33.5 in 2001. As a percentage of net sales, these expenses increased from 4.2% in 2001 to 5.0% in 2002. Operating income increased 4.2% to € 101.8 million in 2002.

Other income (expense), net increased to € 14.5 million in 2002 from a negative € 0.2 million in 2001. Net interest income in 2002 was € 1.5 million, compared to € 2.3 million in 2001.

Foreign exchange transactions resulted in a gain of € 9.3 million in 2002, compared to a loss of € 6.1 million in 2001. The gain in 2002 was mainly due to the following:

- An actual gain of € 10.9 million in 2002 (compared to a loss of € 12.2 million in 2001), due to the difference between the forward rate of the domestic currency swaps used to protect against any potential unfavorable effect of the foreign currency at which the company set the price list and the spot rate at which the domestic currency swaps were closed;
- An actual loss of € 8.8 million in 2002 (compared to a loss of € 1.5 million in 2001), from the difference between the invoice exchange rate and the collection/payment exchange rate;
- An unrealized loss of € 0.6 million (compared to nil in 2001) recorded in the consolidated statement of earnings from the conversion of non-euro financial statements of the Company's subsidiaries;
- An unrealized gain of € 5.8 million in 2002 (compared to an unrealized gain of

€ 8.5 million in 2001) on accounts receivable and payable; and

- An unrealized gain of € 2.0 million in 2002 (compared to an unrealized loss of € 0.9 million in 2001), from the mark-to-market of domestic currency swaps.

The Group recorded also other income in 2002 of € 3.7 million compared to € 3.6 million reported in 2001.

The Group's effective income tax rate for 2002 was 21.5%, compared to 22.5% in 2001. The lower rate was due to a greater portion of consolidated pre-tax earnings received from member companies that are entitled to tax exemptions.

Net earnings increased from € 75.6 million in 2001 to € 91.4 million in 2002. On a per Ordinary Share, or ADS basis, net earnings increased from € 1.37 in 2001 to € 1.67 in 2002. As a percentage of net sales, net earnings increased from 9.6% in 2001 to 11.4% in 2002.

Net Sales

€ million

Year	Value
1999	563.8
2000	688.5
2001	786.1
2002	**805.1**

Net Earnings

€ million

Year	Value
1999	82.4
2000	79.2
2001	75.6
2002	**91.4**

Shareholders' Equity

€ million

Year	Value
1999	378.1
2000	366.5
2001	428.5
2002	**495.8**

Liquidity and Capital Resources

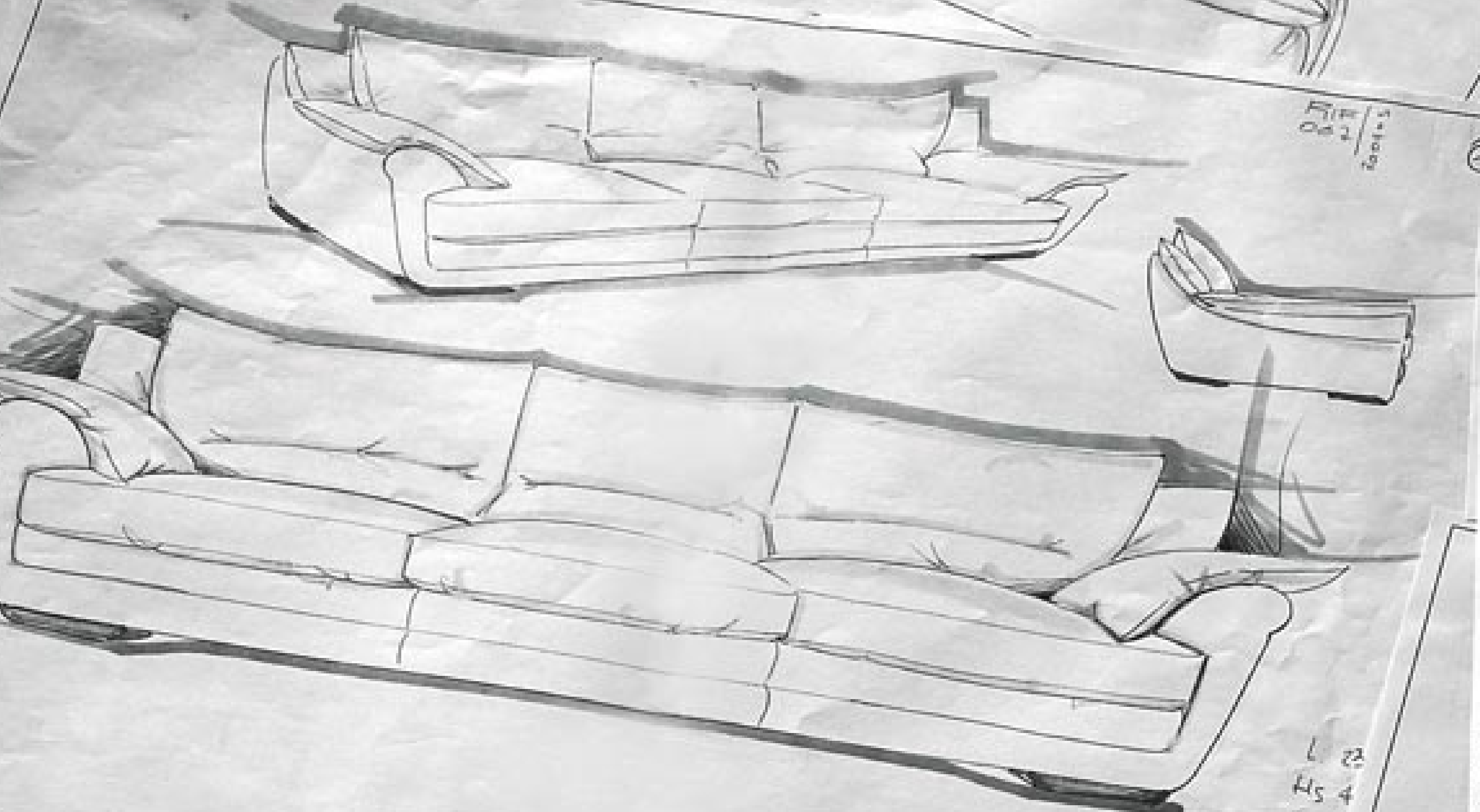
Cash flows from operations were € 97.6 million in 2002, compared to € 75.7 million in 2001. The increase resulted principally from higher net earnings and improvements in working capital management.

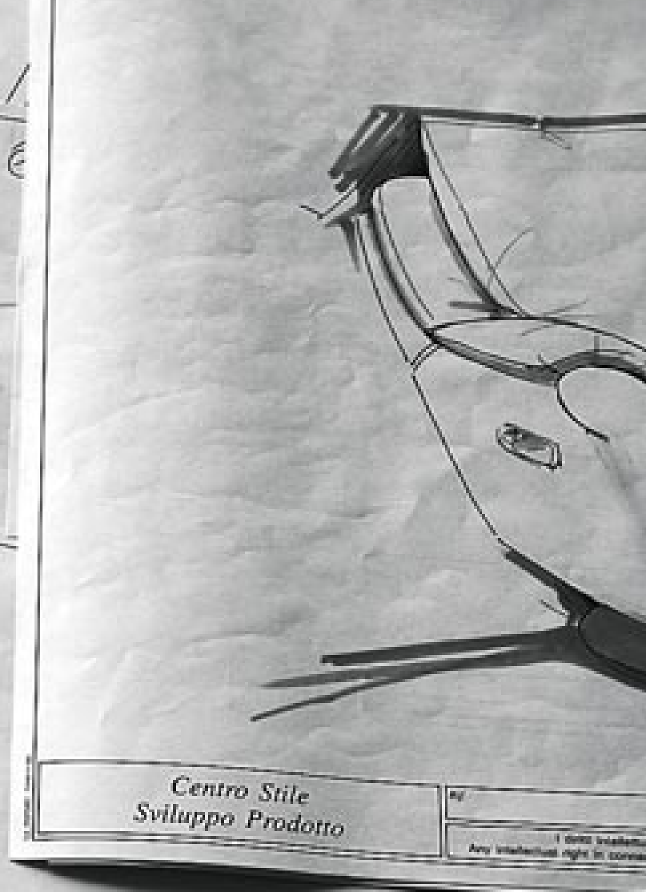
Cash used for investing activities in 2002 totaled € 58.5 million versus € 68.3 million in the previous year. Capital expenditures were € 68.7 million and € 69.1 million in 2002 and 2001, respectively. In 2002 the Natuzzi Group received capital grants of € 10.0 million, through the Italian government's investment incentive program, which recognized capital grants equal to a percentage of the aggregate investment made by the Group in the construction of new manufacturing facilities, or in the improvement of existing facilities, in designated areas of the country. In 2002, the Natuzzi Group made the final investments in its factory in Laterza (Italy), and continued to invest in Salvador de Bahia (Brazil) and Baiamare (Rumania). Other investments were made to increase overall efficiency and productivity.

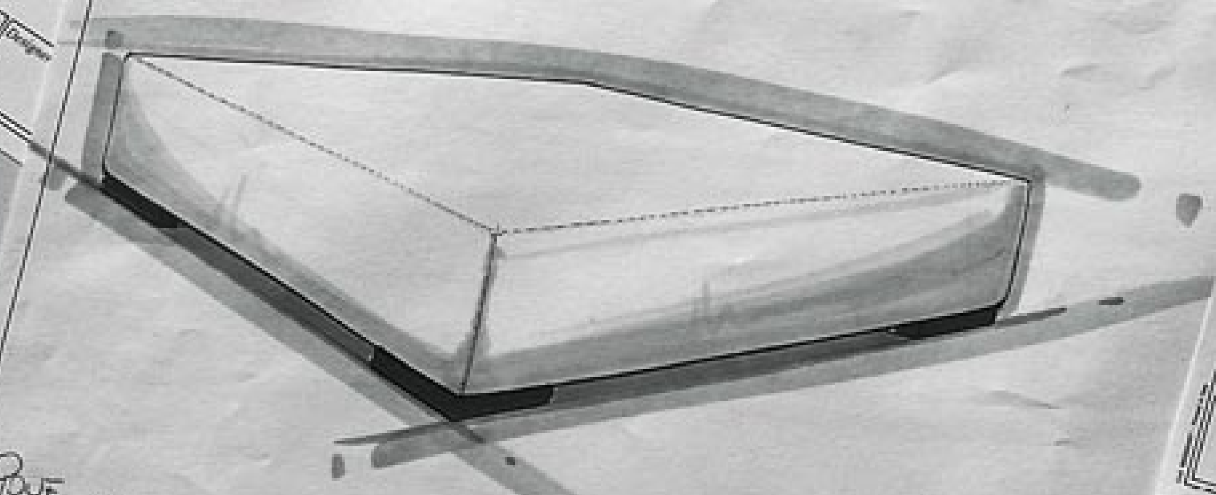
Cash used for financing activities in 2002 totaled € 149.3 million versus cash provided by financing activities of € 105.5 million in the previous year. In 2002 net cash from financing activities was negatively affected by the reimbursement of short-term borrowings of € 134.3 million. Dividends paid to shareholders were € 15.7 million and € 15.9 million in 2002 and 2001, respectively. In 2002 the Natuzzi Group did not purchase treasury shares, while in 2001 it spent € 14.6 million in connection with the Company's repurchase program, which has now expired.

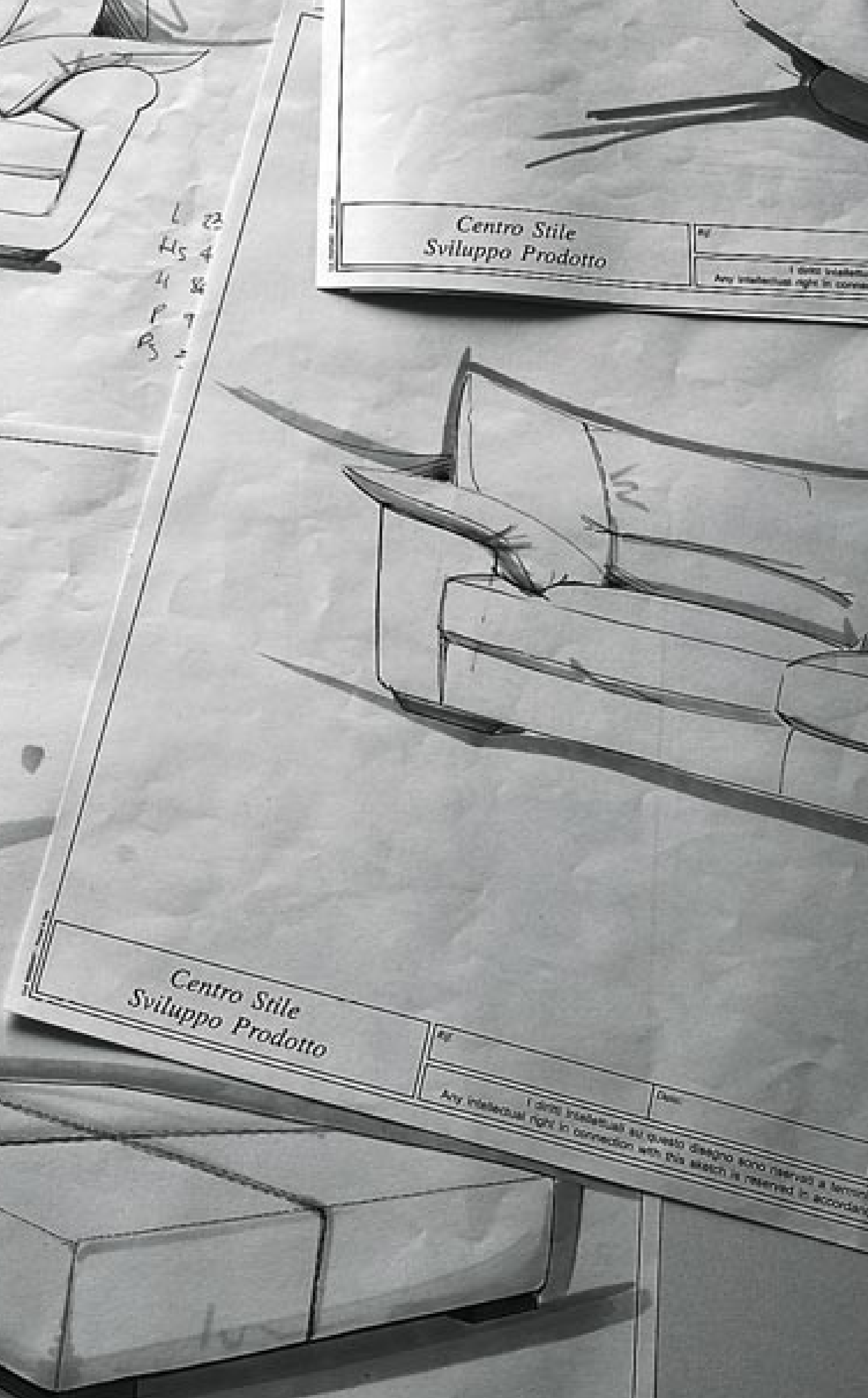
As of December 31, 2002, the Group had available credit facilities totaling € 171.9 million. The unused portion of these facilities amounted to approximately € 171.8 million. The Group's long-term debt represented less than 1% of shareholders' equity at December 31, 2002 and 2001.

Management believes that the Group's working capital is sufficient for its present requirements. The Company's principal source of funds is expected to be cash flow generated from operating activities, cash on hand and amounts available under its credit facilities. The Company's principal use of funds is expected to be the payment of operating expenses, working capital requirements and capital expenditures.




Centro Stile
Sviluppo Prodotto


NATUZZI
IN TESSUTO


Centro Stile
Sviluppo Prodotto

From the Design to the Product

NATUZZI

Italsofa

The Natuzzi Group controls different stages of a new model creation, from the creativity to the prototype development and its manufacture.

The design is developed in the two Natuzzi Design Centers located in Santeramo, Bari and Bovisio Masciago, Milan, where Pasquale Natuzzi leads a team of architects, designers, interior decorators and color experts. The Group offers two different lines of sofas and armchairs branded *Natuzzi* or *Italsofa*.

The *Natuzzi* line, with a total of 348 models, is characterized by a casual-contemporary style known all over the world and synonymous with made in Italy design. The brand also includes modern, classic and wood trim models that reflect the evolution of lifestyles and tastes. The *Pasquale Natuzzi Collection* represents the high-end product line with 30 models extremely refined in their design, materials and finishings.

The wide *Natuzzi* collection is enriched by a dedicated line of furnishing accessories such as tables, lamps, and rugs which allow to offer a *total look living room*.

The *Italsofa* line, positioned at the low end of the market, includes 33 models, that represented approximately 24% of total seats sold in 2002 compared to 11% sold in 2001. *Italsofa* is designed in Italy and manufactured in the Group's plants located in China, Brazil and Rumania.

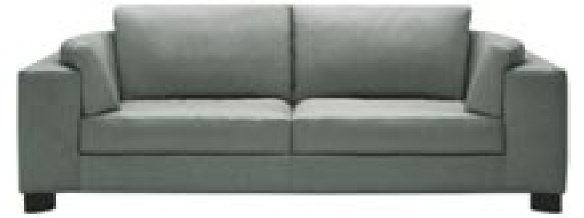
Natuzzi offers the widest selection of leather coverings available on the market: more than 300 colours available in two categories – Protecta or Natural – corresponding to different aesthetical and practical needs. A total of 40 articles are sold in ten price points.

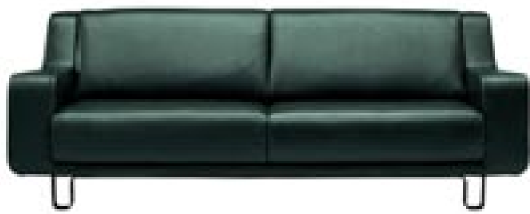
The ultra-microfibre collection (*Dreamfibre*) includes 7 articles sold in 3 different price points in 83 colors in total. The fabric collection includes 17 high quality articles, grouped in 6 different price points, for a total of 109 colors that are continuously renewed and treated with teflon.

Functions are also numerous: from the bed to the manual or electrical mechanisms for relax and massage. Seventy models can be converted into a bed; 46 have the motion function available with various mechanisms.

The Research & Development Department is responsible for the design, the engineering and the patenting of the new products. In addition, the new division Design & Engineering Retail, operating in this department, provides for the design and the set-up of all Natuzzi point of sales according to the Partnership Program.

The New Furnishing Accessories Line
created by Natuzzi Design Center





Some Models of the
Pasquale Natuzzi Collection

Manufacturing

The New Natuzzi Plants

Salvador de Bahia - Brazil
Salvador de Bahia - Brazil
Baiamare - Rumania
Ginosa (TA) - Italy
Laterza (TA) - Italy

Efficiency, integration and quality are the basis of Natuzzi production system composed of 15 factories (a total of 310,000 square meters) in Italy, Brazil, Rumania and China.

Manufacturing operations are run according to the just-in-time method in vertically-integrated plants. Some of them are specialized in the manufacturing of the frames, foam and leather, while others assemble the finished product. The control of the entire process, from the design to the production of the model, allows to achieve a remarkable efficiency standard.

A solid manufacturing structure and a production know-how accumulated in a 44 year long history, represent two important strengths on which the Company continues to invest.

The Natuzzi factory in Laterza, close to Taranto, was completed with a total investment of 22 million euros, 18 million of which were spent in 2002. The plant covers a surface of 45,000 square meters.

In 2002 the construction was started of a new 10,000 square meters plant in Brazil. It is located next to the factory built in 2001 in Salvador de Bahia. This new unit will double the production capacity from 750 seats a day to 1,500. The new plant is expected to be fully operational in spring 2003. The total investment is expected to be 3 million U.S. dollars, 1.7 of which was already spent in 2002.

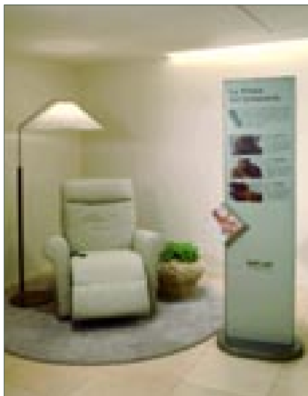
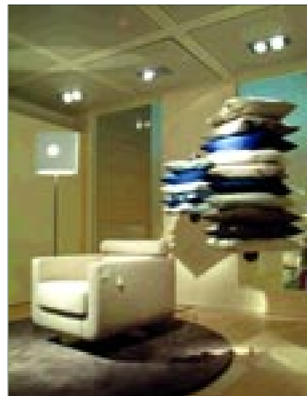
The new factory in Rumania is still under construction, even though as of December 31, 2002 it was already producing 400 seats a day. In 2003 it has been planned to open a new production unit making semi-finished wood products and foam, and to complete the investment for a full manufacturing cycle of sofas, armchairs and furnishing accessories. This factory in Baiamare will be able to produce, once fully operational, 1,500 seats a day. In 2002 the Group invested 15.7 million euros, almost half of the total investment.

Foreign manufacturing operations also include the *Italsofa* plant in Shanghai, China, whose production capacity, as of December 31, 2002, was of almost 1,200 seats per day.

In 2002, 17.4 million euros were invested to develop foreign manufacturing operations employing 1,151 people and a production capacity of 2,350 seats a day. All Natuzzi factories are built according to the most advanced technologies in order to achieve high quality standards.

NATUZZI

Natuzzi Partnership Program

Natuzzi Galleries and Points

The *Natuzzi Partnership Program* is aimed at supporting the growth through the consolidation of the relationships with the Group's *business-partners*.

The program offers to retailers the opportunity to have an exclusive collection, a display system which adds value to the products and a set of communication tools that create store traffic. The integrated management of the most important elements of the marketing-mix – product, point of sales, and communication - represents the real strength of this program.

A consolidated international leadership and a long experience of *business partnership* with the most important worldwide retailers, represent the strong guarantee of reliability of the Group.

The Natuzzi collection offers more than two million combinations of styles, coverings and functions. The goal of this wide range is to offer to every single partner a personalized and exclusive collection able to satisfy all consumers' needs.

The offer is exposed in the point of sales through the *Display System*, a modular system that defines all the possible displaying solutions, for the product and the brand in every market/channel. The system allows the partner to have in his own point of sales:

- The *Gallery* offering through a number of elements (an entry portal, informative totem, maxi-images, birch flooring, brochures and so on) a complete shopping experience in line with the brand values.
- The *Point*, which emphasizes the presence of Natuzzi branded products through light and discreet identification tools where the *Gallery* solution is not suitable.

Tests made indicate a high acceptance from the consumer and a considerable sales increase per square meter: 50% in Germany, 78% in Belgium, and 60% in the U.S..

With regard to the selling tools, Natuzzi provides its customers with a *Retail Advertising Kit* which offers several solutions: press campaigns, postings, direct mail, radio, television, all of which are easily customizable for a promotion in the geographic area where the customer operates. This local advertising tools reflect the image, the graphic and chromatic scale used in the Natuzzi's national campaigns. As a result, a synergy between national and local advertising is created.

Finally, the retailer is offered a training program dedicated to sales forces for them to fully grasp Natuzzi as a company and its products.

DREAMS THIS SWEET DESERVE A COMFORTABLE RESTING PLACE

NATUZZI
It's how you live

www.natuzzi.com Natuzzi is available only at authorized dealers

LIKE ALL THE GREAT CLASSICS, YOU CAN SEE YOURSELF IN IT

NATUZZI
It's how you live

www.natuzzi.com Natuzzi is available only at authorized dealers

YOU DON'T NEED A MIRROR TO SEE A REFLECTION OF YOURSELF

NATUZZI
It's how you live

www.natuzzi.com Natuzzi is available only at authorized dealers

TO BE COMFORTABLE WITH OTHERS YOU MUST BE COMFORTABLE WITH YOURSELF

NATUZZI
It's how you live

www.natuzzi.com Natuzzi is available only at authorized dealers

New Advertising Campaigns available
in the Retail Advertising Kit

El fundador y presidente de **Natuzzi, Pasquale Natuzzi,** frente a una de las creaciones de la marca italiana.

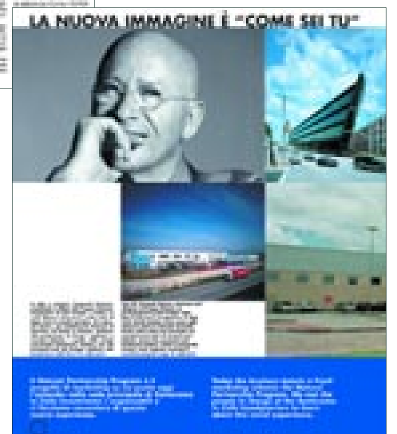
Natuzzi desembarca en Zapana cuatro tiendas

Da Natuzzi inntok København

Mit Sofas aus Italien an die New Yorker Borse

Natuzzi: lo stile italiano al NYSE "It's how you live!"

La mancha de Natuzzi llega a España



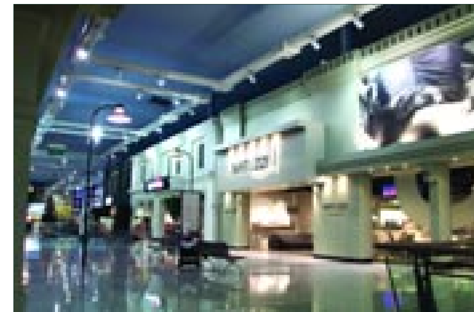
LA NUOVA IMMAGINE È "COME SEI TU"

New Openings:
Some Examples of Media Coverage

NATUZZI

NATUZZI

NATUZZI
store



Sales Network and Point of Sales Development

Natuzzi Stores
in the World

Australia
Bosnia
Cyprus
China
Croatia
France
Greece
Hungary
Iceland
Malta
Portugal
Spain
Slovenia
Switzerland

Natuzzi Stores and Galleries

In 2002 the Group reinforced its presence in the most strategic markets through the opening of new trading offices abroad: Natuzzi Nordic in Copenaghen, Natuzzi Benelux in Brussels, Natuzzi Iberica in Madrid and Natuzzi Switzerland in Zurich. They will operate alongside with the existing locations of Natuzzi Americas in High Point (North Carolina) and Natuzzi Asia in Hong Kong.

Through the involvement of local management it will be possible to guarantee an even better support to the Group's customers. For this purpose, in 2002, 4 country managers were hired to run the new offices.

Currently the Natuzzi sales network is composed of 8 country managers and 70 agents operating in 135 markets. The network is coordinated by three sales directors, one for each region: Americas, North Eastern Europe-Middle East-Africa, South Western Europe-Far East.

Natuzzi products are sold in more than 8,000 stores of independent retailers, most of them located in the U.S., Canada, U.K., Germany, Austria, Benelux and Northern Europe.

In Italy, Spain, Portugal, France, Switzerland, Greece, Slovenia, Hungary, Croatia, Cyprus, Bosnia, Australia and China, Natuzzi is sold through 200 single-brand stores.

Agreements for the opening of 250 *Galleries* in the world in 2003 have been finalized. The sales network will be developed through the opening of new Natuzzi spaces (*Galleries* or *Points*) in the customers' point of sales while at the same time improving the existing ones.

The Galleries can cover an area between 200 and 500 square meters and are suitable to large spaces. Where the available space is limited, the Point, a corner covering a space not larger than 200 square meters, is the aptest option. The Natuzzi Point allows a more selected range of products to be displayed without renouncing the appropriate in-store communication tools.

This flexible and modular project becomes an opportunity for the customers to display new Natuzzi collections in a space that stimulates consumers' interest in the purchase and offers an exciting shopping experience.

In 2002, retailers who introduced the *Galleries* reported a 40 to 90% increase in sales per square meter.

To be emphasized, also, is the training program managed directly by the Group that in 2002 involved more than 400 salespersons employed in Italy in the Divani & Divani by Natuzzi stores.

150
150

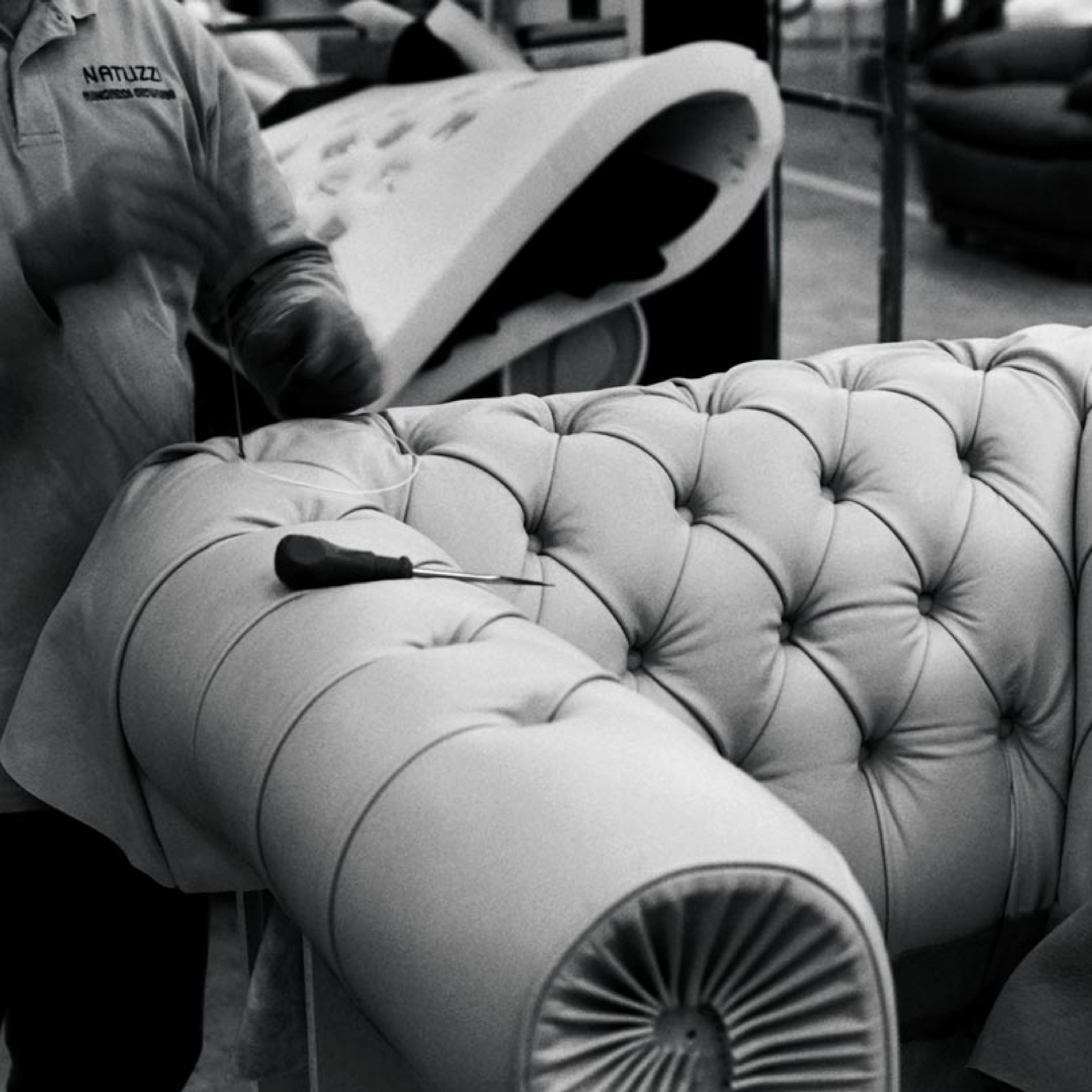
Information System Management

The increasing activity in the foreign factories, the opening of new trading offices in Spain, Switzerland, Belgium and Denmark, the development of the sales network worldwide, made the hardware and the network architecture indispensable and even more complex. The software used to centrally manage the supply, the production and the services to the sales network has been developed in order to improve efficiency and to optimize management costs.

Hardware investments allow a 24-hour cycle even in case of a breakdown. The data storage system is even more reliable.

The introduction of the "Natuzzi Business Portal" - available in five languages - is a very important innovation. Every customer has the possibility to access from every part of the world through the internet to a secured and reserved section of the Natuzzi web site in order to have a look at the collections, receive information on every model's version and price, make an order and receive confirmation of it. The portal also allows to print the invoice and receive updates on the order status and delivery schedule. The "Natuzzi Business Portal" is a flexible and interactive tool which combines a personalized service to the customer with effectiveness in sales management.

Natuzzi manages the Integrated Cycle from
the Order Reception to the Supply, the Production,
the Delivery through an Efficient Information System.


NATUZZI

Human Resources

Natuzzi emphasizes the importance of human resources. As of December 31, 2002, 5,742 people were employed worldwide in the Natuzzi Group, 23% more than the previous year.

The increase was due to the growth of the foreign operations, both on the manufacturing and distribution side. As a matter of fact, the number of employees abroad increased from 303 to 1,265, representing almost the total Group's hiring increase.

New managers joined the Company in the human resources, communication and sales departments. These new arrivals will allow the Group to face the new challenges arising in the market with a skilled management team.

Natuzzi believes that the continuous training is a strategic lever which improves employees' motivation, increases their sense of belonging, and adds to the quality of the relationship with the customer.

That is why the training activities have been managed in a dedicated school (*Natuzzi Professional Training School*) which organizes training courses led by internal experts in manufacturing and processes.

The *Natuzzi Club*, established in 2001, continued to pursue its objective: to promote cultural, social, sports and recreational activities aimed at improving the quality of life in the local community.

The Club is open to Natuzzi's employees and their relatives. The Club has 1,500 members. It organizes several activities: from the participation in theatrical performances to the sponsorship of poetry contests, from language and computer courses to the promotion of sports events and local initiatives.

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

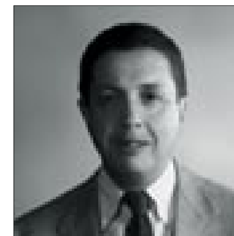
Gianluca Monteleone
Director

Armando Branchini
Outside Director

Stelio Campanale
Outside Director

Claudio Dematté
Outside Director

Pietro Gennaro
Outside Director



Giuseppe Russo Corvace
Outside Director

Enrico Vitali
Outside Director

Financial Statements

Natuzzi S.p.A. and Subsidiaries
Consolidated Financial Statements

as of December 31, 2002 and 2001
and for each of the years in the three-year period ended
December 31, 2002

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KPMG Assurance

KPMG S.p.A.
Via Abate Gimma, 62/a
I-70121 BARI (BA)

Telephone +39 (080) 5243203
Telefax +39 (080) 5243425

Independent Auditors' Report

To the Board of Directors
NATUZZI S.p.A.

We have audited the accompanying consolidated balance sheets of Natuzzi S.p.A. and subsidiaries (the 'Natuzzi Group') as of December 31, 2002 and 2001 and the related consolidated statements of earnings, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Natuzzi Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

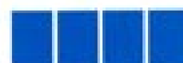
We conducted our audits in accordance with generally accepted auditing standards in the Republic of Italy and in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Natuzzi Group as of December 31, 2002 and 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with established accounting principles in the Republic of Italy.

Established accounting principles in the Republic of Italy vary in certain significant respects from generally accepted accounting principles in the United States of America. Application of generally accepted accounting principles in the United States of America would have affected results of operations for each of the years in the three-year period ended December 31, 2002 and shareholders' equity as of December 31, 2002 and 2001 to the extent summarized in Note 26 to the consolidated financial statements.

KPMG S.p.A.

Bari, Italy
March 24, 2003



Milan Ancona Bari Bergamo Bologna Bolzano
Brescia Catania Como Florence Foggia Genoa Lecce
Naples Novara Padua Palermo Parma Perugia
Pescara Rome Turin Treviso Trieste Udine Varese Verona

Società per azioni
Capitale sociale Euro 4.366.923,85 i.v.
Registro Imprese Milano e Codice Fiscale
N. 00709600159
R.E.A. Milano N. 512867
Part. IVA 00709600159
Sede legale: Via Vittor Pisani, 25 - 20124 Milano MI

Consolidated Balance Sheets
December 31, 2002 and 2001

expressed in euro thousands, except as otherwise indicated

Assets	2002	2001
Current assets		
Cash and cash equivalents (note 4)	96,695	208,200
Marketable debt securities (note 5)	26	27
Trade receivables, net (note 6)	158,398	138,208
Other receivables (note 7)	58,337	54,629
Inventories (note 8)	84,081	87,895
Unrealized foreign exchange gains (note 24)	2,021	-
Prepaid expenses and accrued income	1,240	918
Deferred income taxes (note 14)	1,822	2,018
Total current assets	**402,620**	**491,895**
Non current assets		
Property, plant and equipment (note 9 and 21)	310,253	250,746
Less accumulated depreciation (note 9 and 21)	(81,361)	(67,633)
Net property, plant and equipment	228,892	183,113
Treasury shares (note 19)	37,828	37,828
Other assets (note 10)	5,052	3,889
Deferred income taxes (note 14)	93	43
Total assets	**674,485**	**716,768**

see accompanying notes to consolidated financial statements

Liabilities and shareholder's equity	2002	200
Current liabilities		
Short-term borrowings (note 11)	162	134,477
Current portion of long-term debt (note 16)	1,437	1,007
Accounts payable-trade (note 12)	87,551	82,278
Accounts payable-other (note 13)	15,658	14,634
Allowance for unrealized foreign exchange losses (note 24)	-	902
Income taxes (note 14)	9,195	5,632
Salaries, wages and related liabilities (note 15)	14,708	13,594
Total current liabilities	128,711	252,524
Long-term liabilities		
Employees' termination indemnity (note 3 (n))	25,577	22,267
Long-term debt (note 16)	3,574	3,259
Deferred income taxes (note 14)	371	116
Other deferred income (note 3 (m))	14,229	3,993
Other liabilities	5,716	4,692
Minority interest (note 17)	499	1,455
Shareholders' equity (note 19)		
Share capital	57,526	57,526
Reserves	73,071	70,357
Additional paid-in capital	8,282	8,282
Retained earnings	356,929	292,297
Total shareholders' equity	495,808	428,462
Commitments and contingent liabilities (notes 20 and 24)	-	-
Total liabilities and shareholders' equity	674,485	716,768

Consolidated Statements of Earnings
years ended at December 31, 2002, 2001 and 2000

expressed in euro thousands except per share data and as otherwise indicated

	2002	2001	2000
Net sales (note 21)	805,143	786,148	688,480
Cost of sales (note 22)	(517,423)	(520,089)	(426,295)
Gross profit	**287,720**	**266,059**	**262,185**
Selling expenses	(145,378)	(134,840)	(108,981)
General and administrative expenses	(40,532)	(33,456)	(26,672)
Operating income	**101,810**	**97,763**	**126,532**
Other income (expense), net (note 23)	14,551	(225)	(21,847)
Earnings before taxes and minority interest	**116,361**	**97,538**	**104,685**
Income taxes (note 14)	(24,997)	(21,901)	(25,484)
Earnings before minority interest	**91,364**	**75,637**	**79,201**
Minority interest	74	20	(46)
Net earnings	**91,438**	**75,657**	**79,155**
Basic and diluted earnings per share (note 3(u))	**€ 1.67**	**€ 1.37**	**€ 1.39**

see accompanying notes to consolidated financial statements

Consolidated Statements of Changes in Shareholders' Equity years ended at December 31, 2002, 2001 and 2000

expressed in euro thousands except number of ordinary shares

	Share capital					
	Number of ordinary shares	Amount	Reserves	Additional paid-in capital	Retained earnings	Total
Balances at December 31, 1999	57,468,888	3,710	32,035	7,975	334,416	378,136
Dividends distributed	-	-	-	-	(93,967)	(93,967)
Exercise of stock options	56,640	4	-	307	-	311
Exchange difference on translation of financial statements	-	-	-	-	2,210	2,210
Treasury stocks acquired (note 19)	(1,782,700)	-	23,234	-	(23,234)	-
Grants received net of taxes	-	-	330	-	-	330
Revaluation of fixed assets net of taxes	-	-	277	-	-	277
Net earnings	-	-	-	-	79,155	79,155
Balances at December 31, 2000	55,742,828	3,714	55,876	8,282	298,580	366,452
Dividends distributed	-	-	-	-	(15,894)	(15,894)
Exchange difference on translation of financial statements	-	-	-	-	2,247	2,247
Treasury stocks acquired (note 19)	(1,061,200)	-	14,594	-	(14,594)	-
Increase of share capital (note 19)	-	53,812	-	-	(53,812)	-
Other transfers	-	-	(113)	-	113	-
Net earnings	-	-	-	-	75,657	75,657
Balances at December 31, 2001	54,681,628	57,526	70,357	8,282	292,297	428,462
Dividends distributed	-	-	-	-	(15,705)	(15,705)
Exchange difference on translation of financial statements	-	-	-	-	(8,387)	(8,387)
Transfer to legal reserve	-	-	2,714	-	(2,714)	-
Net earnings	-	-	-	-	91,438	91,438
Balances at December 31, 2002	54,681,628	57,526	73,71	8,282	356,929	495,808

see accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows
years ended at December 31, 2002, 2001 and 2000

expressed in euro thousands, except as otherwise indicated

Cash flows from operating activities	2002	2001	2000
Net earnings	91,438	75,657	79,155

Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	16,867	13,292	10,378
Employees' termination indemnity	7,091	6,293	5,357
Deferred income taxes	401	(310)	1,452
Minority interest	(38)	(20)	46
(Gain) loss on disposal of assets	30	(101)	(123)
Change in provision for unrealized foreign exchange losses and gain	2,923	3,003	(3,416)

Change in assets and liabilities			
Receivables, net	(22,898)	(11,538)	(23,561)
Inventories	3,814	(14,252)	(20,342)
Prepaid expenses and accrued income	(322)	(632)	77
Other assets	(2,524)	(1,373)	(1,478)
Accounts payable	5,565	893	25,284
Income taxes	3,563	1,837	2,363
Salaries, wages and related liabilities	1,114	2,423	2,519
Deferred income for capital grants	194	3,993	-
Other liabilities	1,024	443	1,243
Employees' termination indemnity	(3,781)	(3,878)	(2,866)

Net cash provided by operating activities	97,615	75,730	76,088

Cash flows from investing activities	2002	2001	2000
Property, plant and equipment			
Additions	(68,653)	(69,146)	(27,847)
Disposals	242	558	443
Government grants received	10,042	396	379
Marketable debt securities:			
Purchases	-	(1)	(1)
Proceeds from sales	1	-	-
Purchase of business, net of cash acquired	-	(60)	(572)
Purchase of minority interest	(123)	(33)	(71)
Net cash used in investing activities	(58,491)	(68,286)	(27,669)

Cash flows from financing activities			
Long-term debt			
Proceeds	2,166	4,022	-
Repayments	(1,421)	(333)	(618)
Short-term borrowings	(134,315)	131,769	2,223
Exercise of stock options	-	-	311
Treasury shares	-	(14,594)	(23,234)
Dividends paid	(15,705)	(15,894)	(93,967)
Capital contribution of minority interest	-	576	-
Net cash provided by (used in) financing activities	(149,275)	(105,546)	(115,285)

Effect of translation adjustments on cash	(1,354)	609	(2)
Increase (decrease) in cash and cash equivalents	(111,505)	113,599	(66,868)
Cash and cash equivalents, beginning of the year	208,200	94,601	161,469
Cash and cash equivalents, end of the year	96,695	208,200	94,601

Supplemental disclosure of cash flow information			
Cash paid during the year for interest	3,588	3,199	211
Cash paid during the year for income taxes	20,188	24,343	18,302

see accompanying notes to consolidated financial statement

1
Description of business and Group composition

The consolidated financial statements include the accounts of Natuzzi S.p.A. (‘Natuzzi’ or the ‘Company’) and of its subsidiaries (together with the Company, the ‘Group’). The Group's primary activity is the design, manufacture and marketing of contemporary and traditional leather and fabric-upholstered furniture.
The subsidiaries included in the consolidation at December 31, 2002, together with the related percentages of ownership, are as follows:

name	% of ownership	registered office	activity
Divani e Poltrone Italia S.r.l.	100.00	Bari, Italy	(1)
Soft Cover S.r.l.	100.00	Bari, Italy	(1)
Spagnesi International S.r.l.	100.00	Bari, Italy	(1)
Spagnesi S.p.A.	99.95	Quarrata, Italy	(1)
Creazioni Ellelle S.p.A.	100.00	Altamura, Italy	(1)
Style and Comfort S.r.l.	100.00	Bari, Italy	(1)
Expan Italia S.r.l.	100.00	Bari, Italy	(1)
Italsofa Bahia Ltd	97.99	Bahia, Brazil	(1)
Italsofa Shanghai Co. Ltd	100.00	Shanghai, China	(1)
Italsofa Romania	100.00	Baiamare, Rumania	(1)
Natco S.p.A.	99.99	Bari, Italy	(2)
I.M.P.E. S.p.A.	90.83	Qualiano,Italy	(3)
Natuzzi Americas Inc.	100.00	High Point, NC, USA	(4)
Natuzzi Asia Ltd	100.00	Hong-Kong, China	(4)
Natuzzi Iberica S.A.	100.00	Madrid, Spain	(4)
Natuzzi Switzerland AG	80.00	Kaltbrunn, Switzerland	(4)
Natuzzi Nordic	100.00	Copenaghen, Denmark	(4)
Nagest S.r.l.	100.00	Bari, Italy	(5)
Softaly S.r.l.	100.00	Bari, Italy	(6)
Natuzzi Netherlands Holding	100.00	Amsterdam, Holland	(7)
Natuzzi Trade Service S.r.l.	100.00	Bari, Italy	(8)
Italsofa Hong-Kong Ltd	100.00	Hong-Kong, China	(9)
D.L.S. S.r.l.	100.00	Bari, Italy	(9)
Natuzzi Argentina	99.00	Buenos Aires , Argentina	(9)
Finat Ltd	100.00	Dublin, Ireland	(9)
Natex S.r.l.	100.00	Bari, Italy	(9)

(1) Manufacture and distribution

(2) Intragroup leather dyeing and finishing

(3) Production and distribution of polyurethane foam

(4) Distribution

(5) Intragroup accounting services

(6) Intragroup building management

(7) Investment holding

(8) Transportation services

(9) In liquidation

During 2002, the Company set up a subsidiary in Denmark which will be engaged in the distribution of the Company's products in the Scandinavian countries.
During 2002, the Company acquired part of minority interest (20%) of Natuzzi Switzerland AG for a consideration of 123 in cash. Goodwill arising from that acquisition amounted to 97.
During 2001, the Company acquired all the minority interest of Divani e Poltrone Italia S.r.l. (0.02%) and Expan S.r.l. (1%) for a consideration of 33 in cash.
During 2001, the Company acquired 100% of Natuzzi Iberica S.A. and 60% of Natuzzi Switzerland AG, for cash consideration of 60. The acquisition was accounted for using the purchase method. The acquisition resulted in a goodwill of 431, which represents the excess of purchase price over fair value of net assets. The fair value of assets acquired and liabilities assumed were as follows:

Current assets	756
Non current assets, other than goodwill	784
Goodwill	431
Current liabilities	(1,908)
Non current liabilities	(3)
Cash paid	60

No pro forma information is presented as revenues and net income for the prior period are immaterial.
In 2001 and 2000 the Company incorporated subsidiaries in Romania, Brazil and China. At December 31, 2002 these subsidiaries are engaged in the production of leather upholstery furniture labelled "Italsofa".
In March 2000, the Company acquired 100% of a leather and fabric upholstered furniture manufacturing business, Style and Comfort S.r.l., for cash consideration of 572. The acquisition resulted in a goodwill of 578, which represents the excess of purchase price over fair value of net assets.

In addition, during 2000, the Company acquired the remaining interest of 1% in Creazioni Ellelle S.p.A. for a consideration of 71 in cash.

2
Basis of preparation and principles of consolidation

The financial statements utilized for the consolidation are the statutory financial statements of each Group company at December 31, 2002, 2001 and 2000. The 2001 and 2000 financial statements have been approved by the respective shareholders of the relevant companies. The 2002 financial statements have been approved only by the directors of the relevant companies.

The financial statements of subsidiaries are adjusted, where necessary, to conform to Natuzzi's accounting principles, which are consistent with Italian legal requirements governing financial statements considered in conjunction with established accounting principles promulgated by the Italian Accounting Profession and, in their absence, by the International Accounting Standards Board (IASB, formerly IASC). The consolidated financial statements are classified in accordance with the presentations generally used in international practice.

Established accounting principles in the Republic of Italy vary in certain significant respects from generally accepted accounting principles in the United States of America. Application of generally accepted accounting principles in the United States of America would have affected results of operations for each of the years in the three-year period ended December 31, 2002 and shareholders' equity as of December 31, 2002 and 2001 to the extent summarized in note 26 to the consolidated financial statements.

The consolidated financial statements include all affiliates and companies that Natuzzi directly or indirectly controls, either through majority ownership or otherwise. Control is presumed to exist where more than one-half of a subsidiary's voting power is controlled by the Company or the Company is able to govern the financial and operating policies of a subsidiary or control the removal or appointment of a majority of a subsidiary's board of directors. Where an entity either began or ceased to be controlled during the year, the results of operations are included only from the date control commenced or up to the date control ceased.

The assets and liabilities of subsidiaries are consolidated on a line-by-line basis and the carrying value of intercompany investments held is eliminated against the related shareholder's equity accounts. The minority interests of consolidated subsidiaries are separately classified in the consolidated balance sheets and statements of earnings. All intercompany balances and transactions have been eliminated in consolidation.

On January 1, 2002, the Company adopted the euro as its reporting currency and therefore the accompanying consolidated balance sheet as of December 31, 2002, consolidated statement of earnings, consolidated statements of changes in shareholders' equity and consolidated statement of cash flows for the year ended December 31, 2002 are presented in euro. All consolidated financial statements for each period presented prior to January 1, 2002 have been restated into euro using the official lira-euro exchange rate fixed as of January 1, 1999 (euro 1 is equal to lire 1,936.27). Due to the fixed lira-euro exchange rate, Company's restated consolidated financial statements will depict the same trends as would have been presented if it had continued to present its consolidated financial statements in Italian lire. Natuzzi consolidated financial statements, however, will not be comparable to the euro consolidated financial statements of other companies that previously reported their financial statements in a currency other than lira because of currency fluctuations between lira and other currency.

3

Summary of established accounting policies

The established accounting policies followed in the preparation of the consolidated financial statements are outlined below.

a Foreign currency transactions

Foreign currency transactions are recorded at the exchange rates applicable at the transaction dates. Assets and liabilities denominated in foreign currency are remeasured at year-end exchange rates, except for certain accounts receivable as discussed below. Foreign exchange gains and losses resulting from the remeasurement of these assets and liabilities are included in other income (expense), net, in the consolidated statements of earnings. Receivables being hedged by forward exchange contracts are remeasured using the related forward exchange rate. Foreign exchange gains and losses resulting from the remeasurement of hedged receivables are recognized in other income (expense), net, in the consolidated statements of earnings.
In the consolidated financial statements receivables and payables denominated in currencies of member states of the European Union participating to European Monetary Union are not considered foreign.

b Forward exchange contracts

The Group enters into forward exchange contracts (known in Italian financial markets as domestic currency swaps) to manage its exposure to foreign currency risks. The accounting for forward exchange contracts depends on their use is as follows:

- Forward exchange contracts used to hedge accounts receivable are considered when remeasuring the related balance sheet item at the contract rate. Foreign exchange gains and losses from the remeasurement of the accounts receivable at contract rate are recorded within other income (expense), net, in the consolidated statements of earnings.
- Forward exchange contracts are used to hedge future sales if the sales are supported by sales orders and customer's indications of future purchases as of the balance sheet date which are confirmed by sales orders received within the earlier of four months after the year-end or the issuance of the consolidated financial statements. Unrealized gains and losses on these forward contracts are deferred.
- Unrealized gains and losses on forward exchange contracts not hedging any on- or off-balance sheet items are recorded in other income (expense), net, in the consolidated statements of earnings.

c Financial statements of foreign operations

The Group's foreign subsidiaries are considered an integral part of the Company due to various factors including significant intercompany transactions, financing, and cash flow indicators. Therefore, the functional currency for these foreign subsidiaries is the functional currency of the parent, namely euro. As a result all monetary assets and liabilities are remeasured, at the end of each reporting period, using euro and the resulting gain or loss is recognized in the consolidated statements of earnings. For all non monetary assets and liabilities, share capital and retained earnings historical exchange rates are used. The average exchange rates during the year is used for revenues and expenses, except for those revenues and expenses related to assets and liabilities translated at historical exchange rates.

d Cash and cash equivalents

The Company classifies as cash and cash equivalents cash on hand, amounts on deposit and on account in banks and cash invested temporarily in various instruments with maturities of three months or less at time of purchase.

e Marketable debt securities

Marketable debt securities are valued at the lower of cost or market value determined on an individual security basis. A valuation allowance is established and recorded as a charge to other income (expense), net, for unrealized losses on securities. Unrealized gains are not recorded until realized. Recoveries in the value of securities are recorded as part of other expense, net, but only to the extent of previously recognized unrealized losses.

Gains and losses realized on the sale of marketable debt securities were computed

based on a weighted-average cost of the specific securities being sold. Realized gains and losses are charged to other income (expense), net.

f Accounts receivable and payable

Receivables are stated at nominal value net of an allowance for doubtful accounts. Payables are stated at face value.

g Inventories

Raw materials are stated at the lower of cost (determined under the specific cost method for leather hides and under the weighted-average method for other raw materials) or replacement cost. Goods in process and finished goods are valued at the lower of production cost or net realizable value.

h Property, plant and equipment

Property, plant and equipment is stated at historical cost, except for certain buildings which were revalued in 1983, 1991 and 2000 according to Italian revaluation laws. Maintenance and repairs are expensed; significant improvements are capitalized and depreciated over the useful life of the related assets. The cost or valuation of fixed assets is depreciated on the straight-line method over the estimated useful lives of the assets (refer to note 9).

i Treasury shares

Treasury shares are accounted for as a non-current assets and an amount equal to the cost of shares acquired is reclassified from retained earnings to an undistributed treasury shares reserve (see note 19). Treasury shares are stated at cost and when a permanent impairment loss exists at the balance sheet date a valuation allowance is established and recorded as a charge to other income (expense), net. At December 31, 2002 the management of the Company consider the impairment loss of treasury shares, amounting to 10,276, not permanent.

j Other assets

Other assets in the consolidated financial statements primarily include trademarks and patents, goodwill and certain deferred costs. These assets are stated at the lower of amortized cost or recoverable amount. The carrying amount of other assets are reviewed to determine if they are in excess of their recoverable amount, based on undiscounted cash flows, at the consolidated balance sheet date. If the carrying amount exceeds the recoverable amount, the asset is written down to the recoverable amount.
Trademarks, patents and goodwill are amortized on a straight-line basis over a period of five years.

k Impairment of Long-lived Assets and Long-lived Assets to be disposed of

The Company reviews long-lived assets, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Estimated fair value is generally based on either appraised value or measured by discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Accordingly, actual results could vary significantly from such estimates.

l Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss. Deferred tax assets are reduced by a valuation allowance to an amount that is more likely than not to be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

m Government grants

Capital grants compensate the Group for the cost of an asset and are part of the Italian government's investment incentive program, under which the Group receives amounts generally equal to a percentage of the aggregate investment made by the Group in the construction of new manufacturing facilities, or in the improvement of existing facilities, in designated areas of the country.

Capital grants from government agencies are recorded when there is reasonable assurance that the grants will be received and that the Group will comply with the conditions applying to them.

Until December 31, 2000 capital grants were recorded, net of tax, within reserves in shareholders' equity. As from January 1, 2001 all new capital grants are recorded in the consolidated balance sheet initially as deferred income and then recognized in the consolidated statement of earnings as revenue on a systematic basis over the useful life of the related asset. At December 31, 2002 and 2001 the deferred

income for capital grants amounts to 14,229 and 3,993, respectively. Cost reimbursement grants relating to training and other personnel costs are credited to income when received from government agencies.

n Employees' termination indemnities

Termination indemnities represent amounts accrued for each Italian employee that are due and payable upon termination of employment determined in accordance with applicable labour laws. The Group accrues the full amount of employees' vested benefit obligation as determined by such laws for termination indemnities.

The expense recorded for termination indemnities for the years ended December 31, 2002, 2001 and 2000 was 7,091, 6,293 and 5,357, respectively.

The number of workers employed by the Group totalled 5,742 and 4,643 at December 31, 2002 and 2001, respectively.

o Net sales

The Company recognizes revenue on sales at the time products are shipped from the manufacturing facilities. Revenues are recognized when the following criteria are met: persuasive evidence of an arrangement exists; the price to the buyer is fixed and determinable; and collectibility of the sales price is reasonably assured.

Revenues are recorded net of returns and cash and volume discounts. Sales returns and discounts are estimated and provided for in the year of sales.
Such allowances are made based on historical trends. The Company has the ability to make a reasonable estimate of future costs for returns and cash and volume discounts due to large volumes of homogeneous transactions and historical experience.

p Shipping and handling costs

Shipping and handling costs incurred to transport products to customers are included in selling expenses. Shipping and handling expenses recorded for the years ended December 31, 2002, 2001 and 2000 were 65,338, 66,114 and 53,980, respectively.

q Advertising costs

Advertising costs are expensed in the periods incurred. Advertising expenses recorded for the years ended December 31, 2002, 2001 and 2000 were 23,578, 19,597 and 17,664, respectively.

r Commission expense

Commissions payable to sales representatives and the related expenses are recorded at the time shipments are made by the Group to customers. Commissions are not paid until payment for the related sale’s invoice is remitted to the Group by the customer.

s Contingencies

Liabilities for loss contingencies are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated.

t Use of estimates

The preparation of financial statements in conformity with established accounting policies requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

u Earnings per share

Basic earnings per share is calculated by dividing net earnings attributable to ordinary shareholders by the weighted-average number of ordinary shares outstanding during the period without taking into effect the outstanding treasury shares. The Company does not have any diluted investments. Therefore, basic earnings per share is equal to diluted earnings per share. The following table provides the amounts used in the calculation of earnings per share:

	2002	2001	2000
Net earnings attributable to ordinary shareholders	91,438	75,657	79,155
Weighted-average number of ordinary shares outstanding during the year	54,681,628	57,027,496	57,087,391

4

Cash and cash equivalents

Cash and cash equivalents are analyzed as follows:

	2002	2001
Cash on hand	59	35
Bank accounts in Euro	32,308	100,140
Bank accounts in foreign currency	63,687	48,325
Securities to resell	641	59,700
Total	96,695	208,200

Cash equivalents consist of highly liquid money market instruments bought in December from various banks under the agreements to resell them during the following January. This short-term money market instrument allows the Company to invest excess of cash balances.

5
Marketable debt securities

Details regarding marketable debt securities are as follows:

	2002	2001
Foreign corporate bonds	6	7
Italian government bonds	20	20
Total	26	27

Further information regarding the Group's investments in marketable debt securities is as follows:

2002	cost	gains	gross unrealized losses	fair value
Foreign corporate bonds	6	-	-	6
Italian government bonds	20	-	-	20
Total	26	-	-	26

2001	cost	gains	gross unrealized losses	fair value
Foreign corporate bonds	7	-	-	7
Italian government bonds	20	-	-	20
Total	27	-	-	27

	2002	2001	2000
Proceeds from sales	-	-	-
Realized gains	-	-	-
Realized losses	-	-	-

The contractual maturity of the Group's marketable debt securities at December 31, 2002 is between 1 – 5 years.

6
Trade receivables, net

Trade receivables are analyzed as follows:

	2002	2001
North American customers	63,169	61,889
Other foreign customers	57,854	50,213
Domestic customers	38,241	27,828
Trade bills receivable	3,861	3,747
Total	163,125	143,677
Allowance for doubtful accounts	(4,727)	(5,469)
Total trade receivables, net	158,398	138,208

Trade receivables are due primarily from major retailers who sell directly to customers.

No single customer accounted for more than 5% of the company's sales in 2002, 2001 and 2000 or accounts receivable at December 31, 2002 and 2001. The Company has insured its collection risk in respect of approximately 80% of accounts receivable outstanding balances and, estimates an allowance for doubtful accounts based on insurance in place, the credit worthiness of its customers as well as general economic conditions.

The following table provides the movements in the allowance for doubtful accounts:

	2001	2000	1999
Balance, beginning of year	5,469	4,451	5,310
Charges-bad debt expense	97	1,398	382
Reductions-write off			
of uncollectible accounts	(839)	(380)	(1,241)
Balance, end of year	4,727	5,469	4,451

Trade receivables denominated in foreign currencies at December 31, 2002 and 2001 and, where applicable, translated at the rate of the related domestic currency swaps, totalled 87,264 (78,013 translated at year-end exchange rates) and 80,440 (80,847 translated at year-end exchange rates), respectively. These receivables consist of the following:

	2002	2001
U.S. dollars	66,382	62,644
Canadian dollars	5,500	6,428
British pounds	6,563	4,151
Australian dollars	3,678	3,729
Other currencies	5,141	3,488
Total	87,264	80,440

7

Other receivables

Other receivables are analyzed as follows:

	2002	2001
VAT	35,990	34,192
Receivable from tax authorities	7,951	7,725
Government capital grants	8,076	7,100
Advances to suppliers	2,213	2,142
Other	4,107	3,470
Total	58,337	54,629

The VAT receivable includes value added taxes and interest thereon reimbursable to various companies of the Group. While currently due at the balance sheet date, the collection of the VAT receivable may extend over a maximum period of up to two years.

The receivable from tax authorities represents taxes paid in excess of the amounts due and interest thereon.

8

Inventories

Inventories are analyzed as follows:

	2002	2001
Leather and other raw materials	59,260	59,184
Goods in process	12,714	14,350
Finished products	12,107	14,361
Total	84,081	87,895

9

Property, plant and equipment and accumulated depreciation

Fixed assets are listed below together with accumulated depreciation.

2002	cost or valuation	accumulated depreciation	annual rate of depreciation
Land	14,148	-	-
Industrial buildings	133,707	21,410	3 - 10%
Machinery and equipment	86,575	41,771	11.5 - 25%
Office furniture and equipment	20,132	12,444	12 - 20%
Airplane	12,725	1,527	6%
Transportation equipment	5,003	2,879	20 - 25%

Leasehold improvements	4,111	1,330	10 - 20%
Construction in progress	16,578	-	-
Advances to suppliers	17,274	-	-
Total	310,253	81,361	

2001	cost or valuation	accumulated depreciation	annual rate of depreciation
Land	14,236	-	-
Industrial buildings	119,682	17,736	3 - 10%
Machinery and equipment	70,515	34,733	11.5 - 25%
Office furniture and equipment	16,056	11,123	12 - 20%
Airplane	12,725	763	6%
Transportation equipment	4,196	2,492	20 - 25%
Leasehold improvements	1,725	786	10 - 20%
Construction in progress	7,105	-	-
Advances to suppliers	4,506	-	-
Total	250,746	67,633	

10
Other assets

Other assets consist of the following:

	2002	2001
Trademarks and patents	10,744	10,660
Goodwill	1,106	1,009
Others	8,822	6,486
Total, gross	20,672	18,155
Less accumulated amortization	(15,620)	(14,266)
Total, net	5,052	3,889

11
Short-term borrowings

Short-term borrowings consist of the following:

	2002	2001
Bank borrowings	-	133,873
Bank overdrafts	162	604
Total	162	134,477

While bank overdrafts are payable on demand, bank borrowings consist of unsecured line of credit agreements with banks with various short maturities.
At December 31, 2001 the short-term borrowings included 5,808 denominated in foreign currencies.
The weighted average interest rates on the above-listed short-term borrowings at December 31, 2002 and 2001 are as follows:

	2002	2001
Bank borrowings	3.17%	3.65%
Bank overdrafts	4.10%	5.60%

Credit facilities available to the Group, including amounts guaranteed under surety bonds, amounted to approximately 171,880 and 230,000 at December 31, 2002 and 2001, respectively. The unused portion of these facilities amounted to approximately 171,760 and 95,545 at December 31, 2002 and 2001, respectively.

12
Accounts payable-trade

Accounts payable-trade totalling 87,551 and 82,278 at December 31, 2002 and 2001, respectively, represent principally amounts payable for purchases of goods and services in Italy and abroad, and includes 26,069 and 20,398 at December 31, 2002 and 2001, respectively, denominated in foreign currencies.

13
Accounts payable-other

Accounts payable-other are analyzed as follows:

	2002	2001
Withholding taxes on payroll and on other	3,445	3,713
Cooperative advertising and quantity discount	4,041	4,064
Provision for returns and other discounts	4,530	4,510
Payable to customers for returns and financial discounts	1,098	1,463
Payable to minority interest for dividends	732	-
Other	1,812	884
Total	15,658	14,634

14
Taxes on income

Italian companies are subject to two income taxes:

	2002	2001	2000
IRPEG (state tax)	36.00%	36.00%	37.00%
IRAP (regional tax)	4.25%	4.25%	4.25%

The IRPEG tax is a state tax and it is calculated on the taxable income determined on the income before taxes modified to reflect all temporary and permanent differences regulated by the tax law. In 1997 dual income tax was introduced for the purpose of encouraging companies to use equity rather than debt finance. A first portion of the taxpayer's taxable income is calculated by applying an interest rate percentage (based on the return on government and private sector bonds) to the net increase in shareholders' equity of such taxpayer, subject to certain restrictions. This portion is subject to IRPEG at the reduced rate of 19.00%. The remaining profit will be subject to tax at the ordinary IRPEG tax rate (at present 36.00%).

On December 27, 2002, the Italian Parliament approved law 289 which reduces IRPEG tax rate to 34.00% for fiscal years beginning on or after January 1, 2003. As a result, the Company adjusted the effect of changes in IRPEG tax rates on net deferred tax assets during the year ended December 31, 2002, as it includes the enactment date. These changes in tax rates resulted in a decrease of net deferred tax assets by 121 as of December 31, 2002.

IRAP is a regional tax and each Italian Region has the power to increase the rate of 4.25% by a maximum of 1.00%. In general, the taxable base of IRAP is a form of gross profit determined as the difference between gross revenues (excluding interest and dividend income) and direct production costs (excluding labour costs, interest expenses and other financial costs).

Under Italian investment incentive schemes for under-industrialized regions, certain of the Group's operating entities are currently entitled to enjoy a full exemption from IRPEG and a significant part of IRAP for ten years. A very significant portion of the Group's consolidated earnings before minority interest in 2002, 2001 and 2000 is derived from companies entitled to some extent to the aforementioned exemptions, the most significant of which expired in 2002. See the table below for the effect of such exemptions on the Group's 2002, 2001 and 2000 income tax charge.
Approximately 88,8%, 88.7% and 99.9% respectively, of the Group's consolidated earnings before taxes were generated by its domestic Italian operations during 2002, 2001 and 2000.

The effective income tax rates for the years ended December 31, 2002, 2001 and 2000 were 21.5%, 22.5% and 24.3%, respectively. The actual income tax expense

differs from the 'expected' income tax expense (computed by applying the state tax, which is 36% for 2002 and 2001 and 37% for 2000, to income before income taxes and minority interest) as follows:

	2002	2001	2000
Expected income tax charge at full tax rates	41,890	35,114	38,733
Effects of:			
- Tax exempt income	(25,079)	(20,784)	(21,772)
- Aggregate effect of different tax rates in foreign jurisdictions	(304)	(1,083)	(32)
- Tax effect of change in tax rates	(121)	-	(80)
- Effect of net change in valuation allowance established against deferred tax assets	223	650	(156)
- Non-deductible expenses and others	1,339	1,201	1,093
- Italian regional tax	7,049	6,803	7,698
Actual tax charge	24,997	21,901	25,484

Total taxes for the years ended December 31, 2002, 2001 and 2000 were allocated as follows:

	2002	2001	2000
Earnings from operations	24,997	21,901	25,484
Shareholders' equity, for deferred taxes on government grants (excluding minority interest)	-	-	90
Total	24,997	21,901	25,574

Income taxes on earnings, which primarily relate to Italian operations, are further analyzed as follows:

	2002	2001	2000
Current taxes	24,596	22,211	24,032
Deferred taxes	401	(310)	1,452
Total	24,997	21,901	25,484

Total income taxes for the years ended December 31, 2002, 2001 and 2000 were allocated as follows:

	2002	2001	2000
Italian State tax	15,167	11,628	17,659
Italian Regional tax	7,049	6,803	7,698
Tax of foreign subsidiaries	2,781	3,470	127
Total	24,997	21,901	25,484

Tax years for most of Italian companies are open from 1997 and subject to review pursuant to Italian tax laws.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2002 and 2001 are presented below:

	2002	2001
Deferred tax assets		
- Allowance for doubtful accounts	1,621	1,980
- Provision for termination indemnities of sales representatives	1,175	1,102
- Provision for contingent liabilities	763	592
- Provision for returns and discounts	732	885
- Tax loss carryforwards	646	646
- Other temporary differences	635	913
Total gross deferred tax assets	5,572	6,118
- Less valuation allowance	(2,936)	(3,020)
Net deferred tax assets	2,636	3,098
Deferred tax liabilities		
- Government grants related to capital expenditures	(894)	(941)
- Other temporary differences	(198)	(212)
Total deferred tax liabilities	(1,092)	(1,153)
Net deferred tax assets	1,544	1,945

A valuation allowance has been established principally for the tax loss carryforwards, allowance for doubtful accounts, provision for termination indemnities of sales representatives and for contingencies of certain subsidiaries.

The valuation allowance for deferred tax assets as of December 31, 2002 and 2001 was 2,936 and 3,020, respectively. The net change in the total valuation allowance for the years ended December 31, 2002 and 2001 was a decrease of 84 and an increase of 669, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income,

and the tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods during which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2002. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Net deferred income tax assets is included in the consolidated balance sheets as follows:

2002

	current	non current	total
Gross deferred tax assets	3,238	2,334	5,572
Valuation allowance	(1,382)	(1,554)	(2,936)
Net deferred tax assets	1,856	780	2,636
Deferred tax liabilities	(34)	(1,058)	(1,092)
Net deferred tax assets (liabilities)	1,822	(278)	1,544

2001	current	non current	total
Gross deferred tax assets	3,888	2,230	6,118
Valuation allowance	(1,727)	(1,293)	(3,020)
Net deferred tax assets	2,161	937	3,098
Deferred tax liabilities	(143)	(1,010)	(1,153)
Net deferred tax assets (liabilities)	2,018	(73)	1,945

The tax loss carryforwards of the Group total 1,899 and expire as follows:

2003	81
2004	31
2005	537
2006	734
2007	516
Total	1,899

Losses may be carried forward for five years from the year of declaration for offset against IRPEG taxes only.

15

Salaries, wages and related liabilities

Salaries, wages and related liabilities are analyzed as follows:

	2002	2001
Salaries and wages	7,641	6,289
Social security contributions	5,352	5,822
Vacation accrual	1,715	1,483
Total	14,708	13,594

16

Long-term debt

Long-term debt is secured by mortages on the Group's properties for a total of 2,169 (2,169 at December 31, 2001). Long-term debt at December 31, 2002 and 2001 consists of the following:

	2002	2001
3.5% long-term debt payable in semi-annual installments with final payment due August 24, 2004	2,762	4,022
3.7% long-term debt payable in semi-annual installments with final payment due June 30, 2003	83	244
2.25% long-term debt payable in semi-annual installments with final payment due May 30, 2015	2,166	-
Total long-term debt	2,011	4,266
Less current installments	(1,437)	(1,007)
Long-term debt, excluding current installments	3,574	3,259

Loan maturities after 2002 are summarized below:

2004	1,408
2005	-
2006	192
2007	197
Thereafter	1,777
Total	3,574

At December 31, 2002 long-term debt denominated in foreign currencies amounts to 2,762 (4,022 at December 31, 2001). Interest expenses related to long-term debt for the years ended December 31, 2002, 2001 and 2000 were 202, 162 and 41 respectively.

17
Minority interest

Minority interest shown in the accompanying consolidated balance sheet at December 31, 2002 of 499 (1,455 at December 31, 2001).

18
Employee stock option plan

In February 1994 the Company adopted an employee stock option plan (the "Plan") pursuant to which managers and certain key employees of the Group may be granted options to purchase an aggregate of up to 1,680,000 ordinary shares from the Company at an exercise price per share equal to 95% of the May 1993 initial public offering price, or euro 5,49 per share (US$ 5,75 at December 31, 2002 exchange rate). Employees receiving options may exercise such options over four years during exercise periods from May 15 to May 31, as follows: (i) with respect to 25% of the options, in the year in which they were granted; (ii) with respect to 35% of the options, in the second year thereafter; and (iii) with respect to the remaining 40% of the options, in the fourth year thereafter. Following each exercise period, the Company must seek shareholder approval, of at least 50% plus one share of outstanding shares, to increase its capital and to comply with certain requirements of Italian law, after which the ordinary shares may be delivered. The shareholder approval is considered prefunctory as Mr. Natuzzi and his family own more than 50% of the outstanding shares.

A summary of the status of the Plan as of December 31, 2000 and changes during the year ended on this date is presented below:

	shares	exercise price
Outstanding at the beginning of the year	56,640	5,49
Granted	-	-
Exercised	(59,640)	5,49
Forfeited	-	-
Outstanding at the end of the year	56,640	10,637.5
Options exercisable at year-end	-	-

No option are outstanding or exercitable at December 31, 2002 or 2001.

19
Shareholders' equity

The share capital is owned as follows:

	2002	2001
Mr. Pasquale Natuzzi	45.3%	45.3%
Miss Anna Maria Natuzzi	2.4%	2.4%
Mrs. Annunziata Natuzzi	2.4%	2.4%
Public investors	45.0%	46.8%
Treasury shares	4.9%	4.9%
	100%	100.0%

An analysis of the reserves follows:

	2002	2001
Treasury shares reserve	37,828	37,828
Legal reserve	3,824	1,110
Monetary revaluation reserve	1,344	1,344
Government capital grants reserve	30,075	30,075
Total	73,071	70,357

On December 18, 2001 the shareholders of the Company approved a capital increase from 3,714 to 57,526 through the utilization of retained earnings. As a consequence, the par value of the ordinary share changed from lire 125 to lire 1,936.27 or euro 1. This change did not affect the number of ordinary shares issued at December 31, 2001 (57,525,528).

In July 2000, the shareholders of the Company approved a share repurchase program to buy-back up to 4 million shares or 51,646. The Company spent 23,234 in 2000 and 14,594 in 2001 to repurchase shares. The Company repurchased 1,782,700 shares in 2000 at an average cost of US$ 11.3 per share and 1,061,200 shares in 2001 at an average cost of US$ 12.3 per share. As of December 31, 2002 the repurchase program is expired. Under Italian GAAP, the purchase of shares was accounted for as a non-current assets and an amount equal to the cost of shares acquired was reclassified from retained earnings to an undistributed treasury shares reserve.

Italian law requires that 5% of net income of the parent company and each of its consolidated subsidiaries be retained as a legal reserve, until this reserve is equal to 20% of the issued share capital of each relevant company. The legal reserve may be utilized to cover losses and the portion which exceeds 20% of the issued share capital is distributable as dividends. The combined legal reserves totalled 6,737 and 3,834 at December 31, 2002 and 2001, respectively.

As of December 31, 2002, taxes that would be due on distribution of the portion

of shareholders' equity equal to unremitted earnings of foreign subsidiaries is approximately 450 (310 at December 31, 2001). The Group has not provided for such taxes as the likelihood of distribution is remote and such earnings are deemed to be permanently reinvested.

As of December 31, 2002, there are no taxes due on distribution of the portion of shareholders' equity equal to retained earnings and government capital grants reserve.

20

Commitments and contingent liabilities

Several companies of the Group lease manufacturing facilities under non-cancellable lease agreements with expiration dates through 2007. Rental expense recorded for the years ended December 31, 2002, 2001 and 2000 was 2,384, 2,057 and 1,031, respectively. As of December 31, 2001, minimum annual rental commitments are as follows:

2003	5,006
2004	881
2005	466
2006	375
2007	249
Thereafter	191
Total	7,168

Some banks have provided guarantees at December 31, 2002 to secure payments to several suppliers of leather and fabric hides amounting to 4,408 (4,407 at December 31, 2001). These guarantees are unsecured and have various maturities extending through December 2003.

VAT reimbursed by tax authorities during 2002 and in prior years is secured by surety bonds for 117 (173 at December 31, 2001) from certain financial institutions. These surety bonds are unsecured and will expire after a maximum period of up to two years or when the tax authorities perform the final review of VAT claim requests.

In December, 1996, the Company and the 'Contract Planning Service' of the Italian Ministry of the Budget signed a 'Program Agreement' with respect to the 'Natuzzi 2000 project'. In connection with this project, the Natuzzi Group has planned a multi-faceted program of industrial investments for the production of upholstered furniture. Investments are projected to total approximately 232,160.

According to the agreement, the Italian government will contribute 106,227. Receipt of the Italian governments funds is based upon, among other things, the Group constructing facilities in accordance with certain specifications and maintaining a minimum number of employees.

During 1997 the Group received under the aforementioned project capital grants for 27,139. Capital expenditures under the Natuzzi 2000 project amounted to approximately 70,755 at December 31, 2002 (70,755 at December 31, 2001). The capital grants are secured by surety bonds for 26,041 from a bank. These surety bonds are unsecured and will expire when the Italian Ministry of Budget releases the final approvals of all investments made.

The Group is also involved in a number of claims (including tax claims) and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters, after considering amounts accrued, will not have a material adverse effect on the Group's consolidated financial position or results of operations.

21
Segmental and geographical information

The Group operates in a single industry segment, that is, the design, manufacture and marketing of contemporary and traditional leather and fabric upholstered furniture. It offers a wide range of upholstered furniture for sale, manufactured in production facilities located in Italy.
Net sales of upholstered furniture analyzed by coverings are as follows:

	2002	2001	2000
Leather upholstered furniture	623,755	624,411	559,720
Fabric upholstered furniture	110,997	89,628	69,582
Total	734,752	714,039	629,302

Within leather and fabric upholstered furniture, the Company offers furniture in the following categories: stationary furniture (sofas, loveseats and armchairs), sectional furniture, motion furniture, sofa beds and occasional chairs, including recliners and massage chairs.

The following tables provide information about net sales of upholstered furniture and of long-lived assets by geographical location. Net sales are attributed to countries based on the location of customers. Long-lived assets consist of property, plant and equipment.

Sales of upholstered furniture	2002	2001	2000
United States	330,575	317,927	294,250
Italy	76,145	72,623	69,074
England	56,196	51,457	43,140
Germany	37,936	39,985	36,149
Canada	32,586	35,581	21,483
France	24,370	19,077	11,275
Belgium	17,354	21,060	21,708
Holland	16,858	23,294	21,164
Ireland	16,816	11,509	4,855
Norway	13,281	12,048	11,878
Australia	13,186	12,054	12,700
Other countries (none greater than 2%)	99,449	97,424	81,626
Total	734,752	714,039	629,302

Long lived assets	2002	2001
Italy	164,042	129,998
United States of America	22,576	29,270
Romania	21,159	5,352
Brazil	12,380	11,433
China	6,348	6,379
Spain	1,214	25
Other countries	1,173	656
Total	228,892	183,113

In addition, the Group also sells minor amounts of excess polyurethane foam, leather by-products and some furniture pieces (coffee table, lamps and rugs) which, for 2002, 2001 and 2000 totalled 70,391, 72,109 and 59,178, respectively.
No single customer accounted for more than 5% of net sales in 2002, 2001 or 2000.

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Cost of sales

Cost of sales is analyzed as follows:

	2002	2001	2000
Opening inventories	87,895	73,644	53,301
Purchases	338,484	366,398	303,775
Labor	106,954	98,102	87,595
Third party manufacturers	38,572	44,656	35,932
Other manufacturing costs	29,599	25,184	19,336
Closing inventories	(84,081)	(87,895)	(73,644)
Total	517,423	520,089	426,295

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Other income (expense), net

Other expense, net is analyzed as follows:

	2002	2001	2000
Interest income	5,423	5,987	6,585
Interest expense and bank commissions	(3,870)	(3,701)	(598)
Interest income, net	1,553	2,286	5,987
Gains (losses) on foreign exchange, net	7,254	(5,311)	(30,359)
Unrealized exchange			
Gains (losses) on domestic currency swaps	2,021	(902)	2,101
Gains (losses) on foreign exchange	9,275	(6,213)	(28,258)
Gains (losses) on securities, net	-	79	-
Other, net	3,723	3,623	424
Total	14,551	(225)	(21,847)

Gains (losses) on foreign exchange are related to the following:

	2002	2001	2000
Net realized gains (losses)			
on domestic currency swaps	10,930	(12,239)	(32,154)
Net realized gains (losses)			
on accounts receivable and payables	(8,835)	(1,545)	5,071
Net unrealized gains (losses)			
on accounts receivable and payable	5,796	8,473	(3,276)
Exchange difference loss			
on translation of foreign financial statements	(637)	-	-
Total	7,254	(5,311)	(30,359)

Other, net consists of the following:

	2002	2001	2000
Tax liabilities settlements	(481)	-	-
Tax refund	1,314	-	-
Employment incentive grants	-	2,259	-
Other, net	2,890	1,364	424
Total	3,723	3,623	424

Tax liabilities settlement

During 2002 the Group settled certain of its tax claims.

Tax refund

During 2002, the Company obtained from tax authorities a refund of 1,314 for taxes not due on a portion of income related to 1993, as these amounts were never recorded as a receivable, the Company recorded such amounts in the statement of earnings.

Employment incentive grants

The Company and certain subsidiaries, on the basis of regional laws, received from the regional agencies employment incentives in the form of grants for new permanent employees and subsidies of up to 100% of the cost of training courses for permanent and temporary employees. The incentives received were related to prior years. For the year ended December 31, 2001 these incentives amounted to 2,259.

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Financial instruments and risk management

A significant portion of the Group's net sales, but only approximately 30% of its costs, are denominated in currencies other than the euro, in particular the U.S. dollar. The remaining costs of the Group are denominated principally in euro. Consequently, a significant portion of the Group's net revenues are exposed to fluctuations in the exchange rates between the euro and such other currencies. The Group uses forward exchange contracts (known in Italy as domestic currency swaps) to reduce its exposure to the risks of short-term declines in the value of its foreign currency-denominated revenues. The Group uses such domestic currency swaps to protect the value of its foreign-currency denominated revenues, and not for speculative or trading purposes.

The Group is exposed to credit risk in the event that the counter parties to the domestic currency swaps fail to perform according to the terms of the contracts. The contract amounts of the domestic currency swaps described below do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure of the Group through its use of those financial instruments. The amounts exchanged are calculated on the basis of the contract amounts and the terms of the financial instruments, which relate primarily to exchange rates. The immediate credit risk of the Group's domestic currency swaps is represented by the unrealized gains on the contracts. Management of the Group enters into contracts with creditworthy counter-parties and believes that the risk of material loss from such credit risk to be remote. The table below summarizes in euro equivalent the contractual amounts of forward exchange contracts used to hedge principally future cash flows from accounts receivable and sales orders at December 31, 2002 and 2001:

	2002	2001
U.S. dollars	117,050	121,811
British pounds	22,650	19,267
Canadian dollars	14,937	17,869
Australian dollars	9,579	6,714
Japanese yen	2,863	3,644
Swiss francs	2,844	2,416
Total	169,923	171,721

The following table presents information regarding the contract amount in euro equivalent amounts and the estimated fair value of all of the Group's forward exchange contracts. Contracts with unrealized gains are presented as ‘assets’ and contracts with unrealized losses are presented as ‘liabilities’.

	2002		2001	
	contract amount	unrealized gain (losses)	contract amount	unrealized gain (losses)
Assets	156,983	14,880	66,771	1,450
Liabilities	12,940	(588)	104,950	(3,009)
Total	169,923	14,292	171,721	(1,559)

At December 31, 2002, these forward exchange contracts had a net unrealized gain of 14,292, of which 9,251 related to accounts receivable, 3,020 related to existing sales commitments and 2,021 related to anticipated commitments at year-end. The Company recorded all these amounts, except for 3,020 relating to existing sales commitments.

At December 31, 2001, the forward exchange contracts had a net unrealized loss of 1,559, of which 407 related to accounts receivable, 250 related to existing sales commitments and 902 related to anticipated commitments at year-end. The Company recorded all these amounts, except for 250 relating to existing sales commitments.

The carrying value of forward exchange contracts is determined based on the unrealized loss and gain of such contracts recorded in the consolidated financial statements. Unrealized gains (losses) on forward exchange contracts is determined by using residual maturity rate.

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Fair value of financial instruments

The following table summarizes the carrying value and the estimated fair value of the Group's other financial instruments:

	2002		2001	
	carrying value	fair value	carrying value	fair value
Assets				
- Marketable debts securities	26	26	27	27
- Treasury shares	37,828	27,552	37,828	47,242
Liabilities				
- Long-term debt	5,011	4,100	4,266	3,942

Cash and cash equivalents, receivables, payables and short-term borrowings approximate fair value because of the short maturity of these instruments.

Market value for quoted marketable debt securities is represented by the securities exchange prices at year-end. Market value for unquoted securities is represented

by the prices of comparable securities, taking into consideration interest rates, duration and credit standing of the issuer.

Fair value of the long-term debt is estimated based on cash flows discounted using current rates available to the Company for borrowings with similar maturities.

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Application of generally accepted accounting principles in the United States of America

The established accounting policies followed in the preparation of the consolidated financial statements (Italian GAAP) vary in certain significant respects from those generally accepted in the United States of America (US GAAP).

Those differences which have a material effect on net earnings and/or shareholders' equity are as follows:

(a) Certain property, plant and equipment have been revalued in accordance with Italian laws. The revalued amounts are depreciated for Italian GAAP purposes. US GAAP does not allow for such revaluations, and depreciation is based on historical costs. The revaluation primarily relates to industrial buildings.

(b) The Company in connection with its hedging activities employing forward exchange contracts defers net unrealized foreign exchange gains and losses related to future sales for which commitments are received at the balance sheet date. The Company defines such commitments for Italian GAAP purposes as sales orders on hand and customers' indications of future purchases as of the balance sheet date which are confirmed by sales orders within a designated time period subsequent to year end. Unrealized gains and losses on forward exchange contracts not designated to cover accounts receivable or future sales commitments are recognized in the consolidated statement of earnings. See notes 3 (a) and (b) for the Group's accounting policy.

Until December 31, 2000 under US GAAP, generally both unrealized foreign exchange gains and losses from foreign currency transactions were recognized in the consolidated statement of earnings unless prescriptive hedging criteria were met. Until December 31, 2000 the Company's accounting policy for US GAAP purposes was that unrealized gains and losses on forward exchange contracts were deferred only for such contracts designated to cover firmly committed transactions supported by sales orders on hand as of the balance sheet date. Accordingly, under US GAAP, unrealized gains and losses on forward exchange contracts designated to cover anticipated future sales which are not supported by sales orders on hand as of the balance sheet date were credited or charged to the consolidated statement of earnings.

(c) Under US GAAP, SFAS 133 established comprehensive accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 requires that an entity record all derivatives, freestanding and certain embedded derivatives,

as either assets or liabilities in the statement of financial position. This statement also defines and allows companies to apply hedge accounting to its designated derivatives under certain instances, provided an entity meets the strict documentation criteria of SFAS 133. It also requires that all derivatives be marked to market on an ongoing basis. Along with the derivatives, in the case of qualifying hedges, the underlying hedges items, are also to be marked to market. These market value adjustments are to be included either in the income statement or other comprehensive income, depending on the nature of the hedged transaction.

The Company is not currently qualifying for hedge criteria under SFAS 133. In particulary, the Company does not formally document all relationships between its hedging instruments (forward exchange contracts known in Italian financial markets as domestic currency swaps) and its hedged items which includes linking all derivatives that are designated as foreign-currency hedges to specific accounts receivable on the balance sheet or to specific firm committents or forecasted transactions. The Company also does not formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging its transactions are highly effective in offsetting changes in fair values of its hedged items. As a result under US GAAP, at December 31, 2002 and 2001 the Company accounted all its derivative financial instruments at their fair value and all its accounts receivable in foreign currency were remeasured at year end exchange rates. Therefore, at December 31, 2002 the Company recorded in the US GAAP shareholders' equity and net earnings a gain of 2,713 and 3,783, respectively.

(d) Until December 31, 2000 government grants related to capital expenditures were recorded, net of tax, within reserves in shareholders' equity (see note 3 (m)). For US GAAP purposes, such grants would be classified either as a reduction of the cost of the related fixed asset or as a deferred credit and amortized to income over the estimated useful lives of the assets. The adjustments to net income represent the annual amortization of the capital grants based on the estimated useful life of the related fixed assets. The adjustments to shareholders' equity are to reverse the amounts of capital grants credited directly to equity for Italian GAAP purposes, net of the amounts of amortization of such grants for US GAAP purposes. In 1995 and 1997, the Group received certain grants relating to fixed assets acquired between 1989 and 1997 with various useful lives. For US GAAP purposes, the Group is amortizing such grants over the remaining useful lives of the assets to which the grants relate.

(e) The Company does not record the compensation cost resulting from the granting of share options. For US GAAP purposes, this intrinsic value (resulting from the excess of the market price of the underlying shares at the date of grant over the exercise price) is being recognized as compensation cost in the consolidated statement of earnings over the vesting period of the options. For US GAAP purposes, in 2000

the Company recorded a charge of 166. No expense was recorded in 2001 and 2002.
(f) As indicated in note 19, during 2001 and 2000 the Company repurchased its common shares for a cash consideration of 37,828. Under Italian GAAP, the purchase of these shares was accounted for as non-current assets and under US GAAP, the cost of the acquired shares is reflected as a reduction from shareholders' equity.
(g) Under Italian GAAP the Group recognizes sales revenue, and accrued costs associated with the sales revenue, at the time products are shipped from its manufacturing facilities located in Italy and abroad. A significant part of the products are shipped from factories directly to customers under terms that risks and ownership are transferred to the customer when the customer takes possession of the goods. These terms are 'delivered duty paid', 'delivered duty unpaid', 'delivered ex quay' and 'delivered at customer factory'. Delivery to the customer generally occurs within one to six weeks from the time of shipment.

Accounting principles generally accepted in the United States of America (US GAAP) state that revenue should not be recognized until it is realized or realizable and earned, which is generally at the time delivery to the customer occurs and the risks of ownership pass to the customer. Accordingly, the Italian GAAP for revenue recognition is at variance with US GAAP. As a consequence, the principal effects of this variance on the accompanying consolidated balance sheet as of December 31, 2002 and 2001 and related consolidated statement of earnings for each of the years in the two-year period ended December 31, 2002 are indicated below:

increase (decrease)	2002	2001	variation
Consolidated balance sheet			
Trade receivables, net	(48,004)	(34,457)	(13,547)
Inventories	30,867	22,810	8,057
Total effect on current assets (a)	(17,137)	(11,647)	(5,490)
Accounts payable-trade	(6,240)	(4,615)	(1,625)
Income taxes	(2,288)	(1,547)	(741)
Total effect on current liabilities (b)	(8,528)	(6,162)	(2,366)
Total effect on shareholders' equity (a-b)	(8,609)	(5,485)	(3,124)

Consolidated statement of earnings

increase (decrease)	2002	2001
TSales	(13,547)	(34,457)
Cost of sales	8,057	22,810
Gross profit	(5,490)	(11,647)
Selling expenses	(1,625)	(4,615)
Operating income	(3,865)	(7,032)
Income taxes	(741)	(1,547)
Total effect on net earnings	(3,124)	(5,485)

(h) In 2001, the Company translated the financial statement of a foreign subsidiary which operates in a highly inflationary economy at (i) year-end exchange rate for assets and liabilities, (ii) historical exchange rates for share capital and retained earnings, and (iii) average exchange rates during the year for statements of earnings. The resulting exchange differences on translation were recorded as a direct adjustment to shareholders' equity. A highly inflationary economy is one that has cumulative inflation of approximately 100 percent or more over a 3-year period. Under US GAAP the financial statements of this subsidiary should be translated at (a) year-end exchange rate for monetary assets and liabilities (b) historical exchange rates for non monetary assets and liabilities (for example fixed assets or long term debt) as well as for share capital, reserves and retained earnings (c) average exchange rates during the year for revenues and expenses recorded in the statement of earnings. The resulting exchange differences on translation adjustment should be recorded in the statement of earnings. Therefore for US GAAP purposes, in 2001 the Company recorded a net gain of 307.

(i) Under Italian GAAP the Company amortize the goodwill, included the one resulted from the business acquisition completed after July 1, 2001, on a straight-line basis over a period of five years. US GAAP state that goodwill acquired in a purchase business combination completed after July 1, 2001 has an indefinite useful life and therefore it is no longer amortized, but instead tested for impairment at least annually in accordance with provisions of SFAS N. 142. For US GAAP purposes, in 2002 and 2001 the Company recorded in net earnings 105 and 86 respectively, to eliminate the goodwill amortization recorded under Italian GAAP. For US GAAP purposes as of December 31, 2002 the Company has 528 of goodwill which will no longer be depreciated. Reported net earnings and basic and diluted earnings per share excluding the impact of amortization of goodwill, for all periods presented would have been as follows:

Net earnings	2002	2001	2000
Net earnings under US GAAP, as reported	91,994	71,057	81,740
Add. Amortization of goodwill	116	116	286
Net earnings under US GAAP, adjusted	92,110	71,173	82,026
Basic and diluted earning per share			
Net earnings under US GAAP, as reported	€ 1.680	€ 1.290	€ 1.430
Add. Amortization of goodwill	€ 0.002	€ 0.001	€ 0.001
Net earnings under US GAAP, adjusted	€ 1.682	€ 1.291	€ 1.431

The calculation of net earnings and shareholders' equity substantially in conformity with US GAAP is as follows:

Reconciliation of net earnings	2002	2001	2000
Net earnings under Italian GAAP	91,438	75,657	79,155
Adjustments to reported income:			
(a) Revaluation of property, plant and equipment	44	53	53
(b) Unrealized gains on foreign exchange	-	123	2,204
(c) Derivative and hedging activities	3,783	(1,070)	-
(d) Government grants	1,269	1,269	1,546
(e) Employee share option compensation	-	-	(166)
(g) Revenue recognition	(3,865)	(7,032)	-
(h) Highly inflationary economy	-	307	-
(i) Goodwill	105	86	-
Effect of minority interests on US GAAP adjustments	-	(2)	(1)
Tax effect of US GAAP adjustments	(780)	1,666	(1,051)
Approximate net earnings in conformity with US GAAP	91,994	71,057	81,740
Basic and diluted earnings per share in conformity with US GAAP	€ 1.68	€ 1.29	€ 1.43

Reconciliation of shareholders' equity	2002	2001
Shareholders' equity under Italian GAAP	495,808	428,462
(a) Revaluation of property, plant and equipment	(698)	(742)
(c) Derivative and hedging activities	2,713	(1,070)
(d) Government grants	(19,893)	(21,162)
(f) Treasury shares	(37,828)	(37,828)
(g) Revenue recognition	(10,897)	(7,032)
(i) Goodwill	191	86
Tax effect of US GAAP adjustments	2,919	3,699
Approximate shareholders' equity in conformity with US GAAP	432,315	364,413

Accounting for Stock-Based Compensation

The Company has elected to continue to apply the provisions of Accounting Principles Board ('APB') Opinion No. 25, Accounting for Stock Issued to Employees, and provide the pro forma disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation. The weighted-average fair value of each option granted by the Company during 1996 was estimated on the grant date at euro 32.28 using the Black-Scholes option pricing model with the following weighted-average assumptions: dividend yield of 0.6%; expected volatility of 25%; risk-free interest rate of 7.29%; and expected lives of 2.55 years. Had compensation cost for the Company's Plan, for US GAAP purposes, been determined consistent with SFAS No. 123, the Company's US GAAP net earnings and earnings per share for the year ended December 31, 2000 would materially approximate the actual amounts presented in the reconciliation.

Comprehensive Income

The Company has adopted SFAS No. 130, Reporting Comprehensive Income, which established standards for the reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income/(loss) generally encompasses all changes in shareholders' equity (except those arising from transactions with owners). The Company's comprehensive income does not differ from net income.

Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over fair value of assets of businesses acquired. The Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets, as of January 1, 2002. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets.

In connection with SFAS No. 142's transitional goodwill impairment evaluation, the Statement required the Company to perform an assessment of whether there was an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company was required to identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002. The Company was required to determine the fair value of each reporting unit and compa-

re it to the carrying amount of the reporting unit within six months of January 1, 2002. To the extent the carrying amount of a reporting unit exceeded the fair value of the reporting unit, the Company would be required to perform the second step of the transitional impairment test, as this is an indication that the reporting unit goodwill may be impaired. The second step was required for one reporting unit. In this step, the Company compared the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which were measured as of the date of adoption. The implied fair value of goodwill was determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141, Business Combinations. The residual fair value after this allocation was the implied fair value of the reporting unit goodwill. The implied fair value of this reporting unit exceeded its carrying amount and the Company was not required to recognize an impairment loss.

Prior to the adoption of SFAS No. 142, goodwill was amortized on a straight-line basis over the expected periods to be benefited, generally 5 years, and assessed for recoverability by determining whether the amortization of the goodwill balance over its remaining life could be recovered through undiscounted future operating cash flows of the acquired operation. All other intangible assets were amortized on a straight-line basis over a period of 5 years. The amount of goodwill and other intangible asset impairment, if any, was measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds.

SFAS No. 143

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143). SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Company also records a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company is required to adopt SFAS No. 143 on January 1, 2003. Application of this statement will not have a significant impact on the consolidated financial statements of the Company.

SFAS No. 145

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No. 145 also amends SFAS No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of Statement No. 4 is applied in fiscal years beginning after May 15, 2002. Earlier application of these provisions is encouraged. The provisions of the Statement related to Statement No. 13 were effective for transactions occurring after May 15, 2002, with early application encouraged. The adoption of SFAS No. 145 will not have a material effect on the consolidated financial statements of the Company.

SFAS No. 146

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 is not expected to have a material effect on the consolidated financial statements of the Company.

SFAS No. 148

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002. The Company does not have any impact due to the issuance of this statement, as it does not have any stock options outstanding as of December 31, 2002.

FASB interpretation No. 45

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company's financial statements. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002 and the adoption of No. 145 Interpretation does not have any impact on recognition of liabilities and any material impact on the disclosures.

FASB interpretation No. 46

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (VIE), an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. For nonpublic enterprises, such as the Company, with a variable interest in a variable interest entity created before February 1, 2003, the Interpretation is applied to the enterprise no later than the end of the first annual reporting period beginning after June 15, 2003. The application of this Interpretation is not expected to have a material effect on the consolidated financial statements of the Company. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective. The Company does not believe that it has any VIE for consolidation.

Board of Directors
at July 1st, 2003

Pasquale Natuzzi	Chairman and Chief Executive Officer
Giuseppe Desantis	Vice Chairman
Giambattista Massaro	Director
Gianluca Monteleone	Director
Armando Branchini	Outside Director
Stelio Campanale	Outside Director
Claudio Dematté	Outside Director
Pietro Gennaro	Outside Director
Giuseppe Russo Corvace	Outside Director
Enrico Vitali	Outside Director

Management
at July 1st, 2003

Pasquale Natuzzi	Chairman and Chief Executive Officer
Giuseppe Desantis	Vice Chairman
Steve Adams	Retail Director of Kingdom of Leather Ltd.
Steve Bailey	Marketing Manager of Natuzzi Americas
Anna Beccari	Consumer Communication Manager
Antonello Bracalello	S-W Europe and Asia-Pacific Sales and Marketing Director
Amedeo Buzzacchino	Provider Planning Manager
Enrico Carta	Human Resources Director
Vito Castoro	Production Director
Giuseppe Catalano	Legal Affairs Manager
Francesco Cornacchia	Production Manager of Italsofa Bahia Ltd.
Nicola Coropulis	S-W Europe and Asia-Pacific Sales Op. & Develop. Manager
Giovanni Costantino	Research and Development, Industrialization and Quality Director
Vito Dagostino	Purchasing Director
Gaetano De Cataldo	Executive Vice President of Natuzzi Americas
Nicola Dell'Edera	Finance Director
Gaetano Del Re	Production Engineering Manager
Michele D'Ercole	Managing Director of Natco
Michele Diliberto	U.K. and Ireland Country Manager
Luca Finzi	Retail Design and Engineering Manager
Giuseppe Firrao	Trade Communication Manager
Carl Grierson	General Manager for Buying, Merchandising and Logistics for Kingdom of Leather, Ltd.
Sylvain Grisé	Spain and Portugal Country Manager
Lars Hovang	N-E Europe, Middle East and Africa Marketing Manager
Cesare Laberinti	Chairman and Managing Director of I.M.P.E. S.p.A.
Valeria Lanzilotta	Sales Manager of Asia Pacific
Giuseppe Nicola Lassandro	Information System Director
Bo Lippert-Larsen	Nordic Region Country Manager
Guglielmo Lo Savio	Exhibition Manager
Loredana Mariani	S-W and Asia-Pacific Marketing Manager
Nicola Masotina	Italy Retail Country Manager
Giambattista Massaro	General Manager Purchasing and Logistics
Jan Mentens	Belgium Country Manager
Giovanni Mercadante	Accounting Director
Ottavio Milano	Control and Internal Auditing Manager
Gianluca Monteleone	Marketing Director
Anna Maria Natuzzi	Europe Product Manager
Annunziata Natuzzi	Internal Relations and Overseas Human Resources Manager
Filippo Vito Petrera	Quality Manager
John Phillips	Executive Vice President of Sales of Natuzzi Americas
Salvatore Ragazzo	Managing Director of Spagnesi
Enrico Raggi De Marini	N-E, Middle East and Africa Sales and Marketing Director
Stefano Sette	USA Product Manager
Giuseppe Vito Stano	Sales Administration Director
Fredrick Starr	President and Chief Executive Officer of Natuzzi Americas
Francesco Stasolla	Managing Director of Italsofa Rumania S.r.l.
Richard Tan	Chairman and Chief Executive Officer of Italsofa Shanghai Co. Ltd.
Giuseppe Trevissoi	Logistics Director
Emanuele Valente	Transportation Manager
Giacomo Ventolone	Public Relations Manager
Antonio Ventricelli	Production Manager and Director of Italsofa Shanghai Co. Ltd.
Fernando R. Vitale	Managing Director of Italsofa Bahia Ltd.
Luigi Vitolo	Industrialization Manager
Steve Winetroube	Managing Director of Kingdom of Leather Ltd.
Rino Zinco	Switzerland Country Manager

Board of Internal Auditors

Francesco Venturelli	President
Cataldo Sferra	
Costante Leone	

Independent Auditors

KPMG spa

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Investor Relations
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