NATUZZI

2006 ANNUAL REPORT

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FINANCIAL HIGHLIGHTS

Twelve-month period ended on December 31
(Italian GAAP)

	2006		2005		Change %		2006	2005
	Euro millions (except per Ordinary Shares)						USD millions (except per Ordinary Shares)	
Net Sales	735.4	100.0%	669.9	100.0%	9.8%	(b)	970.5	793.3
Gross Profit	244.9	33.3%	210.5	31.4%	16.3%	(b)	323.1	249.3
Operating Income (Loss)	16.5	2.2%	(14.7)	(2.2%)	212.2%	(b)	21.7	(17.4)
Net Income (Loss)	12.3	1.7%	(14.6)	(2.2%)	184.2%	(b)	16.2	(17.3)
Net Income (Loss) per ADS (a)	0.23		(0.27)			(b)	0.30	(0.32)
Cash Dividend per ADS (a)	0.00		0.00			(b)	0.00	0.00
Debt	6.5		11.8			(b)	8.6	14.0
Long-term Debt	2.4		3.6			(b)	3.2	4.3
Short-term Debt	4.1		8.2			(b)	5.4	9.7
Stockholders' Equity	**478.9**		**473.0**			**(b)**	**631.9**	**560.1**
Number of Shares Outstanding	**54,738,538**		**54,681,628**					

(a) Each Natuzzi American Depositary Share (ADS) represents one Ordinary Share

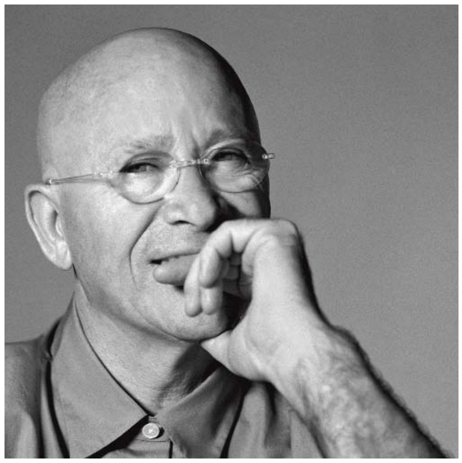
	2006	2005
(b) For the years 2006 and 2005 amounts are translated into US dollars at the following Noon Buying Rates for Euros as of December 31:	1.3197	1.1842

Quarterly Stock Price - Closing Price per ADS

(Price in USD)

	2006		2005		2004	
	High	**Low**	**High**	**Low**	**High**	**Low**
First quarter	7.81	7.10	11.65	10.29	11.55	10.15
Second quarter	7.60	6.86	10.27	8.10	11.55	10.15
Third quarter	7.25	6.32	9.00	8.05	10.80	9.23
Fourth quarter	8.65	6.84	8.40	6.76	11.17	10.01
Full Year	8.65	6.32	11.65	6.76	11.55	9.23

Source: NYSE



LETTER FROM THE CHAIRMAN

Pasquale Natuzzi
Chairman of the Board of Directors

Dear Shareholders,

As Chairman and Chief Designer of our Group, in 2006 I focused entirely on defining our brand strategy in conjunction with the Chief Executive Officer and top Executives of the company. I personally led innovation in the product development and distribution systems, while coordinating marketing and communication plans.

Our company gained, in recent years, a highly significant experience in retail management, endorsed by the growing trust of our new partners and through positive customer satisfaction levels. It is my intention to continue on this strategic path in order to pursue the priority goal to strengthen our brand through a harmonized management of all the marketing tools. I will continue to personally cordinate the creative team at our Centro Stile in Italy, to make sure we deliver a unique and attractive brand through a consistent product development and new stores and galleries layouts, interior design and product mix.

Our marketing and communication plans will increasingly focus on boosting Natuzzi's brand visibility, consolidating awareness and enticing consumers to visit our stores. Despite a complex market environment, many positive signals encourage us to continue along this course which confirm how sound and visionary our strategy is. Our new generation of stores are proving successful in terms of sales, thanks to the great care we put in the choice of location and product mix.

We are entirely committed to an ambitious project and we are confident, dear shareholders, that we can count on your support. This is why I want to sincerely thank you in advance for your valuable and continued trust.

LETTER FROM THE CHIEF EXECUTIVE OFFICER

Ernesto Greco

The Natuzzi Group 2006 financial year results are positive, with a consolidated revenue of 735.4 million euros, 62.2 million euros cash flow (almost threefold compared to 2005) and a net profit of 12.3 million euros, as opposed to a loss of 14.6 million euros in 2005. These results should not be regarded as a culmination, but as the initial consolidation of a turnaround in trend and a transition towards a better structured presence in global markets. The net profit is the result of a process we started in the second half of 2006, which involved the reconsideration of the Group strategy and business model, a reorganization of some of our processes and catering more directly for customers. Natuzzi is a player in global markets.

We want to continue with an investment policy aimed at bringing us closer to our potential customers all over the world, by opening new point of sales and relocating our stores and galleries, while maintaining the strong Italian identity in product design, style and quality. Stores represent the most important item in our relationship with the consumers, inspiring them in their total living choices. This is why we continue to invest, and to look for the most prestigious locations for our flagship stores, such as the new Natuzzi Store opened in Via Durini, in the heart of Milan, and the store opened in Cologne, in the former Capitol Cinema, hosting the first Natuzzi Café, or the new stores in New York, Mexico City and Shanghai. This is also why we invested not only in flagship stores, but have started also a program of site reconsideration and the progressive relocation of all the Natuzzi stores worldwide. Our products are the outcome of a careful analysis of purchase behavior changes, carried out both by listening - using the Natuzzi point of sales - and by using the most sophisticated experiential marketing tools and web marketing.

The project becomes a product through our network of 13 production sites. A vertically integrated manufacturing and distribution system allows advanced global economies of scale and punctual delivery of our Natuzzi and Italsofa products wherever the customer wishes. From the business perspective, while continuing to focus on the U.S. market (which counted for 37.2% of our revenue in 2006), we also want to increase growth and investment in the European market and its consumers, to deeply understand their tastes and anticipate the emerging trends. Europe continues to play a central role in defining new and growingly refined styles in the living room sector (counting for 55.5% of revenue). Emerging countries (7.3% of revenue in 2006) represent, on the other hand, our future expansion, due to the improvement in lifestyles which is becoming consolidated in those areas, not only in Australia and Japan, but especially in India and China. In China we plan to increase fourfold our presence in the coming three years.

Natuzzi is in continuous evolution, and it could not be otherwise, considering the originality of our market approach, that we want to maintain absolutely intact, despite the competitiveness of global systems, the fluctuations in currency exchanges (which have been unfavourable in recent years), and the daily emergence of new areas for expansion. We have decided to boost our craftsmanship-related Italian identity, arising from the creativity of Pasquale Natuzzi, while pursuing high volumes and global presence at the same time. We will make all efforts and investments to reach our goal. We are grateful for the support everyone around us is granting - our staff, our stakeholders, our shareholders.

Nicolaus sectional sofa

FROM LISTENING TO THE PROJECT

THE CUSTOMER AT THE CORE OF THE NATUZZI PROJECT

Putting customers at the core means to evolve at a par with his demands of quality and style, to inspire them without impositions. Knowing how to listen to their needs and how to convert them into a product proposal that meets lifestyle expectations. Designing *living rooms* with sofas, armchairs, complements and wall units means imagining customers in their domestic realm, understanding the daily interaction with the living space, both from a functional viewpoint and from the perspective of sensations and fantasy. It means inviting them to dream and, at the same time, knowing how to materialize the dream into a proposal that is always attainable, anywhere in the world.

Tastes change, not only out of need, but due to new trends and evolutions in lifestyle. In order to meet these changing and always new demands, it is essential to know how to listen. This is how designers work: they listen to the customer's requirements, understanding them from some simple indications, and interprets their needs. This is transformed into a complete project, adding individual creative touch in a manner befitting the request rather than pursuing standardization or encroachment.

Hence, knowing how to listen and knowing how to create is a foremost and key feature of the "Natuzzi style". Listening means - to Natuzzi - transforming the designer's approach into a structured listening process, using all the contact interfaces with the customer, before and after sales, everywhere in the world. It means depending on the context which favors this interaction with the public to the greatest extent: the *store.*

This is not only a showroom where Natuzzi conveys the messages which distinguish the range; it is also where Natuzzi listens to any potential reactions, comments, objections. The information obtained is constantly transformed into inspiration for the creation of new proposals, using a second and essential resource which makes the Natuzzi proposal unique: our *creativity*, embodied in the over 180 young artists, designers, color experts, material experts, interior decorators and architects who work in Santeramo, in Italy, under the personal guidance of Pasquale Natuzzi.

The secret of Natuzzi's ability to evolve, to rethink the company and design innovative products and living rooms lies in this uniqueness, enabling the company to offer customers a range of products which, although manufactured on an *industrial* scale in terms of logistics and delivery, are the result of *craftsmanship* in terms of listening, intuition, creative process, design and manufacture of prototypes. These are Natuzzi's *Total living* values which not only refer to the customer but which are more far-reaching, spanning the capacity to imagine lifestyles, conveyed from the listening phase right through to the project and drawing on vitality, rationality and creative energy.

FROM THE PROJECT TO THE MARKET

THE RANGE

The main feature of Natuzzi's range of products is the focus on the development of new models, new shapes and new designs. As of December 31, 2006, the Natuzzi collection featured 382 models. Natuzzi implemented a wide renewal of its collection, in order to be a leader in developing new styles and to anticipate new global trends adopted by an incresasing number of demanding customers worldwide. A special attention was paid to renewing the product lines shown in the single-brand Natuzzi stores and galleries.The most successful product in 2006 was the 2030 model, belonging to the medium-high range, marketed in 63 countries with a sell-in turnover of 16 million euros. The sales performance of the 2226 and 2243 models is also worth highlighting, with earnings of 11 and 8 million euros, respectively. The 2086 model, entry-price, is also to be mentioned: marketed in 65 countries it generated sales for 20.9 million euros. In general, Natuzzi's 2006 strategy was to expand each of the two brands marketed by the Group (*Natuzzi* and *Italsofa*) with new models and new product lines. The range of models with relax mechanism or the introduction of new materials and colors, both in woven fabric and in microfiber textiles are clear examples. Additionally, Natuzzi has enhanced the range with the new and exclusive Alcantara® Elegance cover, manufactured exclusively for Natuzzi by Alcantara SpA.

Natuzzi, though, does not only sell single products, it aims at complying with the mission of offering customers a *total living* concept, encompassing experience, creativity and style. This is why among the furniture accessories, increasingly considered an integral part of the range rather than a complement to the so-called "core business", the Wall Units, launched for the first time at the 2005 Cologne Furniture Show, need to be mentioned as, in 2006, they already counted for around 9% of the Furniture Accessories business unit income. The Natuzzi range, therefore, is becoming increasingly comprehensive, and it includes a range of accessories to complete an atmosphere befitting a certain lifestyle.

The will to be mindful of the customer and inspire their choice is substantiated in the *Color Guide*, developed by the Natuzzi Style Center. It compiles all the necessary information on style and color ranges to create a consistent and creative atmosphere, matching materials, colors and forms. Natuzzi proposes this as a modular system, defending the right to choose and leaving the final decision to the customer.

PRODUCTION AND DELIVERY

The range of *Natuzzi* and *Italsofa* brand products can boast a key feature which is a source of pride for Natuzzi and evidence of its uniqueness: the strongly Italian personality of its style. This all-encompassing choice is not incompatible with Natuzzi's global presence in markets all over the world, because it is based on a knowing segmentation of products and their product lines and proximity to end markets. That is why the production units in Italy work in synergy with those of South America (Brazil), Central Europe (Romania) and the Far East (China), creating an integrated logistics platform based on an advanced data processing infrastructure and responding to the highest environmental standards (ISO 14001 certificate obtained in 2001; ISO 9001/2000 Quality Management System certificate obtained in 2003). This platform allows the implementation of advanced logistics solutions such as the direct delivery to the buyer from the store anywhere in the world, invoicing in local currency, and complete on-line pre- and post-sales service.

HUMAN RESOURCES

At 31st December 2006, the Natuzzi group employed 8,133 workers, of which 3,590 in Italy and 4,543 abroad. The personnel management and development policies of Natuzzi have a threefold target: to attract the best resources on the market; to retain the best employees in the company; to train talented staff and plan professional promotion. A screening system has been introduced which, depending on the job profile, uses the most suitable tools to pinpoint the skills and proficiency needed to cover open positions in the

Tribeca dining room

company. Moreover, we designed a tool to apply company policies in regard to retention and short-term planning, based on know-how, position replacement priority and performance indexes, and corporate strategies in regard to salaries, training and promotion. Through expedient assessment of the training needs of employees of the Group, the HR Department has also planned a series of both managerial and specialized inhouse training courses in order to adapt skills to the marketing strategies of the Group.

INFORMATION SYSTEMS AND ICT

In regard to Information Technology, 2006 has been a year of strategic renewal as well as enhancement of the results obtained from the current platforms. Natuzzi has completed the deployment of financial software in the second Brazilian plant, now having complete control over all the production plants of the American continent. At the same time, Natuzzi has completed the "Natuzzi Retail System" (developed from an advanced *Service Oriented Architecture - SOA*), currently installed in all the stores of the Italian distribution network, and now in the process of implementation in Europe starting with Switzerland. With the help of outsourcing to leading Italian university research centers, the information systems used for Italian operations have been thoroughly modified to allow the development of the "pull" production system for each industrial unit. In 2006, Natuzzi has redesigned its software applications strategy by adopting a new platform with "A-class" cornerstones, the most important being: SAP, an integrated ERP to cover not only financial aspects but also running processes both of the active and passive cycles.

NATUZZI GROUP: THE MARKETS IN 2006

Natuzzi is all over the world. In 2006, 37.2% of Natuzzi sales were in the U.S.A. and the American continent; 55.5% in Europe (including Italy) and 7.3% in the rest of the world (especially Australia and Japan). According to recent data made public by independent sources (CSIL, 2005), Natuzzi Group is leader in the leather upholstery segment in the USA (with 8.1%

market share) and in Europe (with 4.9%). In both geographical areas, Natuzzi maintains its supremacy with considerable investments to boost its presence through the network of stores and galleries. But new areas are looming with growing importance in global markets. This is the case of the Far East: China, India and also Japan, where an evolution in living standards is creating growing demand each day.

THE AMERICAS

For the year 2006, total net sales in the American continent (which includes not only the United States and Canada, but also Central and Southern America) grew by 1.5% reaching 245.4 million euros as compared to 241.7 million euros in 2005. The number of seats sold has dropped by the same percentage (1.5% to 1,364,873: in 2005 they were 1,386,329) evidencing a margin increase on sales. Business in this area is managed by the subsidiary Natuzzi Americas, based in High Point, North Carolina, heart of the U.S. furniture industry, and employing 64 persons as of April 30, 2007. Natuzzi Americas handles a network of 49 sales representatives and independent sub-agents who deal with the most important customers of the area, namely the main retailers.

EUROPE

The Natuzzi Group reported positive results in Europe for the whole 2006. Total net sales from leather and fabric upholstered furniture (excluding Italy) grew by 15.6% to 284.6 million euros (as compared to 246.1 million euros in 2005) and seat sold grew by 14.3%, from 1,015,683 to 1,161,302. The Group has promoted its ranges in Europe through its six subsidiaries in Belgium, Denmark, Germany, UK, Switzerland and Spain and through the network of agents (totaling 9 agents and sub-agents as of December 31, 2006) in Europe and the Middle East. Excluding Italy, as of December 31, 2006 there were 55 franchised single-brand stores open in Southern and Western Europe (of which 26 under *Divani & Divani by Natuzzi* name and 29 under Natuzzi name) and 34 owned directly by the Group.

In February 2006, the Group began its process of winding up its subsidiaries in the UK, with the intention of maintaining two of the original chains of stores. This was the result of the strategic decision of raising the positioning of the Natuzzi brand and its presence in the UK by winding up the chain which, in terms of invoicing and standing, did not comply with the new branding requirements of the Group. At the same time, in the UK, Natuzzi has granted two licenses for *store-in-store* stores, one in *Selfridges* (London) and the other in *House of Fraser* (Birmingham). In Eastern Europe, the Group has boosted its presence with a total of 22 galleries, complemented by the 14 Natuzzi stores currently open. Of note, the three new single-brand stores opened in Moscow, St. Petersburg and Warsaw.

ITALY

Natuzzi operates in the Italian market with a network of 126 *Divani & Divani by Natuzzi* stores (as at December 31, 2006), complemented by the Natuzzi flagship store in Milan. Twenty four of these stores (apart from the Natuzzi store) are owned directly by the Group. For the whole 2006, total net sales in Italy reached 81.9 million euros, increasing by 22.2% with respect to 67.0 million euros in 2005. The number of seats sold grew by 16.7% to 288,394.

REST OF THE WORLD

Far East

In 2006, total net sales in the Asia-Pacific market increased by 21.1% at 48.3 million euros as compared to 39.9 million euros in 2005. In Australia, 2006 upholstery net sales totaled 18.3 million euros (+10.9% with respect to 16.5 million euros in 2005). Japan achieved total net sales of 5.0 million euros (+19.0% with respect to 4.2 million euros in 2005). This growth is the first effect produced by the decision to operate in this market with a subsidiary, instead of through agents and third parties. The subsidiary in Japan is flanked by a second operating unit, *Italsofa Shanghai Ltd.*, and three agencies operating in Australia, Korea and New Zealand.

At 31st December 2006, there were 34 single-brand stores, of which 17 in Australia (and 29 Galleries in *David Jones* Department Stores), 13 in China, one in Singapore and three in New Zealand.

Middle East

2006 was an important year for the consolidation of the Natuzzi brand in this geographical area. A store was opened in Herzalia (Israel) as well as the first store in Istanbul (in the Etiler district). In addition, there are the two galleries in Kuwait and the one in Amman, Jordan. At 31st December 2006, the presence of Natuzzi in the Middle East encompasses a total of 5 stores (Lebanon, Turkey, Arab Emirates with 2 stores, and Saudi Arabia, in addition to the 5 galleries in Bahrain, Kuwait, Arab Emirates and Saudi Arabia with two galleries).

Savoy three seat sofa and armchair

FROM THE MARKET TO THE HOME

NATUZZI STORES

Stores represent, for Natuzzi, the corporate image and communicate the brand identity to the market. It is therefore only natural that Natuzzi pays special attention to its own stores (single-brand stores) and galleries (in-store Natuzzi shops in the main Department Store chains) all over the world, and allocates considerable and growing investments in this area. Indeed, for Natuzzi, the store is not merely the last link in the delivery chain but a probe to monitor the evolution of customer preferences, in a process of mutual and positive guidance. This is why the Natuzzi store network is a dynamic system, an essential evolutionary feature to ensure the comprehensiveness of the business, as well as strategic tool to bring the Natuzzi image to the world. Hence, the network is in constant motion and reflects the ongoing positioning process towards the high end of the market (in customer tastes and style) which Natuzzi began some years ago around the world. The opening of flagship stores in prestigious locations is part of this program, and includes Cologne (where the first *Natuzzi Cafè* also opened) and Milan (in the centre of the district acknowledged as world capital of style and design).

In addition to these, there are prestigious Galleries in *Harrods* (recently enlarged) and in *Selfridges* (now renovated), both foremost locations not only for the British public but also for the global customer with respect to two of the most prestigious department stores in the world. Also worth mentioning is the new *Natuzzi Store* in Shanghai, a city representing an increasingly important market, where Natuzzi intends to multiply its presence fourfold in the coming three years, as well as the flagship stores in Mexico City and New York. The increase in product made adjustments necessary in the lay-out and even the format of stores, with a growing attention to the ‘visual’ effect, using accessory furniture to shape and divide spaces, and increasingly focusing on the *Total living* concept. In order to enact this program, a new and complete in-store communication system has been developed, with the objective of involving the customer in a finely-tuned unique shopping experience addressing customer loyalty. At the same time, an intense staff training program has been prepared to involve Italy and foreing markets, also using the opportunities offered by the main international trade fairs and events.

COMMUNICATION AND MARKETING

The focus on market and experience, the importance of the customer, consistency with values, respect for work and the environment, growing refinement in taste and style, craftsmanship of the range: these are the elements which make up the image constantly projected by Natuzzi using the most sophisticated integrated marketing and communication techniques and tools. This is why the Group is allocating growing investments to identify communication tools and channels that convey its image in consistently with the high-end positioning strategy, while maintaining the friendly outlook and approach which has always characterized the Natuzzi style. In 2006, 14 million euros were invested in communication and marketing, to boost Natuzzi brand visibility in 25 countries, based on a detailed campaign calendar adjusted to the different target markets and based on the identification of goals and specific initiatives. The launching of the different collections (spring and fall) is punctuated with targeted sales campaigns (summer and winter) which have involved all the interfaces with the customer and target consumers world-wide. Moreover, in 2006, two Retail Congresses were organized, in spring and fall, addressing all the retail partners of the Group.
The structure of the new integrated Communication Plan has immediately produced results, with a growth of Natuzzi presence in the media around the world, as well as an increased awareness of the Natuzzi brand. The results also determined a considerable increase in visits to stores all over the world.

TOTAL LIVING AND TOTAL QUALITY

Natuzzi aims at offering its customers only products of superior quality, products perceived by consumers as

Savoy three seat sofa with chaise-longue

"*tailor made*", but infact distributed using industrial processes. Times and lifestyles change and consumers increasingly need guidance to inspire their choices. The standardization brought by mass production is not always compatible with the growing individual need of consumers to identify with the quality and style tastefully proposed by Natuzzi.

Total living is Natuzzi's overall approach to customers, not just the core concept of the range offered. It is an extension of the *total quality* concept lying at base of the production process, and, therefore, creates the for a relationship with the customer and his lifestyle. This is why the process starts and ends with *listening*, in order to propose a continuous evolution in models and styles, but characterized by a solid criteria: to always start and end with the consumers in mind, that is, the people who will want to live in a Natuzzi environment, and who will want to live there in peace and harmony also with the objects surrounding them.

Corporate Profile

VALUES

Our most important values are integrity and respect for people and the environment. Our mission is to create value for clients, employees and shareholders.

THE GROUP

Natuzzi was founded in 1959 by Pasquale Natuzzi, Chairman and Chief Designer of the Group. It designs, produces and markets sofas, armchairs and living room accessories. Natuzzi is the largest Italian furniture company with 2006 turnover of 735,4 million, and is world leader in leather upholstery market. In 1993, Natuzzi became the only foreign furniture company to list on Wall Street. 90% of the Group's turnover is generated outside Italy in 123 countries and holds its major market shares in Europe (55,5%) and Americas (37,2%). Customer service and the entire sales network is managed by the Italian headquarter based in Santeramo, Natuzzi Americas located in High Point (North Carolina - USA) and through local Natuzzi subsidiaries in China, Belgium, Germany, Spain, Denmark, Switzerland, UK and Japan. In the furniture industry the Natuzzi Company is one of the largest investor in research and development. Pasquale Natuzzi, Chairman and Chief Designer, personally manages this strategic activity through the *Centro Stile* located in Santeramo in Colle, where 180 professionals are dedicated to the design, the study of worldwide trends, and the selection of materials. As of December 30, 2006 the Group employed 8,133 people, in Italy and abroad. Production is vertically integrated through 8 factories in Italy and 5 abroad (two in China, two in Brazil and one in Romania). Raw materials are purchased directly from the primary markets and then finished in the company's facilities, specializing in manufacturing leather, wood and metal frames, foam and finished products. By controlling 92% of raw materials and semi-finished products, the Group guaranteed ultimate quality at most competitive prices. Natuzzi's products are hand-made by expert craftsmen committed to high quality standards. A constant effort, confirmed since 1995, throughout the ISO 9001 System of Quality certification, and reconfirmed in December 2001 when the Company received the ISO 14001 Certification for Environmental Control and furthermore in July 2003 with the Certification of the Integrated Management System Quality/environment ISO 9001/2000. 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 post-sales assistance. The Group directly carries out the research and development of its products; plans its new factories; and develops the management information systems and the extranet that allow customers, everywhere in the world, to directly track and manage their orders.

ONE COMPANY, TWO BRANDS

The Group wide and extensive product range is divided into two different brands, Natuzzi and Italsofa, each addressing specific market segments.

NATUZZI

The Natuzzi brand aims at bringing to consumers around the world quality and Italian style through coordinated and innovative living room.
Natuzzi offers wide range of products delivering high quality in terms of creativity, detail of design, and choice of materials and finishes. The entire production process is carried out in the Group's own factories: from the curing of hides to the production of frames and padding, from the cutting of coverings to stitching. Natuzzi has three different collections to satisfy different lifestyles: Casual, Urban, Vintage. Every year more than 100 new models, in different styles, coverings and colours, 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. Natuzzi also includes a selection of complementary furniture (wall units, tables, lamps, rugs) and accessories (vases, containers/holders, candles) designed by the *Centro Stile* for a completely coordinated living room.

The Natuzzi products are distributed through the Natuzzi Stores (278) in the most important international cities including Athens, London, Paris, Madrid, Copenhagen, New York, Sidney, Shanghai, Budapest, Melbourne, and Dubai.
The Natuzzi Galleries (560) are in partnership with the main distribution networks at: Selfridges (UK), Sears Roebuck (Canada), Bloomingdales (USA), David Jones (AUS), El Corte Ingles (Spagna) and Galleries Lafayette (France).
In Italy, Natuzzi sells its product trough the Divani&Divani by Natuzzi retail chain, the first and the biggest franchising chain specialized in sofas, armchairs and accessories.

ITALSOFA

Italsofa is the promotional line of sofas and armchairs introduced by Natuzzi Group in 2000 and manufactured in the Group's factories located in China, Brazil and Romania. Italsofa sells its products in 85 countries serving 690 customers and had a total factory production area of about 175,000 square mt., with a total production capacity of approximately 6,550 seats a day. Developed at the Natuzzi design center in Santeramo, Italy, Italsofa products are designed specifically to provide the best value of the market by offering top quality products.

FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Shareholders of
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, 2006 and 2005 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the management of Natuzzi S.p.A.. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Italy and in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with established accounting principles in the Republic of Italy.

As discussed in Note 3 (d), the Natuzzi Group adopted the new Italian accounting standard No. 17, "Consolidated Financial Statements", with regard to the translation of the financial statements of foreign subsidiaries, effective December 31, 2005.

Established accounting principles in the Republic of Italy vary in certain significant respects from generally accepted accounting principles in the United States of America. Information relating to the nature and effect of such differences is presented in note 27 to the consolidated financial statements.

KPMG S.p.A.

Bari, Italy
June 22, 2007

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31, 2006 AND 2005

Expressed in thousands of euros

ASSETS	December, 31 2006	December, 31 2005
Current assets:		
Cash and cash equivalents (note 4)	128,109	89,723
Marketable debt securities (note 5)	5	5
Trade receivables, net (note 6)	119,274	123,608
Other receivables (note 7)	44,681	46,256
Inventories (note 8)	100,358	115,690
Unrealized foreign exchange gains (note 25)	5,463	-
Prepaid expenses and accrued income	1,955	2,551
Deferred income taxes (note 14)	7,463	6,632
Total current assets	**407,308**	**384,465**
Non current assets:		
Property plant and equipment (note 9 and 22)	405,870	407,847
Less accumulated depreciation (note 9 and 22)	(159,547)	(145,054)
Net property, plant and equipment	246,323	262,793
Other assets (note 10)	18,752	16,616
Deferred income taxes (note 14)	2,291	1,064
Total assets	**674,674**	**664,938**

See accompanying notes to the consolidated financial statements included in the Natuzzi Form 20-F filed with SEC on July 2, 2007.
The Form 20-F is downloadable from our web site, www.natuzzi.com

LIABILITIES AND SHAREHOLDERS' EQUITY	December, 31 **2006**	December, 31 **2005**
Current liabilities:		
Short-term borrowings (note 11)	3,801	7,727
Current portion of long-term debt (note 16)	318	426
Accounts payable-trade (note 12)	79,519	73,533
Accounts payable-other (note 13)	23,067	24,768
Unrealized foreign exchange losses (note 25)	-	4,767
Income taxes (note 14)	4,611	2,907
Salaries, wages and related liabilities (note 15)	21,674	22,083
Total current liabilities	**132,990**	**136,211**
Long-term liabilities:		
Employees' leaving entitlement (note 3 (o))	35,269	32,274
Long-term debt (note 16)	2,433	3,582
Deferred income for capital grants (note 3 (n))	14,075	14,779
Other liabilities (note 17)	10,460	4,358
Minority interest (note 18)	605	709
Shareholders' equity (note 19):		
Share capital	54,739	54,682
Reserves	42,292	42,292
Additional paid-in capital	8,282	8,282
Retained earnings	373,529	367,769
Total shareholders' equity	**478,842**	**473,025**
Committments and contingent liabilities (notes 21 and 25)	-	-
Total liabilities and shareholders' equity	**674,674**	**664,938**

See accompanying notes to the consolidated financial statements included in the Natuzzi Form 20-F filed with SEC on July 2, 2007.
The Form 20-F is downloadable from our web site, www.natuzzi.com

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

Expressed in thousands of euros except per share data

	2006	2005	2004
Net sales (note 22)	735,439	669,926	753,434
Cost of sales (note 23)	(490,563)	(459,492)	(484,601)
Gross profit	**244,876**	**210,434**	**268,833**
Selling expenses	(186,238)	(182,169)	(188,182)
General and administrative expenses	(42,164)	(42,955)	(40,673)
Operating income (loss)	**16,474**	**(14,690)**	**39,978**
Other income (expense), net (note 24)	2,847	2,960	(3,892)
Earnings (loss) before taxes and minority interest	**19,321**	**(11,730)**	**36,086**
Income taxes (note 14)	(7,085)	(3,110)	(17,650)
Earnings (loss) before minority interest	**12,236**	**(14,840)**	**18,436**
Minority interest	103	216	(83)
Net earnings (loss)	**12,339**	**(14,624)**	**18,353**
Basic earnings (loss) per share (note 3 (x))	**0.23**	**(0.27)**	**0.34**
Diluted earnings (loss) per share (note 3 (x))	**0.23**	**(0.27)**	**0.34**

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

Expressed in thousands of euros except number of ordinary shares

	Share capital					
	Nunber of ordinary shares	Amount	Reserves	Additional paid-in capital	Retained earnings	Total
Balances at December 31, 2003	**54,681,628**	**57,526**	**80,236**	**8,282**	**369,019**	**515,063**
Dividends distributed	-	-	-	-	(7,655)	(7,655)
Treasury shares cancelled	-	(2,844)	(37,828)	-	2,844	(37,828)
Transfer for liquidation of subsidiary	-	-	(116)	-	116	-
Net earnings	-	-	-	-	18,353	18,353
Balances at December 31, 2004	**54,681,628**	**54,682**	**42,292**	**8,282**	**382,677**	**487,933**
Dividends distributed	-	-	-	-	(3,828)	(3,828)
Exchange difference on translation of financial statements	-	-	-	-	3,544	3,544
Net loss	-	-	-	-	(14,624)	(14,624)
Balances at December 31, 2005	**54,681,628**	**54,682**	**42,292**	**8,282**	**367,769**	**473,025**
Increase share capital	56,910	57	-	-	(57)	-
Exchange difference on translation of financial statements	-	-	-	-	(6,522)	(6,522)
Net earnings	-	-	-	-	12,339	12,339
Balances at December 31, 2006	**54,738,538**	**54,739**	**42,292**	**8,282**	**373,529**	**478,842**

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CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

Expressed in thousands of euros

CASH FLOWS FROM OPERATING ACTIVITIES:	2006	2005	2004
Net earnings (loss)	**12,339**	**(14,624)**	**18,353**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	30,281	33,042	34,068
Employees' leaving entitlement	6,778	6,877	7,435
Deferred income taxes	(2,058)	(6,300)	(651)
Minority interest	(104)	(216)	83
(Gain) loss on disposal of assets	768	(149)	(3,468)
Unrealized foreign exchange losses and (gains)	(10,230)	11,868	621
Deferred income for capital grants	(1,309)	(5,616)	(874)
Change in assets and liabilities:			
Receivables, net	1,883	10,580	28,052
Inventories	15,444	(1,546)	(16,637)
Prepaid expenses and accrued income	596	(141)	(240)
Accounts payable	4,285	(7,443)	6,659
Income taxes	1,704	386	(1,737)
Salaries, wages and related liabilities	(445)	3,318	2,641
Other liabilities	6,102	(1,001)	(357)
Employees' leaving entitlement	(3,854)	(4,526)	(4,795)
Total adjustments	**49,841**	**39,133**	**50,800**
Net cash provided by operating activities	**62,180**	**24,509**	**69,153**

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CASH FLOWS FROM INVESTING ACTIVITIES:	2006	2005	2004
Property, plant and equipment:			
Additions	(15,563)	(20,917)	(51,860)
Disposals	1,057	916	9,407
Other assets	(3,560)	(1,361)	(893)
Government grants received	605	1,002	-
Purchase of business, net of cash acquired	(250)	(1,985)	(100)
Disposal of business	-	-	5,475
Net cash used in investing activities	**(17,711)**	**(22,345)**	**(37,971)**

CASH FLOWS FROM FINANCING ACTIVITIES:			
Long-term debt:			
Proceeds	363	533	1,284
Repayments	(1,620)	(2,094)	(1,349)
Short-term borrowings	(3,926)	1,628	1,820
Dividends paid to shareholders	-	(3,828)	(7,655)
Dividends paid to minority interests	-	-	(61)
Net cash used in financing activities	**(5,183)**	**(3,761)**	**(5,961)**

Effect of translation adjustments on cash	(900)	3,980	(1,446)
Increase in cash and cash equivalents	38,386	2,383	23,775
Cash and cash equivalents, beginning of the year	89,723	87,340	63,565
Cash and cash equivalents, end of the year	128,109	89,723	87,340

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for interest	1,400	951	1,003
Cash paid during the year for income taxes	6,555	6,659	9,293
Non cash investing activties	3,093	-	-

See accompanying notes to the consolidated financial statements included in the Natuzzi Form 20-F filed with SEC on July 2, 2007.
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Kole sectional sofa with chaise-longue

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURE

The Company carried out an evaluation which involved the participation of the Company's management, including the Chief Executive Officer, Chief Financial Officer and Internal Audit Director, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2006. Disclosure controls and procedures are controls and other procedures that are designed to ensure that (i) information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required and (ii) information required to be disclosed in the reports the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on the Company's evaluation of its disclosure controls and procedures and the material weaknesses in the Company's internal control over financial reporting described below, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2006.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. To evaluate the effectiveness of the Company's internal control over financial reporting, management, including the Chief Executive Officer and the Chief Financial Officer, used the criteria described in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). A material weakness in internal control over financial reporting is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. In connection with its assessment of the Company's internal control over financial reporting, management identified the following material weaknesses in the Company's internal control over financial reporting as of December 31, 2006:

1. The Company did not always maintain documented and effective policies, procedures and controls for the application of group accounting principles and its financial close and reporting process.

2. The Company did not maintain a sufficient complement of personnel, particularly at its foreign subsidiaries, with an appropriate level of knowledge, experience and training in the application of group accounting principles and internal control over financial reporting commensurate with its financial reporting obligations.

3. The Company did not maintain effective control over the access to, and the development, implementation and management of, software applications and database.

The control deficiencies described above could result in misstatements of account balances or disclosures that would not be detected or prevented and could be material to the annual or interim consolidated financial statements. Accordingly, management has concluded that each of the control deficiencies noted above constitutes a material weakness and that the Company's internal control over financial reporting was not effective as of December 31, 2006.

ONGOING REMEDIATION OF CONTROL DEFICIENCIES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The Group has a SOX Unit located in its headquarters in Santeramo in Colle, Italy, which is focused on identifying and assessing issues related to the control deficiencies in the Group's internal control over financial reporting, proposing solutions and supporting specific implementation plans to improve financial controls and remediate the identified control deficiencies. Specialized personnel at each subsidiary support the activities of the SOX Unit. The Company intends to remediate all of the identified material weaknesses by the time we file our Annual Report on form 20-F for the year ending December 31, 2007. There can be no assurance, however, that the Company will effectively remediate all material weaknesses by that time or that additional material weaknesses will not arise in the future.
The most important actions the Group has taken during the first months of 2007 in order to remedy control deficiencies are as follows:

1. adopted a Group Accounting Handbook;

2. formalized an accounting training program for employees, including specific training relating to the group accounting principles and related disclosures;

3. created a new process for period-end financial reporting, including a new software application that, in addition to the new Group Accounting Handbook, will allow for the timely and accurate presentation and review of financial statement accounts and disclosures;

4. established new Information Systems Procedures aimed at (i) reducing the risk of unauthorized access to the systems, and (ii) separating the development, test and implementation stages of new applications, updated control procedures and test plans for assessing new policies, processes and procedures

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There has been no change in the Company's internal control over financial reporting during 2006 that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting. The ongoing remediation during 2007 is described above.

NOTE:
This section is an excerpt from the Natuzzi 20-F (Item 15T. Controls and Procedures) that was filed with SEC on July 2, 2007.
The Form 20-F is downloadable from our web site, www.natuzzi.com

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The Bank of New York maintains a Global Buy Direct Plan for Natuzzi. For additional information please contact 1-800-345-1612

The most significant differences between the Natuzzi Group's Corporate Governance practices and those followed by U.S. companies under NYSE listing standards are only made available on the web site at the following address: **www.natuzzi.com/corporategovernance/**

This Summary Annual Report is not intended to be a substitute for, nor does it contain all of the information in, the Annual Report on Form 20-F which the Company has filed with the SEC. Interested parties who wish to receive a hard copy of the complete Form 20-F may request one by e-mailing us at: **investor_relations@natuzzi.com** or calling us at **+39 080 8820.812** (Investor Relations Department). The Form 20-F is also downloadable from our web site, www.natuzzi.com, on the following page: **http://int.natuzzi.com/pagina.cfm?codmetadata=437**

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