Guest Barry William
Form 3
October 01, 2012

FORM 3

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person [*]
Â Guest Barry William
(Last) (First) (Middle)

1901 CAPITAL PARKWAY
(Street)

AUSTIN,Â TXÂ 78746
(City) (State) (Zip)

2. Date of Event Requiring Statement (Month/Day/Year)
10/01/2012

3. Issuer Name **and** Ticker or Trading Symbol
EZCORP INC [EZPW]

4. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
President US Retail

5. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Beneficially Owned

1.Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
Class A Non-Voting Common Stock	23,818 [(1)]	D	Â

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

Table II - Derivative Securities Beneficially Owned (*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year)		3. Title and Amount of Securities Underlying Derivative Security (Instr. 4)		4. Conversion or Exercise Price of Derivative Security	5. Ownership Form of Derivative Security: Direct (D) or Indirect	6. Nature of Indirect Beneficial Ownership (Instr. 5)
	Date Exercisable	Expiration Date	Title	Amount or Number of			

Shares	(I) (Instr. 5)

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Guest Barry William 1901 CAPITAL PARKWAY AUSTIN,Â TXÂ 78746	Â	Â	Â President US Retail	Â

Signatures

/s/ Laura Jones Attorney-in-Fact	10/01/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The purpose of this filing is to report the election of the Reporting Person as an Executive Officer. At the time of this filing, the Reporting Person holds 23,818 Non-Derivative Securities, which includes 21,366 unvested Restricted Stock Awards.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 0pt">**PART I**

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

The following table sets forth selected consolidated financial data for the periods indicated and is qualified by reference to, and should be read in conjunction with, the Consolidated Financial Statements and the notes thereto included in Item 18 of this annual report and the Operating and Financial Review and Prospects included in Item 5 of this annual report. The income statement and balance sheet data presented below have been derived from the Consolidated Financial Statements.

The Consolidated Financial Statements, from which the selected consolidated financial data set forth below has been derived, were prepared in accordance with Italian GAAP, which differ in certain respects from U.S. GAAP. For a discussion of the principal differences between Italian GAAP and U.S. GAAP as they relate to the Group s consolidated net earnings and shareholders equity, see Note 27 to the Consolidated Financial Statements included in

Item 18 of this annual report.

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Explanation of Responses:

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	Year Ended/At December 31,					
	2004	**2004**	**2003**	**2002**	**2001**	**2000**
	(millions of dollars, except per Ordinary Share and ADS amounts)(2)	(millions of euro, except for Ordinary Share and ADS amounts)(1)				
Income Statement Data:						
Amounts in accordance with Italian GAAP :						
Net sales:						
Leather- and fabric-upholstered furniture	$ 901.0	665.5	674.0	734.7	714.0	629.3
Other(3)	119.0	87.9	95.6	70.4	72.1	59.2
Total net sales	1,020.0	753.4	769.6	805.1	786.1	688.5
Cost of sales	(655.9)	(484.5)	(508.8)	(517.4)	(520.1)	(426.3)
Gross profit	364.1	268.9	260.8	287.7	266.0	262.2
Selling expenses	(254.8)	(188.2)	(179.3)	(145.4)	(134.8)	(109.0)
General and administrative expenses	(55.1)	(40.7)	(39.2)	(40.5)	(33.5)	(26.7)
Operating income	54.2	40.0	42.3	101.8	97.7	126.5
Other income (expense), net(4)	(5.3)	(3.9)	3.7	14.5	(0.2)	(21.8)
Earnings before taxes and minority interests	48.9	36.1	46.0	116.3	97.5	104.7
Income taxes	(23.9)	(17.6)	(8.5)	(25.0)	(21.9)	(25.5)
Earnings before minority interests	25.0	18.5	37.5	91.3	75.6	79.2
Minority interests	(0.1)	(0.1)	(0.2)	0.1		
Net earnings	24.9	18.4	37.3	91.4	75.6	79.2
Net earnings per Ordinary Share and ADS	0.46	0.34	0.68	1.67	1.37	1.39
Amounts in accordance with U.S. GAAP :						
Net earnings	25.5	18.8	38.0	92.0	71.1	81.7
Net earnings per Ordinary Share and ADS (basic and diluted)	$ 0.46	0.34	0.70	1.68	1.29	1.43
Cash dividend per Ordinary Share and ADS	$ 0.09	0.07	0.14	0.33	0.29	0.29
Weighted average number of Ordinary Shares and ADSs Outstanding	54,681,628	54,681,628	54,681,628	54,681,628	55,027,496	57,087,391

Balance Sheet Data :							
Amounts in accordance with Italian GAAP :							
Current assets	$	527.2	389.4	383.1	402.6	491.9	354.2
Non-current assets		384.2	283.8	309.3	271.9	224.9	151.7
Total assets		911.4	673.2	692.4	674.5	716.8	505.9
Current liabilities		178.0	131.5	125.2	128.7	252.5	114.0
Long-term debt		6.8	5.0	4.2	3.6	3.3	0.2
Minority interest		1.2	0.9	0.9	0.5	1.5	0.8
Shareholders equity		660.5	487.9	515.1	495.8	428.5	366.5
Amounts in accordance with U.S. GAAP :							
Shareholders equity	$	628.8	464.5	452.3	432.3	364.4	321.9

(1) All amounts in the Consolidated Financial Statements for the fiscal years ending before December 31, 2002 have been restated from lire to euro using the exchange rate of Lit. 1,936.27 per euro established in connection with the commencement of the third stage of the EMU. The Consolidated Financial Statements reported in euro depict the same trends as would have been presented if the Group had continued to present its financial statements in lire.

(2) Amounts are translated into U.S. dollars by converting the euro amounts into U.S. dollars at the Noon Buying Rate for euro on December 31, 2004 of U.S.$ 1.3538 per euro.

(3) Sales included under Other principally consist of sales of polyurethane foam, living room accessories and leather to third parties.

(4) Other income (expense), net is principally affected by gains and losses, as well as interest income and expenses, resulting from measures adopted by the Group in an effort to reduce its exposure to exchange rate risks. See Item 5, Operating and Financial Review and Prospects Results of Operations 2004 Compared to 2003 , Item 11, Quantitative and Qualitative Disclosures about Market Risk and Notes 3, 24 and 25 to the Consolidated Financial Statements included in Item 18 of this annual report.

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Exchange Rates

Fluctuations in the exchange rates between the euro and the U.S. dollar will affect the U.S. dollar amounts received by owners of American Depositary Shares (ADSs) on conversion by the Depositary (as defined below) of dividends paid in euro on the Ordinary Shares represented by the ADSs.

In addition, most of the Group s costs are denominated in euro, while a substantial portion of its revenues is denominated in currencies other than the euro, including the U.S. dollar in particular. Accordingly, in order to protect the euro value of its foreign currency revenues, the Group engages in transactions designed to reduce its exposure to fluctuations in the exchange rate between the euro and such foreign currencies. See Item 5, Operating and Financial Review and Prospects Results of Operations 2004 Compared to 2003 and Item 11, Quantitative and Qualitative Disclosures about Market Risk .

The following table sets forth the Noon Buying Rate for the euro expressed in U.S. dollars per euro.

Year:	**Average[(1)]**	**At Period End**
2000	0.9207	0.9388
2001	0.8909	0.8901
2002	0.9495	1.0485
2003	1.1411	1.2597
2004	1.2478	1.3538

Month ending:	**High**	**Low**
December 31, 2004	1.3625	1.3224
January 31, 2005	1.3476	1.2954
February 28, 2005	1.3274	1.2773
March 31, 2005	1.3465	1.2877
April 30, 2005	1.3093	1.2819
May 31, 2005	1.2936	1.2349

(1) The average of the Noon Buying Rates for the relevant period, calculated using the average of the Noon Buying Rates on the last business day of each month during the period.

The effective Noon Buying Rate on June 24, 2005 was 1.2088.

Risk Factors

Investing in the Company s ADSs involves certain risks. You should carefully consider each of the following risks and all of the information included in this annual report.

Demand for furniture is cyclical and may fall in the future

Historically, the furniture industry has been cyclical, fluctuating with economic cycles, and sensitive to general economic conditions, housing starts, interest rate levels, credit availability and other factors that affect consumer spending habits. Due to the discretionary nature of most

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furniture purchases and the fact that they often represent a significant expenditure to the average consumer, such purchases may be deferred during times of economic uncertainty.

In 2004, the Group derived 42.0% of its leather- and fabric-upholstered furniture net sales from the United States and the Americas, and 51.1% from Europe. A prolonged economic slowdown in the United States and Europe may have a material adverse effect on the Group s results of operations.

The Group operates principally in a niche area of the furniture market

The Group is a leader in the production of leather-upholstered furniture, with 82.3% of net sales of upholstered furniture in 2004 being derived from the sale of leather-upholstered furniture. Leather-upholstered furniture represents a limited, but growing, portion of the market for upholstered furniture. Consumers have the choice of purchasing upholstered furniture in a wide variety of styles, and consumer preference may change. There can be no assurance that the current market for leather-upholstered furniture will not decrease.

The furniture market is highly competitive

The furniture industry is highly competitive and includes a large number of manufacturers. Competition has increased significantly over the past few years as companies manufacturing in countries with lower manufacturing costs have begun to play an important role in the upholstery industry. No single company has a dominant position in the industry. Competition is generally based on product quality, brand name recognition, price and service.

The Group s principal competitors are other manufacturers of upholstered furniture. In the United States, the Group competes with a number of relatively large companies, some of which are larger than the Group. Other competitors focused on the promotional or lower-priced segment of the market are located in countries, such as China or countries in Eastern Europe or South America, with lower manufacturing costs. The upholstered furniture market in Europe is highly fragmented.

The Group s results are subject to exchange rate risks and other risks related to the Group s international operations

The Group is subject to currency exchange rate risk in the ordinary course of its business to the extent that its costs are denominated in currencies other than those in which it earns revenues. Exchange rate fluctuations also affect the Group s operating results because it recognizes revenues and costs in currencies other than euro but publishes its financial statements in euro. The Group s sales and results may be materially affected by exchange rate fluctuations. For more information, see Item 11, Quantitative and Qualitative Disclosures about Market Risk.

The Group faces other risks relating to its international operations, including changes in governmental regulations, tariffs or taxes and other trade barriers, price, wage and exchange controls, political, social and economic stability, inflation and interest rate fluctuations.

The price of the Group s principal raw material is difficult to predict

Leather is used in approximately 76% of the Group s upholstered furniture production, and the acquisition of cattle hides represents approximately 35% of total cost of goods sold. The raw hides market s dynamics are dependent on the consumption of beef, the levels of worldwide slaughtering, worldwide weather conditions and on different sectors levels of demand: shoe manufacturers, leather automotive, furniture and clothing. The Group s ability to increase product

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prices following increases in raw material costs is limited by market forces, and therefore the Group may not be able to maintain its margins during periods of significant increases in raw material costs.

The Group s past results and operations have significantly benefited from government incentive programs which may not be available in the future

Historically, the Group has derived significant benefits from the Italian Government s investment incentive programs for under-industrialized regions in Southern Italy, including tax benefits, subsidized loans and capital grants. See Item 4, Information on the Company Incentive Programs and Tax Benefits. The Italian Parliament has replaced these incentive programs with a new investment incentive program for all under-industrialized regions in Italy, which is currently being implemented through grants, research and development benefits and tax credits. There can be no assurance that the Group will continue to be eligible for such grants, benefits or tax credits for its current or future investments in Italy.

In recent years, the Group has opened manufacturing operations in China, Brazil and Romania that have been granted with tax benefits and export incentives. There can be no assurance that these tax benefits and export incentives will continue to be available to the Group in the future.

The Group is dependent on qualified personnel

The Group s ability to maintain its competitive position will depend to some degree upon its ability to continue to attract and maintain highly qualified managerial, manufacturing and sales and marketing personnel. There can be no assurance that the Group will be able to continue to recruit and retain such personnel. In particular, the Group has been dependent on certain key management personnel in the past, and there can be no assurance that the loss of key personnel would not have a material adverse effect on the Group s results of operations.

Control of the Company

Mr. Pasquale Natuzzi, who founded the Company and is currently Chairman of the Board of Directors and Chief Executive Officer, owns 47.7% of the issued and outstanding Ordinary Shares of the Company (52.8% of the Ordinary Shares if the Ordinary Shares owned by members of Mr. Natuzzi s immediate family (the Natuzzi Family) are aggregated) and controls the Company, including its management and the selection of its Board of Directors. Since December 16, 2003, Mr. Natuzzi has held his entire beneficial ownership of Natuzzi S.p.A. shares (other than 196 ADSs) through INVEST 2003 S.r.l., an Italian holding company (having its registered office at Via Gobetti 8, Taranto, Italy) wholly-owned by Mr. Natuzzi.

In addition, the Natuzzi Family has a right of first refusal to purchase all the rights, warrants or other instruments which The Bank of New York, as Depositary under the Deposit Agreement dated as of May 15, 1993, as amended and restated as of December 31, 2001 (the Deposit Agreement), among the Company, The Bank of New York, as Depositary (the Depositary), and owners and beneficial owners of American Depositary Receipts (ADRs), determines may not lawfully or feasibly be made available to owners of ADSs in connection with each rights offering, if any, made to holders of Ordinary Shares.

Investors may face difficulties in protecting their rights as shareholders or holders of ADSs.

The Company is incorporated under the laws of the Republic of Italy. As a result, the rights and obligations of its shareholders and certain rights and obligations of holders of its ADSs are governed by Italian law and the Company s *Statuto* (or By-laws). These rights and obligations

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are different from those that apply to U.S. corporations. Furthermore, under Italian law, holders of ADSs have no right to vote the shares underlying their ADSs, although under the Deposit Agreement, ADS holders have the right to give instructions to The Bank of New York, the ADS depositary, as to how they wish such shares to be voted. For these reasons, the Company s ADS holders may find it more difficult to protect their interests against actions of the Company s management, board of directors or shareholders than they would as shareholders of a corporation incorporated in the United States.

Forward Looking Information

Natuzzi makes forward-looking statements in this annual report. Statements that are not historical facts, including statements about the Group s beliefs and expectations, are forward-looking statements. Words such as believe , expect , intend , plan and anticipate and similar expressions are intended to identify forward-looking statements but are not exclusive means of identifying such statements. These statements are based on current plans, estimates and projections, and therefore readers should not place undue reliance on them. Forward-looking statements speak only as of the dates they were made, and the Company undertakes no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

Forward-looking statements involve inherent risks and uncertainties. The Company cautions readers that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to: effects on the Group from competition with other furniture producers, material changes in consumer demand or preferences, significant economic developments in the Group s primary markets, significant changes in labor, material and other costs affecting the construction of new plants, significant changes in the costs of principal raw materials, significant exchange rate movements or changes in the Group s legal and regulatory environment, including developments related to the Italian Government s investment incentive or similar programs. Natuzzi cautions readers that the foregoing lists of important factors are not exhaustive. When relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and events.

Item 4. Information on the Company

Introduction

The Group is primarily engaged in the design, manufacture and marketing of contemporary and traditional leather- and fabric-upholstered furniture, principally sofas, loveseats, armchairs, sectional furniture, motion furniture and sofa beds, and living room accessories. The Group has positioned its products principally in the medium price range and emphasizes value, quality, style, variety and service

The Group is the world s leader in the production of leather-upholstered furniture and has a leading share of the market for leather-upholstered furniture in the United States and Europe (as reported by CSIL (CSIL), an Italian market research firm, with reference to market information related to the year 2004). In 2000, the Company launched Italsofa , a new promotional brand aimed at the lower-priced segment of the upholstery market, while in January 2002, the Company introduced the new logo for the Natuzzi brand, which is aimed at identifying the Company s medium to high end of the market products. The Group currently designs 100% of its products and manufactures, directly or through third parties, approximately 65% of its products in Italy. Production outside of Italy is solely for the Italsofa brand. Within Italy, the Group sells its

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furniture principally through franchised Divani & Divani by Natuzzi furniture stores. As at April 30, 2005, 138 Divani & Divani by Natuzzi stores were located in Italy. Outside of Italy, the Group sells its furniture principally on a wholesale basis to major retailers and also through 128 Natuzzi and Divani & Divani by Natuzzi stores. The Group also sells furniture through six Kingdom of Leather stores, which it purchased in 2003.

On June 7, 2002 the Company changed its name from Industrie Natuzzi S.p.A. to Natuzzi S.p.A. The Company, which operates under the trademark Natuzzi , is a *società per azioni* (stock company) organized under the laws of the Republic of Italy and was established in 1959 by Mr. Pasquale Natuzzi, who is currently Chairman of the Board of Directors, Chief Executive Officer and controlling shareholder of the Company. Substantially all of the Company s operations are carried out through various subsidiaries that individually conduct a specialized activity, such as leather processing, foam production and shaping, furniture manufacturing, marketing or administration.

In an effort to maximize the efficiency of the Group s organizational structure, at an extraordinary general meeting on November 21, 2003, the Company s shareholders approved the merger of Style & Comfort S.r.l into the Company (the Company owned 100% of the capital stock of Style & Comfort S.r.l. prior to the merger). The merger became effective on January 1, 2004.

The Company s principal executive offices are located at Via Iazzitiello 47, 70029 Santeramo, Italy, which is approximately 25 miles from Bari, in Southern Italy. The Company s telephone number is: +39 080 8820-111. The Company s distribution subsidiary in the United States is Natuzzi Americas, Inc. (Natuzzi Americas), located at 130 West Commerce Avenue, High Point, North Carolina 27260 (telephone number +1 336 888-0351).

Organizational Structure

As at April 30, 2005, the Company s principal operating subsidiaries are:

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Name	Percentage of ownership	Registered office	Activity
Italsofa Bahia Ltda	97.99	Bahia, Brazil	(1)
Italsofa (Shanghai) Co., Ltd	100.00	Shanghai, China	(1)
SC Italsofa Romania S.r.l.	100.00	Baia Mare, Romania	(1)
Minuano Nordeste S.A.	100.00	Pojuca, Brazil	(1)
Softaly Shanghai, Ltd	100.00	Shanghai, China	(1)
Natco S.p.A.	99.99	Bari, Italy	(2)
I.M.P.E. S.p.A.	90.83	Qualiano, Italy	(3)
Divani Due S.r.l.	100.00	Verona, Italy	(4)
Natuzzi Americas, Inc.	100.00	High Point, NC, U.S.A.	(4)
Natuzzi Ibérica S.A.	100.00	Madrid, Spain	(4)
Natuzzi (Switzerland) AG	97.00	Dietikon, Switzerland	(4)
Natuzzi Nordic ApS	100.00	Copenhagen, Denmark	(4)
Natuzzi Benelux NV	100.00	Geel, Belgium	(4)
Natuzzi Germany GmbH	100.00	Düsseldorf, Germany	(4)
Kingdom of Leather Limited	100.00	London, U.K.	(4)
La Galleria, Ltd	100.00	London, U.K.	(4)
Nacon S.p.A.	100.00	Bari, Italy	(5)
Italholding S.r.l.	100.00	Bari, Italy	(5)
Natuzzi Netherlands Holding B.V.	100.00	Amsterdam, Holland	(5)
Natuzzi United Kingdom, Limited	100.00	London, U.K.	(5)
Natuzzi Trade Service S.r.l	100.00	Bari, Italy	(6)
Kingdom of Leather Trustees Limited	100.00	London, U.K.	(7)
Natuzzi Asia, Ltd	100.00	Hong Kong, China	(7)

(1) Manufacture and distribution

(2) Intragroup leather dyeing and finishing

(3) Production and distribution of polyurethane foam

(4) Distribution

(5) Investment holding

(6) Transportation Services

(7) Non-operative

See Note 1 to the Consolidated Financial Statements for further information on the Company s subsidiaries.

Strategy

The Group s primary objective is to expand and strengthen its presence in the global upholstered furniture market in terms of sales and production, while at the same time increasing the Group s profit. To achieve these objectives, the Group s principle strategic objectives include:

Geographical expansion. The Group first targeted the United States market in 1983 and subsequently began diversifying its geographic markets, particularly in the highly fragmented European markets (outside of Italy). According to the most recent data available referring to year 2004 (source CSIL, an Italian market research firm), the Group is the leader in the leather-

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upholstered furniture segment in the United States, with a 9.6% market share, and in Europe, with 8.5%. The Group continues to focus on sales and to expand its retail presence outside of its core markets.

Product diversification. The Group has taken a number of steps to broaden its product lines, including the development of new models, such as motion furniture, and the introduction of new materials and colors, including select fabrics and microfibers. See Manufacturing Raw Materials The Group also strives to expand and add value to its product offerings through its Decorator concept, which provides customers with total look room package solutions. See Products and Design Products. The Group believes that this approach will also strengthen its relationships with the world s leading distribution chains, which are interested in offering branded propositions. The Group has invested in Natuzzi Syle Centers in Sateramo and Milan to serve as a creative hub for the Group s design activities.

Expansion in all price segments. The Group is expanding in all price segments of the leather and non-leather upholstered furniture market. The Italsofa lower-priced brand, launched in October 2000, competes in the lower end of the upholstered furniture market and represented about 35% of total seats sold by the Group in 2004. Faced with increased competition in this price range, the Group has increased its production capacity and efficiency by investing in production facilities in Brazil, China and Romania, while continuing to emphasize the style and quality associated with the Natuzzi brand. The Pasquale Natuzzi Collection competes in the higher end of the upholstered furniture market and offers customers products that are of the highest quality and distinctive in terms of design, materials and project development.

Retail program and brand development. The Group has made significant investments to improve its existing distribution network and strengthen its brand, primarily through the establishment of new distribution subsidiaries and the increase of the number of Natuzzi stores and Natuzzi Galleries worldwide. As of April 30, 2005, there were 272 Natuzzi stores worldwide, including Divani and Divani by Natuzzi stores, Kingdom of Leather stores, and one La Galleria store. The Natuzzi Galleries program was launched in 2002 and the number of galleries worldwide reached 541 as at April 30, 2005. By using the same creative concepts and internal decorations in Natuzzi stores and Natuzzi Galleries, the Group has created a coherent identity for the Natuzzi brand. The Group plans to open additional stores and Natuzzi Galleries in strategic geographical locations and is committed to making the marketing investments necessary to increase brand recognition in these markets.

Improving efficiency and reducing operating costs. Due to persisting unfavorable currency conditions, pricing pressure in the U.S. and general economic conditions that have negatively affected order flows for our Natuzzi-branded products, and in consideration of the ongoing efforts of the Group to become more efficient and competitive, on May 18, 2005, the Board approved a restructuring plan. The restructuring plan includes a temporary work force reduction (cassa integrazione) of 1,320 positions, by the end of 2005, in all departments across the Group, with a focus on reducing manufacturing costs in Italy, increasing overall efficiencies and improving productivity.

Manufacturing

As at April 30, 2005, the Group manufactured its products in 12 production facilities located in Italy. Nine of the facilities are engaged in the cutting, sewing and assembling of semi-finished and finished products and employ 2,941 workers, 34.0% of which are not directly involved in production. Ten of these assembly facilities are located in or within a 25 mile radius of Santeramo, where the Company has its headquarters.

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The assembly operations conducted in the Group s facilities involve stretching elastic webbing onto the furniture s frames (which are constructed either at the Group s principal assembly facility or by subcontractors), attaching foam to the frames, and cutting and sewing the upholstery and attaching it to the frames. These operations, which retain many characteristics of production by hand, are coordinated at the Group s principal assembly facilities through the use of the management information system, which identifies by number each component of a piece of furniture *e.g.*, frame, cushions, leather and facilitates its automated transit and storage within the factory, in part through a bar-coded bin and pick system. As part of an effort to decrease costs through increased productivity and flexibility, automatic guided vehicles supervised by a central computer have been installed at one of the Group s principal assembly facilities to move products through the production chain. In other facilities, materials are currently moved by hand or conveyor belt, rather than on an automated basis. Operations at all of the Group s production facilities are normally conducted Monday through Friday with two eight-hour shifts per day.

Two of the Group s production facilities are involved in the processing of leather hides to be used as upholstery. One of the facilities is a leather dyeing and finishing plant located near Udine that employed 306 workers as at April 30, 2005. The Udine facility receives both raw and tanned cattle hides, sends raw cattle hides to subcontractors for tanning, and then dyes and finishes the hides. The other facility, located near Vicenza, is a warehouse that receives semi-finished hides and sends them to various subcontractors (who operate under the supervision of Natuzzi technicians) for processing, drying and finishing, and then arranges for the finished leather to be shipped to the Group s assembly facilities. The Vicenza operation employed 28 workers as at April 30, 2005. Hides are tanned, dyed and finished on the basis of orders given by the Group s central office in accordance with the Group s on demand planning system, as well as on the basis of estimates of future requirements. The movement of hides through the various stages of processing is monitored through the management information system. See Supply-Chain Management .

The Group produces, directly and by subcontracting, 10 grades of leather in approximately 40 finishes and 274 colors. The hides, after being tanned, are split and shaved to obtain uniform thickness and separated into top grain and split (top grain leather is used, in varying quantities, in the manufacture of all Natuzzi-branded leather products, while split leather is used in addition to top grain leather in some of the Group s lower priced products). The hides are then colored with dyes and treated with fat liquors to soften and smooth the leather, after which they are dried. Finally, the semi-processed hides are treated to improve the appearance and strength of the leather and to provide the desired finish. The Group also purchases finished hides from third parties.

One of the Group s production facilities, which is located near Naples and, as at April 30, 2005, employed 61 workers, is engaged in the production of flexible polyurethane foam and, because the facility s production capacity is in excess of the Group s needs, also usually sells foam to third parties. The foam produced at the Naples facility pursuant to a patented process results in a high-quality material without using any auxiliary blowing agent and is sold under the Eco-Flex™ trade name. A material specially designed for mattresses is also produced and sold under the Greenflex™ trade name.

The Group owns the land and buildings for its principal assembly facilities located in Santeramo, Matera and Altamura, its leather dyeing and finishing facility located near Udine, its foam-production facility located near Naples and its facilities located in Ginosa, Laterza, Brazil, Romania and the new plant in China (for the use of which the land is franchised by the Government for 50 years), while the land and buildings of the remaining production facilities are leased from lessors, with several of whom the Group enjoys long-term relationships. Although the lease terms are of varying lengths, Italian law provides that any such lease must have a minimum term of six

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years. This minimum term, however, is enforceable only by the lessee. The lease agreements provide for rents that generally increase each year in line with inflation. Management believes that the prospects are good for renewing the agreements on acceptable terms when they expire. The Group owns substantially all the equipment used in its facilities.

In 2000, the Group announced the launch of a new, lower-priced upholstered furniture collection, known as Italsofa. The Group currently manufactures the Italsofa Collection outside Italy at plants located in Brazil, China and Romania; if orders exceed production capacity at these other plants, Italsofa products are also manufactured in the Company s Italian plants.

Historically, the Group has entrusted some of its production work relating to the assembly of finished products from raw materials and finished parts to subcontractors located within a 20-mile radius of Santeramo (about 20% of Natuzzi s production as at December 31, 2004). The Group s contracts with these subcontractors provide that the Group will supply to each subcontractor product designs, finished leather, pre-cut cushions, wooden frames and other assembly materials. The subcontractors are required to assemble these materials into finished products under the supervision of the Group s technicians, who are responsible for quality control. The furniture is assembled at a fixed cost per unit that is set to increase annually in line with inflation. These contracts have an indefinite term, subject to termination by either party with prior notice (generally two months). The Group recently sent a notice of termination to all of these subcontractors. The Group s decision to terminate these contracts is a result of the reduction in orders for Natuzzi-branded products. All such contracts are expected to be terminated by the end of September 2005.

Raw Materials. The principal raw materials used in the manufacture of the Group s products are cattle hides, polyurethane foam, polyester fiber, wood and wood products.

The Group purchases hides from slaughterhouses and tanneries located mainly in Italy, Brazil, Colombia, Australia, Germany, Uruguay, Scandinavian countries, the United States, and Eastern Europe. The hides purchased by the Group are divided into several categories, with hides in the lowest categories being purchased mainly in Brazil, Colombia, and Ukraine; those in the middle categories being purchased mainly in Australia, Uruguay, Italy and the United States and those in the highest categories being purchased in Germany and Scandinavian countries. A significant number of hides in the lowest categories are purchased at the wet blue stage *i.e.*, after tanning while some hides purchased in the middle and highest categories are unprocessed. The Group has implemented a leather purchasing policy according to which a percentage of leather is purchased at a finished or semi-finished stage. Therefore, the Group has had a smaller inventory of split leather to sell to third parties. Approximately 80% of the Group s hides are purchased from 20 suppliers, with whom the Group enjoys long-term and stable relationships. Hides are generally purchased from the suppliers pursuant to orders given every one/two months specifying the number of hides, the purchase price and the delivery date.

Hides purchased from Europe are delivered directly by the suppliers to the Group s leather facilities near Udine and Vicenza, while those purchased overseas are inspected overseas by technicians of the Group, delivered to an Italian port and then sent by the Group to the Udine facility and subcontractors. Management believes that the Group is able to purchase leather hides from its suppliers at reasonable prices as a result of the volume of its orders, and that alternative sources of supply of hides in any category could be found quickly at an acceptable cost if the supply of hides in such category from one or several of the Group s current suppliers ceased to be available or was no longer available on acceptable terms. The supply of raw cattle hides is principally dependent upon the consumption of beef, rather than on the demand for leather.

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During 2004, notwithstanding the unstable market for cattle hides, the price paid by the Group decreased slightly due to the Group s purchasing policy, which is focused on finding quality hides in easily-accessible markets and aimed at establishing strong relationships with suppliers. The factors influencing availability and prices of leather in recent periods were, besides the uncertain worldwide economic trend, a reduction in red meat consumption and the exchange rate of the currencies in the markets where we operate. The Group believes that these same conditions will continue to influence price of cattle hides in 2005. During 2004 and the first quarter of 2005, worldwide levels of red meat consumption have been mostly flat (source: United States Department of Agriculture).

The Group also purchases fibers and microfibers for use in coverings. Both kinds of coverings are divided into several price categories: most fabrics are in the highest price categories, while the most inexpensive of the microfibers are in the lowest price categories. Fabrics are purchased exclusively in Italy from six suppliers who provide the product at the finished stage. Microfibers are purchased in Italy, South Korea, Taiwan and Japan from four suppliers who provide them at the finished stage. Microfibers purchased from the Group s Italian supplier are in some cases imported by the supplier at the greige or semi-finished stage and then finished (dyed and bonded) in Italy. The microfibers purchased from the Group s Japanese supplier are the only microfibers the Group purchases in the highest price category. Fabrics and microfibers are generally purchased from the suppliers pursuant to orders given every week specifying the quantity (in linear meters) and the delivery date. The price is determined before the fiber or microfiber is introduced into the collection.

Fabrics and microfibers purchased by the Italian suppliers are delivered directly by the suppliers to the Group s facility in Matera, while those purchased overseas are delivered to an Italian port and then sent to the Matera facility. Only fabrics and microfibers purchased in Taiwan and South Korea are delivered directly by the suppliers to Chinese and Brazilian ports and then sent to the Shanghai, Salvador de Bahia and Pojuca facilities. The Group is able to purchase such products at reasonable prices as a result of the volume of its orders. The Group continuously searches for alternative supply sources in order to obtain always the best product at the best price.

Price performance of fabrics is quite different from that of microfibers. Because fabrics are purchased exclusively in Italy and are composed of natural fibers, their prices are influenced by the cost of labor and the quality of the product. During 2004, fabric prices went unchanged, due to long-term relationships with suppliers and the large volumes purchased by the Group, despite the increases in the cost of raw materials and oil. Microfiber prices have decreased due to the introduction of new suppliers and the renegotiation of prices with current suppliers. The price of microfibers is mainly influenced by the international availability of high-quality products and raw materials at low costs especially from Asian markets.

The Group obtains the chemicals required for the production of polyurethane foam from major chemical companies located in Europe (including Germany, Italy and the United Kingdom) and the polyester fiber filling for its polyester fiber-filled cushions from several suppliers, located mainly in Korea, China and Taiwan. The chemical components of polyurethane foam are petroleum-based commodities, and the prices for such components are therefore subject to, among other things, fluctuations in the price of crude oil. The Group obtains wood and wood products for its wooden frames from suppliers in Italy and Eastern Europe and through its plants located in Romania, the Group began directly engaging in the cutting and transformation of wood from Romanian forests.

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With regard to the Group s collection of home furnishing accessories (tables, lamps, carpets, home accessories in different materials), most of the suppliers are located in Italy and other European countries, while some hand-made products (such as carpets) are made in India.

Supply-chain Management

Organization. In order to speed up the processing of information and material, the Group has set up a new organization. Starting in June 2004, all functions of the supply chain have been aggregated in the HQ Logistics Department according to modern models of Supply Chain Organizations. This type of organization assures that information and material flows are organized, synchronized and efficient, and consequently improves customer service as well.

Planning (order management, production, procurement). The Group schedules its manufacture and procurement of raw materials and components on demand . This system allows the Group to manage a high number of product combinations (in terms of number of models, versions and covering codes) that are offered to customers around the world while maintaining a high level of customer service and low inventory. On demand planning reduces the risk of obsolescence even if the products have short lifetimes. The Group s material flow policies, which are defined by the Group s Logistics Director, have reduced all lead times (except those due to orderbooking backlog, a process that is not managed by the Group s Logistics Department) to five weeks (average of all orders). Special programs with three-week lead times are provided for a limited number of customers and limited collections and product combinations. The lead times can be longer than described above when an unusually high level of orders are made. The time required for the delivery to the customer varies depending on where the customer is located (transport lead times vary widely depending on the distance between the final destination and the production units).

All planning activities (finished goods load optimization, customer order acknowledgement, production and suppliers planning) are synchronized in order to guarantee that during the production process, the correct materials are located in the right place at the right time, thereby achieving a maximum level of service as well as minimum handling and transportation costs. This system is used for all products and markets in which the Group sells its goods. For example, in the case of furniture being purchased by a U.S. customer, as soon as an order is sent to the Group s sales office in the United States (High Point, North Carolina), the data is entered directly into the Group s central computer system, thus saving administrative lead time and allowing the Group to operate more efficiently.

In order to incur the lowest costs and achieve the best product quality, the Group attains the optimum load level for shipping through the use of tailor made software. Since the prices quoted to customers are based on shipments of full containers, if a customer s order does not represent optimal use of container space, revisions to the customer s order will be suggested. Upon finalization of the customer s order, the computer system generates an order proposal that is reviewed to determine feasibility in terms of the types of products, quantity and timing. In order to improve and adapt the above mentioned software to Natuzzi needs, a new research project has been launched in cooperation with the University of Bari and University of Copenhagen. The expected result is a reduction in transportation costs in the medium- to long-term horizon.

This planning process allows for the optimum use of the available technology, capacity and human resources, while minimizing costs and achieving high quality. Once production is scheduled, the Group s Material Requirement Planning Information System produces a proposed list of raw materials and components to be ordered. This list is analyzed, reviewed and combined with the Group s global procurement scheduling. All purchases from suppliers are then planned. Procurement lead times are relatively short; leather is generally available within three weeks of

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ordering and certain components are supplied by a ready from stock service. The Group strives to achieve optimum levels of inventories while keeping service levels high by using state-of-the-art software (also for demand planning forecast).

Transportation. The Group delivers goods to customers by common carriers. Those goods destined for the Americas and other markets outside Europe are transported by sea in 40 high cube containers, while those produced for the European market are generally delivered by truck and, in some cases, by railway. In 2004, the Group shipped 15,863 containers (40 hc) to overseas countries and approximately 7,224 full load mega-trailer trucks to European destinations. In order to guarantee the best price and quality of transportation services, the Group deals directly with shipping companies and logistic operators without resorting to the use of intermediaries.

The Group relies principally on several shipping and trucking companies operating under time-volume service contracts to deliver its products to customers and to transport raw materials to the Group s plants and processed materials from one plant to another. In general, the Group prices its products to cover its door-to-door shipping costs, including all customs duties and insurance premiums. Some of the Group s overseas suppliers are responsible for delivering raw materials to the port of departure, therefore transportation costs for these materials are generally under the Group s control.

Since September 2003 the Group has operated an on-line Transportation Portal to enable transportation suppliers to provide the Group and its sales force, as well as some customers with all relevant information (order status report), including rail station/port arrival, re-shipment and final delivery, about their assigned shipments.

Products and Design

Products.

The Group manufactures a wide range of leather- and fabric-upholstered furniture products, which are produced in three different styles reflecting the different feelings and lifestyles of our customers: Casual, Urban and Vintage. The Casual style conveys the importance of comfort, freedom and informal living. The Urban style is directed at the cosmopolitan customer, reflecting culture and sophistication and an appreciation for large spaces full of refined and voluminous objects. The Vintage style is a classic style revisited and reinterpreted according to Natuzzi s fresh and untraditional style.

The Pasquale Natuzzi Collection spans the three styles described above and is characterized by an extremely elegant design and premium materials.

Our product range falls within five broad categories: stationary furniture (sofas, loveseats and armchairs), sectional furniture, motion furniture, sofa beds and occasional chairs (including recliners and body massage chairs launched in 2001). The Group offers its products in 417 different models, 10 leather grades, 31 leather finishes and 231 colors; 7 fabric grades, 13 fabric finishes and 92 colors; 4 microfiber grades, 4 microfiber finishes and 63 colors. Each of the Group s models is generally offered in various forms (*e.g.*, sofa, loveseat, armchair, ottoman, sectional components, motion mechanism and body massage chairs). Each model is offered at prices that vary depending principally on the quality and finish of the leather (including whether it is top grain only leather or top grain with split) and the quality of the cushions (including whether they are foam, polyester fiber or feather).

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The Group s successful Italsofa Collection, launched in October 2000, provides a collection of lower-priced furniture identified by a distinctive brand associated with Italian quality and style. The collection contains 90 sofa models, which are available in leather (76 colors, 4 grades and 14 finishes) and in microfibers (21 colors, a single grade and 2 finishes).

The Group also offers a design concept, the Decorator, to provide customers with total look living room package solutions : armchairs and sofas (in different styles and coverings) are coordinated with matching coffee tables, lamps and rugs, in order to develop innovative alternatives to more traditional living room decoration schemes. The Group believes that this service simplifies the work of the retailer, who otherwise would be required to source individual furniture pieces from different suppliers and employ dedicated interior decorators in order to offer similarly comprehensive decor solutions to consumers.

Design.

The marketing strategy of the Group is based on the ability to create and offer new models and products on a regular basis. When creating new models, the Group s designers are dedicated to studying market trends and outlining innovative designs, while carefully considering price points revealed in market analyses conducted by the Group. Occasionally the Group s designers design new models on the basis of requests from larger customers.

Markets

The Group markets its products internationally as well as in Italy. Outside Italy, the Group sells its leather furniture principally on a wholesale basis to major retailers and furniture stores. Since 1990, the Group has sold its leather-upholstered products in Italy and abroad through franchised Divani & Divani by Natuzzi and Natuzzi furniture stores.

In 2004 the Group derived 42.0% of its leather- and fabric-upholstered furniture net sales from the United States and the Americas, 51.1% from Europe and 6.9% from the rest of the world (mainly Australia and Japan). See Strategy.

The following tables show the leather- and fabric-upholstered furniture net sales and unit sales (in seats) of the Group broken down by geographic market for each of the years indicated**:**

	Leather- and Fabric-Upholstered Furniture Net Sales (millions of euro)									
	2004		**2003**		**2002**		**2001**		**2000**	
U.S. and the Americas [(1)]	279.4	42.0%	320.1	47.5%	366.4	49.9%	356.4	49.9%	318.8	50.6%
Europe	340.1	51.1%	313.5	46.5%	326.5	44.4%	317.9	44.5%	272.3	43.3%
Rest of the World	46.0	6.9%	40.4	6.0%	41.8	5.7%	39.7	5.6%	38.2	6.1%
Total	665.5	100.0%	674.0	100.0%	734.7	100.0%	714.0	100.0%	629.3	100.0%

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Leather- and Fabric-Upholstered Furniture Net Sales (in seats)(2)

	2004		**2003**		**2002**		**2001**		**2000**	
U.S. and the Americas (1)	1,564,901	51.0%	1,699,160	55.6%	1,572,879	52.0%	1,376,818	47.9%	1,229,159	47.7%
Europe	1,319,740	43.0%	1,181,566	38.6%	1,278,296	42.2%	1,323	46.0%	1,188,989	46.1%
Rest of the World	186,330	6.0%	178,109	5.8%	176,483	5.8%	175,704	6.1%	159,175	6.2%
Total	3,070,971	100.0%	3,058,835	100.0%	3,027,658	100.0%	1,553,845	100.0%	2,577,323	100.0%

(1) Outside the United States, the Group also sells its products to customers in Canada and Central and South America (collectively, the Americas).

(2) Includes seats produced at Group-owned facilities and by subcontractors. Seats are a unit measurement. A sofa consists of three seats; an armchair of one.

United States and the Americas. In 2004, net sales of leather- and fabric-upholstered furniture in the United States and the Americas decreased 12.7% to 279.4 million, compared to 320.1 million in 2003, and the number of seats sold decreased 7.9% to 1,564,901, compared to 1,699,160 in 2003. The negative performance is mainly attributable to persistent pricing pressure from low-cost U.S.-based producers and to the appreciation of the euro against the dollar, affecting our products competitiveness.

The Group s sales in the United States and the Americas are handled by Natuzzi Americas, the Group s distribution subsidiary for North and Latin America, which maintains offices in High Point, North Carolina, the heart of the most important furniture manufacturing and distributing region in the United States. The staff at High Point provides customer service, marketing and logistics, handles finance and collections, and generally acts as the customers contact for the Group. As at April 30, 2004, the High Point operation had 72 employees.

Natuzzi Americas has 55 independent sales representatives and sub-reps in the United States and the Americas. They are supervised by four regional sales and marketing managers, one for each of the U.S. Eastern Region, U.S. Midwestern Region, U.S. Western Region/Latin America and Canada.

The Group s principal customers are major retailers. The Group advertises its products to retailers and, recently, to consumers in the United States and the Americas directly and through the use of various marketing tools. The Group also relies on its network of sales representatives and on the furniture fairs held at High Point each April and October to promote its products. Many of the Group s larger customers review part of the new offering of models during an informal pre-market period one month prior to each High Point fair.

The Group also sells its products through Natuzzi Stores and Natuzzi Galleries. As of April 30, 2005, in the United States there were two Natuzzi Stores, one of which is owned by the Group and located in New York, NY, and 212 Natuzzi Galleries.

Europe. In 2004, notwithstanding difficult economic conditions throughout Europe, net sales of leather- and fabric-upholstered furniture in Europe (excluding Italy) increased 10.3% to

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267.1 million, compared to 242.2 million in 2003, as a result of the Group s retail and marketing program and the strong performance of Italsofa.

Furniture retailers are generally smaller in Europe than in the United States. In Europe (outside Italy), the Group generally deals with buying groups and chains representing 50 to 100 retailers, as well as with independent retailers. While the buying groups place the orders, thereby obtaining the benefits of volume-driven commercial conditions, the Group delivers the products directly to the particular members of the buying groups on whose behalf the orders are placed. In some cases, the Group invoices the buying group. In others, the Group invoices the individual member to whom the products are delivered.

As in the United States, the Group advertises its products in Europe (outside Italy) to consumers and to retailers directly and through the use of various marketing tools. The Group also promotes its products in Europe through six subsidiaries in Benelux, Scandinavia, Germany, United Kingdom, Switzerland and Spain, as well as through a network of sales agents. The Group also participates in furniture fairs in the most important markets. As at December 31, 2004, the Group had 26 sales agents and sub-agents in Europe. These sales agents are paid on a commission basis.

Outside Italy, the Company uses franchised or directly owned stores to penetrate markets and implement brand strategies. As of April 30, 2005, 52 franchised single-brand stores were operating in southwest Europe (outside Italy): 30 under the Divani & Divani by Natuzzi name (15 in Greece, 15 in Portugal) and 22 under the Natuzzi name (16 in France, 2 in Malta, 2 in Cyprus and one in each of the United Kingdom and Iceland). As of April 30, 2005, there were 46 directly owned stores in southwest Europe (outside Italy): 9 in Switzerland, 25 in Spain and 12 in United Kingdom (six under the Kingdom of Leather name, five under the Natuzzi name, and one under the La Galleria name). In the United Kingdom, the Group also operated a concession (store-in-store) inside Selfridges Department Store London.

In October 2001, the Group acquired Divania Madrid S.A. (renamed Natuzzi Iberica S.A.), the exclusive dealer for the Madrid area, in order to qualify and support the development of the Natuzzi chain in Spain. As of April 30, 2005, the Group owned 25 stores in Spain. In December 2001, the Group acquired 60% of Sofaworld AG, the exclusive dealer for German-speaking Switzerland. As of December 31, 2003, the Group increased its ownership of Sofaworld AG to 97%, and has renamed it Natuzzi (Switzerland) AG. As of April 30, 2005, the Group owned 9 Natuzzi Stores in Switzerland.

In May 2003, the Group acquired Kingdom of Leather, a leading UK upholstered furniture chain with a network of 14 stores, mainly locate in England. Since November 2004, the Group has renamed five Kingdom of Leather stores and begun operating them under the Natuzzi name. As of April 30, 2005, there were 13 stores in the United Kingdom.

Italy. In 2004, sales of leather- and fabric-upholstered furniture in Italy increased 2.4% to 73.0 million, compared to 71.3 million in 2003.

Since 1990, the Group has sold its upholstered products within Italy principally through franchised Divani & Divani furniture stores (now Divani & Divani by Natuzzi). As of April 30, 2005, 138 Divani & Divani by Natuzzi stores were located in Italy. In November 2004, the Company acquired 100% of Divani Due S.r.l., based in Verona, which has a network of five stores, located in northern Italy.

Asia-Pacific. Overall sales in Asia-Pacific increased 17.1% to 37.1 million in 2004, compared to 31.7 million in 2003, as a result of the implementation of the Natuzzi Gallery concept in Australia, an increase in sales at the stores opened during 2003, and the increase in the Italsofa

business. In 2004, as compared to 2003, sales in the Group s main Asia-Pacific markets, Australia and Japan, increased by 26.4% and decreased 1.7%, respectively. The increase in Australia was mainly due to the opening of new galleries and stores. At February 2004, the Group opened 17 Natuzzi Galleries in David Jones department stores located in Australia, bringing the David Jones Natuzzi Galleries to a total of 29. As of April 30, 2005, 20 franchised single-brand stores were operating in Asia Pacific (9 in Australia, 10 in China and one in New Zealand).

The Group manages its Asia-Pacific sales through four agencies located in Australia, Japan, Korea and New Zealand.

Customer Credit Management.

The Group maintains an active credit management program. The Group evaluates the creditworthiness of its customers on a case-by-case basis according to each customer s credit history and information available to the Group. Throughout the world, the Group utilizes open terms in 80% of its sales and obtains credit insurance for almost 95% of this amount; 20% of the Group s remaining sales are commonly made to customers on a cash against documents and cash on delivery basis; and lastly 2% of the Group s sales are supported by a letter of credit or payment in advance .

Advertising.

The Group uses the Natuzzi brand for its medium- to higher-priced product line.

In January 2002, during the Cologne Furniture Fair, the Group launched the new Natuzzi visual identity , through which the brand name has taken on a new aesthetic and strategic meaning.

The Natuzzi Communication System was developed to regulate all methods used in each market to advertise the brand name and operates transversally on different levels: the brand-building level establishes the brand s philosophy, while the traffic-building level aims to attract consumers to points of sale using various kinds of initiatives, such as presentations of new collections, new store openings and promotional activities.

Advertising in the galleries is carried out with the help of the Retail Advertising Kit , a collection of templates that enable advertising the Natuzzi brand in conjunction with the retailer s brand.

Incentive Programs and Tax Benefits

Historically, the Group derived benefits from the Italian Government s investment incentive program for under-industrialized regions in Southern Italy (the Mezzogiorno Program), which includes the area that serves as the center of the Group s operations. The Mezzogiorno Program provided tax benefits, capital grants and subsidized loans. In particular, a substantial portion of the Group s earnings before taxes and minority interest from 1994 to 2003 was derived from companies entitled to some extent to such tax exemptions. All tax exemptions expired between 1996 and 2003. The last tax exemption was related to the subsidiary Style & Comfort S.r.l. and expired on December 27, 2003.

In 1992, the Italian Parliament instructed the Government to replace the Mezzogiorno Program with a new investment incentive program in favor of all under-industrialized regions of Italy. In 1993, the Government confirmed the expiration of the Mezzogiorno Program by legislative decree and disclosed the broad outlines of the new program, to be defined by subsequent government resolutions. The Parliament has provided the Government with certain funds to honor existing commitments under the Mezzogiorno Program relating to capital grants and subsidized loans. There can be no assurance, however, that the Group will be able to obtain all the capital grant or subsidy benefits to which it may be entitled under such Program.

The government resolutions adopted thus far to implement the new investment incentive program state that companies making investments in the construction, enlargement, restructuring, conversion, reactivation or relocation of industrial plants may receive a grant based on the total cost of the project. The grant (calculated in terms of the *Equivalente Sovvenzione Netto* formula) will be approximately 40% of the investment cost for the Mezzogiorno areas in which Natuzzi currently operates. The program also provides for research and development benefits which may not exceed 60% of the investment cost (calculated in terms of the *Equivalente Sovvenzione Lordo* formula).

In December 1996, the Company and the Contract Planning Service of the Italian Ministry of Industrial Activities signed a Program Agreement with respect to the Natuzzi 2000 Project. In connection with this project, the Group planned a multi-faceted program of industrial investments for the production of upholstered furniture in Italy, which were projected to be approximately 232.2 million. These projected investments were subsequently revised to approximately 69.8 million as a result of significant changes in the competitive nature of the upholstered furniture market in Italy that caused the Group to revise its production strategies. The Group presented a revised version of the Program Agreement to the Ministry of Industrial Activities and the Cipe (*Comitato Interministeriale per la Programmazione Economica*) approved 35.0 million in capital grants (as published on April 13, 2005, in the Italian Official Gazette (*Gazzetta Ufficiale della Repubblica Italiana*), n° 85). Receipt of these grants is contingent upon, among other things, the Group constructing facilities in accordance with certain specifications and maintaining a minimum number of employees. In 1997, the Group received capital grants of 24.2 million under the Natuzzi 2000 Project, which are secured by surety bonds issued by San Paolo Banco di Napoli, an Italian bank, in the amount of 26.0 million. All the planned industrial investments have been completed, and San Paolo Banco di Napoli has certified the relevant technical and accounting documentation of the expenses incurred and has sent the final report to the Italian Ministry of Industrial Activities. A committee has been appointed by the Ministry of Industrial Activities to prepare the final technical report for the disbursement of the remaining capital grants of approximately 10.8 million.

On April 27, 2004, the Technical-Scientific Committee of the Italian Education, University and Research Ministry approved a four-year research project presented by the Company in February 2002 related to improvement and development in leather manufacturing and processing. The Committee has approved a maximum capital grant of 2.4 million and a 10-year subsidized loan for a maximum amount of 3.7 million at a subsidized interest rate of 0.5% to be used in connection with industrial research expenses and prototype developments (as published on August 20, 2004, in the Italian Official Gazette (*Gazzetta Ufficiale della Repubblica Italiana*, n° 195). Industrial research and prototype developments are already underway thanks to the collaborative efforts of specialized in-house personnel and university researchers.

Three companies of the Group, Natuzzi S.p.A., NATCO S.p.A and IMPE S.p.A., developed and presented a project for innovation and computerization in sofa manufacturing to the Italian Industrial Ministry under the Technological Innovation Incentive Program, as provided for by the Italian law 46/82. The Italian Industrial Ministry appointed a committee that, in May 2004, carried out a final evaluation to determine the admissibility of the project to the Technological Innovation Funds. This committee has verified that the expenses incurred, equal to 7.7 million, are

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consistent with the program s criteria and has approved a subsidized credit of 2.7 million. The Group has already received 2.2 million.

Certain foreign subsidiaries, including Italsofa (Shanghai) Co. Ltd, Italsofa Bahia Ltda, Minuano Nordeste S.A. and SC Italsofa Romania S.r.l. enjoy significant tax benefits, such as corporate income tax exemptions or reductions of the corporate income tax rates effectively applicable.

Management of Exchange Rate Risk

The Group is subject to currency exchange rate risk in the ordinary course of its business to the extent that its costs are denominated in currencies other than those in which it earns revenues. Exchange rate fluctuations also affect the Group s operating results because it recognizes revenues and costs in currencies other than euro but publishes its financial statements in euro. The Group s sales and results may be materially affected by exchange rate fluctuations. For more information, see Item 11, Quantitative and Qualitative Disclosures about Market Risk .

Trademarks and Patents

The Group s products are sold under the Natuzzi and Italsofa names. These names and certain other trademarks, such as Divani & Divani by Natuzzi, have been registered as such in Italy, in the European Union, in the United States and elsewhere. In order to protect its investments in new product development, the Group has also undertaken a practice of registering certain new designs in most of the countries in which such designs are sold. The Group currently has more than 1,000 design patents and patents pending. Applications are made with respect to new product introductions which the Group believes will enjoy commercial success and have a high likelihood of being copied.

Regulation

The Company is incorporated under the laws of the Republic of Italy. The principal laws and regulations that apply to the operations of the Company those of Italy and the European Union are different from those of the United States. Such non-United States laws and regulations may be subject to varying interpretations or may be changed, and new laws and regulations may be adopted, from time to time. While management believes that the Group is currently in compliance in all material respects with such laws and regulations (including Italian Legislative Decree no. 6 of 2003 and rules with respect to environmental matters), there can be no assurance that any subsequent official interpretation of such laws or regulations by the relevant governmental authorities that differs from that of the Company, or any such change or adoption, would not have an adverse effect on the results of operations of the Group or the rights of holders of the Ordinary Shares or the owners of the Company s ADSs. See Environmental Regulatory Compliance , Item 10, Additional Information Exchange Controls and Item 10, Additional Information Taxation .

Environmental Regulatory Compliance

The Group operates a leather dyeing and finishing facility near Udine and a polyurethane foam production plant near Naples. The operation of each of these facilities is subject to both Italian law and European Union regulations. The Group believes that it has operated and continues to operate these and other facilities in compliance with all applicable laws and regulations.

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Insurance

The Group maintains insurance against a number of risks. The Group insures against loss or damage to its facilities, loss or damage to its products while in transit to customers, failure to recover receivables, certain potential environmental liabilities and product liability claims. While the Group does not cover 100% of these risks, management believes that the Group s present level of insurance is adequate in light of past experience.

Description of Properties

The location, approximate size and function of the principal physical properties used by the Group as at April 30, 2005 are set forth below:

Location	Size (approximate square meters)	Function
Santeramo in Colle (BA) Italy	29,000	Headquarters, prototyping, manufacturing of wooden frames, leather cutting, sewing and product assembly, showroom (Owned)
Matera Italy	38,000	Fabric cutting, sewing and product assembly (Owned)
Santeramo in Colle (BA) Italy	27,500	Leather cutting, sewing and product assembly (Owned)
Pozzuolo del Friuli (UD) Italy	20,000	Leather dyeing and finishing (Owned)
Matera Italy	12,500	Leather cutting, sewing and product assembly (Owned)
Qualiano (NA) Italy	12,000	Polyurethane foam production (Owned)
Altamura (BA) Italy	8,500	Product assembly (Owned)
Altamura (BA) Italy	7,000	Leather cutting, sewing and product assembly (Owned)
Montebello (VI) Italy	5,500	Leather warehouse (Leased)
Altamura (BA) Italy	5,800	Leather cutting, sewing and product assembly (Owned)
Altamura (BA) Italy	2,500	Leather cutting, sewing and product assembly (Owned)
Ginosa (TA) Italy	14,500	Leather cutting, sewing and product assembly (Owned)
Laterza (TA) Italy	10,000	Leather cutting, sewing and product assembly (Owned)
Laterza (TA) Italy	10,000	Leather cutting, leather warehouse (Owned)
Laterza (TA) Italy	20,000	Finished products warehouse (Owned)
Matera Italy	3,500	Complements warehouse (Leased)
Santeramo in Colle (BA) Italy	1,000	Complements warehouse (Leased)
Bovisio Masciago (MI) Italy	1,000	Prototyping (Leased)
Altamura (BA) Italy	3,500	Complements warehouse (Owned)
High Point North Carolina U.S.A.	10,000	

			Office and showroom for Natuzzi Americas (Owned)
Baia Mare	Romania	70,200	Leather cutting, sewing and product assembly, manufacturing of wooden frames, polyurethane foam shaping, fiberfill and down cushion production, saw mills, other wooden product (Owned)
Shanghai	China	42,000	Leather cutting, sewing and product assembly, manufacturing of wooden frames, polyurethane foam shaping, fiberfill and down cushion production (Owned)
Shanghai	China	14,000	Leather cutting, sewing and product assembly, manufacturing of wooden frames, polyurethane foam shaping, fiberfill and down cushion production (Leased)
Salvador de Bahia (Bahia)	Brazil	26,000	Leather cutting, sewing and product assembly, manufacturing of wooden frames, polyurethane foam shaping, fiberfill and down cushion production (Owned)
Pojuca (Bahia)	Brazil	29,000	Leather cutting, sewing and product assembly, manufacturing of wooden frames, polyurethane foam shaping, fiberfill and down cushion production (Owned)

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The Group believes that its production facilities are suitable for its production needs and are well maintained. The Group s production facilities are operated utilizing close to 100% of their production capacity. Operations at all of the Group s production facilities are normally conducted Monday through Friday with two eight-hour shifts per day. In 2004, the Group continued to utilize subcontractors to meet demand.

Capital Expenditures

The following table sets forth the Group s capital expenditures for each year in the three-year period ended December 31, 2004:

	Year ending December 31, (millions of Euro)		
	2004	2003	2002
Land and plants	9.5	11.3	28.6
Equipment	17.7	12.8	18.1
Other	27.2	23.2	24.3
Total	54.4	47.3	71.0

Capital expenditures during the last three years were primarily made in the areas of construction, as well as improvements to property, plant and equipment. In 2004, capital expenditures were primarily made to build new factories in Shanghai (China) and Pojuca-Bahia (Brazil) as well as to make improvements at existing facilities in order to increase productivity and production capacity, which included the purchase of equipment. The Group expects that capital expenditures in 2005, to be financed with cash from operations or through locally-subsidized loans, will be approximately 40.0 million, and will be used for the construction of a new tannery in Pojuca, Brazil (approximately 20.0 million), and improvements of existing plants (approximately 5.0 million), and the remainder on the opening of the new Natuzzi stores and galleries.

Item 5. Operating and Financial Review and Prospects

The following discussion of the Group s results of operations, liquidity and capital resources is based on information derived from the audited Consolidated Financial Statements and the notes thereto included in Item 18 of this annual report. These financial statements have been prepared in accordance with Italian GAAP, which differ in certain respects from U.S. GAAP. For a discussion of the principal differences between Italian GAAP and U.S. GAAP as they relate to the Group s consolidated net earnings and shareholders equity, see Note 27 to the Consolidated Financial Statements included in Item 18 of this annual report.

Critical Accounting Policies

Use of Estimates

The significant accounting policies used by the Group to prepare its financial statements are described in Note 3 to the Consolidated Financial Statements included in Item 18 of this annual report. The application of these policies requires management to make estimates, judgments and assumptions that are subjective and complex and affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the

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reporting period. The Group s financial presentation could be materially different if different estimates, judgements or assumptions were used. The following discussion addresses the estimates, judgements and assumptions that the Group considers most material based on the degree of uncertainty and the likelihood of a material impact if a different estimate, judgement or assumption were used.

Recoverability of Long-lived Assets. The Group periodically reviews the carrying value of the long-lived assets held and used and that of assets to be disposed of, including goodwill and other intangible assets, when events and circumstances warrant such a review. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its estimated recovery value, in relation to its use or realization, as determined by reference to the most recent corporate plans. Management believes that the estimates of these recovery values are reasonable; however, changes in estimates of such recovery values could affect the relevant valuations. The analysis of each long-lived asset is unique and requires that management use estimates and assumptions that are deemed prudent and reasonable for a particular set of circumstances.

During 2004, the Company recorded an impairment loss for goodwill of 6.1 million related to the Natuzzi U.K. Group (former KOL Group, see note 1 and 24 to the Consolidated Financial Statements included in item 18 of this annual report). Natuzzi U.K. Group revised its growth strategy as a consequence of the actual and forecasted critical situation in the United Kingdom market, and the decision of the Company to redesign its distribution strategy in this country. As a result of this revision, the carrying value of the goodwill related to such reporting unit as of December 31, 2004 resulted impaired. The fair value of such reporting unit as of December 31, 2004 was determined on the basis of the methodology so called Unlevered Discounted Cash Flow . The comparison of the fair value with carrying value of this reporting unit resulted in the determination of an impairment in value of 6.1 million.

Allowances for Returns, Warranties and Discounts. The Group records revenues net of returns, warranties and discounts. The Group estimates sales returns, warranty costs and discounts and creates an allowance for them in the year of the related sales. The Group makes estimates in connection with such allowances based on its experience and historical trends in its large volumes of homogeneous transactions. However, actual costs for returns, discounts and warranties may differ significantly from these estimates if factors such as economic conditions, customer preferences or changes in product quality differ from those used by the Group in making these estimates.

Allowance for Doubtful Accounts. The Group makes estimates and judgments relating to the collectibility of its accounts receivable and maintains an allowance for doubtful accounts based on losses it may experience as a result of failure by its customers to pay amounts owed. The Group estimates these losses using consistent methods that take into consideration, in particular, insurance coverage in place, the credit worthiness of its customers and general economic conditions. Changes to assumptions relating to these estimates could affect actual results. The reader should be cautioned that actual results may differ significantly from the Group s estimates if factors such as general economic conditions and the credit worthiness of its customers are different from the Group s assumptions.

Revenue Recognition.

Under Italian GAAP, the Group recognizes sales revenue, and accrues 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. The Group s revenue recognition under Italian GAAP is at variance with U.S. GAAP. For a discussion of revenue recognition under U.S. GAAP, see Note 27(e) to the Consolidated Financial Statements included in Item 18 of this annual report.

Results of Operations

Summary

In 2004, the appreciation of the euro against other major currencies, price pressure from competitors in countries able to produce goods at lower costs and modest economic growth in many of our markets, contributed to a decrease of net sales of 2.1% compared to 2003. Units sold increased slightly, by 0.4%, due to the Group s satisfactory performance in Europe, which was partially offset by negative results in the United States. Italsofa, the Group s lower-priced brand continued to represent a growing percentage of the Group s total seats sold, 35.3% of total seats sold in 2004 compared to 33.1% in 2003.

The Group s net income compared to 2003 decreased 18.9 million to 18.4 million in 2004. On a per Ordinary Share, or ADS basis, the Company reported net earnings of 0.34 in 2004, a decrease of 0.34 from 2003. The decrease was primarily caused by higher marketing expenses in connection with the opening of new retail stores and galleries and advertising to increase awareness of the Natuzzi brand in the worldwide furniture market, as well as the appreciation of the euro relative to other currencies, in particular the U.S. dollar. The appreciation of the euro affected the translation of sales of the Group s subsidiaries operating in countries with currencies other than the euro, in particular the U.S. dollar, into the Group s consolidated results and the competitiveness of the Group s products. Other factors that caused a decrease in 2004 net earnings were the considerable increase in other expenses, net, and income taxes.

The following table sets forth certain income statement data expressed as a percentage of net sales for the years indicated:

	Year Ended December 31,		
	2004	**2003**	**2002**
Net sales	100.0%	100.0%	100.0%
Cost of sales	64.3	66.1	64.3
Gross profit	35.7	33.9	35.7
Selling expenses	25.0	23.3	18.1
General and administrative expenses	5.4	5.1	5.0
Operating income	5.3	5.5	12.6
Other income (expense), net	(0.5)	0.5	1.9
Income taxes	2.4	1.1	3.1
Net earnings	2.4	4.9	11.4

See Item 4, Information on the Company Markets , for tables setting forth the Group s net leather- and fabric-upholstered furniture sales and unit sales, which are broken down by geographic market, for the years ended December 31, 2000 through 2004.

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2004 Compared to 2003

Net sales for 2004, including sales of leather- and fabric-upholstered furniture and other sales (principally polyurethane foam, leather sold to third parties and accessories), decreased 2.1% to 753.4 million compared to 2003.

Net sales for 2004 of leather- and fabric-upholstered furniture decreased 1.3% to 665.5 million compared to 2003. The 1.3% decrease was due to a 4.3% appreciation of the euro against the major currencies, particularly the U.S. dollar, to a 0.4% increase in units sold and to a 2.6% increase in the mix of products and product prices. Net sales for 2004 of Natuzzi-branded furniture decreased 2.4%, while net sales of Italsofa-branded furniture increased 2.6% compared to 2003. Net sales for 2004 of leather-upholstered furniture decreased 0.4% to 547.9 million compared to 2003, and net sales for 2004 of fabric-upholstered furniture decreased 5.2% to 117.6 million compared to 2003.

In the Americas, net sales for 2004 of upholstered furniture decreased 12.7% to 279.4 million compared to 2003 because of the unfavorable conversion of sales made in dollars to euro, and because of persistent pricing pressure in the U.S. market, both contributing to a decrease in units sold (-7.9%). In Europe, net sales for 2004 of upholstered furniture increased 8.5% to 340.1 million compared to 2003 due to a marked growth in net sales of Italsofa-branded furniture (35.2%). In the rest of the world, net sales for 2004 of upholstered furniture increased 13.9% to 46.0 million compared to 2003.

Net sales for 2004 of Natuzzi-branded furniture decreased 2.4% to 507.0 million compared to 2003. During the same period, net sales of the lower-priced Italsofa furniture increased 2.6% to 158.5 million compared to 2003. The continued growth of Italsofa was due to consumer price sensitivity resulting from sluggish economic conditions worldwide and the Group s ability to offer Italsofa products at attractive prices. The Group currently believes that the impact on our sales from the growing percentage of sales from the lower-priced Italsofa furniture relative to the higher-priced Natuzzi brand furniture will be counterbalanced in the medium- to long-term (three to five years) by the increasing penetration of the Natuzzi brand in the medium-high end of the upholstery market expected by the Group as a result of the marketing initiatives adopted. However, we can give no assurance that we will achieve our objectives, since our expectations are subject to inherent risks and uncertainties. See Item 3 Forward Looking Information .

Total net sales of Divani & Divani by Natuzzi, Natuzzi Stores and Kingdom of Leather stores increased 21.0% in 2004 to 128.6 million compared to 2003.

In 2004, total seats sold increased 0.4% to 3,070,971 from 3,058,835 sold in 2003. The slight increase was due to an increase of 11.7% in Europe (1,319,740 seats) and a 4.6% increase in the rest of the world (excluding Europe) (186,330 seats), which together offset a 7.9% decrease reported in Americas (1,564,900 seats).

The negative performance of Natuzzi products in the Americas was caused by our decreased ability to offer competitive prices in the United States resulting from the appreciation of the euro against the U.S. dollar and the growing presence in that market of imported products from countries, such as China, with lower manufacturing costs. In the Americas, seats sold in 2004 by the higher priced Natuzzi brand decreased 8.0%, and seats sold by the lower priced Italsofa brand decreased 7.7% compared to 2003. In particular, the decrease in units sold in the Americas included a decrease in the United States of 10.2% partially offset by higher sales in Canada (+8.4%) and other minor markets (+70.3).

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Seats sold in Europe increased from 1,181,566 in 2003 to 1,319,740 in 2004. The positive performance achieved in Europe reflects the success of the Group s lower-priced brand, Italsofa. Units sold for Italsofa brand increased by 37.6% from 317,925 in 2003 to 437,558 in 2004, while units sold for Natuzzi brand slightly increased from 863,641 in 2003 to 882,182 in 2004. Positive results were reported in many countries: United Kingdom (+12.5%), Spain (58,4%), France (12.0%), Belgium (31.6%), Norway (49.9%), Switzerland (8.3%), Sweden (12.5%), and Portugal (43.3%). Negative performances were suffered in Germany (-13.7%), Holland (-5.9%), Eire (-13.1%) and Greece (-8.9%).

In the rest of the world, seats sold increased from 178,109 in 2003 to 186,330 in 2004. The rise included increases in Australia (+17.1%), Korea (+28%), China (23.2%), Turkey (+41.9%), Taiwan (+49.0%), which were partially offset by lower sales in Japan (-5.5%), New Zealand (-18.9%) and Israel (-23.4%).

In 2004, total leather-upholstered seats sold increased 1.5% to 2,345,044 from 2,310,121 seats sold in 2003, while total fabric-upholstered seats sold decreased 3.0% to 725,927 from 748,714 seats sold in 2003.

The Natuzzi brand sold 1,986,461 seats in 2004, 2.9% less than in 2003, while sales of Italsofa seats increased 7.0% to 1,084,510 compared to 2003.

Other net sales decreased 8.1% to 87.9 million compared to 2003. The decrease is mainly attributable to the lower sales of living room accessories (15.5% decrease compared to 2003), polyurethane foam (3.1% decrease compared to 2003) and raw materials sold to third parties (8.8% decrease compared to 2003).

Cost of goods sold decreased by 4.8% to 484.5 million or 64.3% of net sales in 2004, from 508.8 million or 66.1% of net sales in 2003. The decrease in cost of sales was attributable primarily to a decrease in the quantity of leather purchased as a result of a decrease in order flows for leather upholstery compared to 2003, as well as to a decrease in the average price of leather due to the Group s purchasing policies and, to a lesser extent, to savings resulting from efficiencies achieved in manufacturing operations.

The Group s gross profit increased 3.1% in 2004 to 268.9 million compared to 2003, as a result of the factors described above.

Selling expenses for 2004 increased 5.0% to 188.2 million compared to 2003, and as a percentage of net sales increased from 23.3% in 2003 to 25.0% in 2004. This increase was caused primarily by our continued investment in the Natuzzi Galleries and Natuzzi Stores program, which resulted in higher marketing expenses (5.5% increase compared to 2003), store rent (27.0% increase compared to 2003) and depreciation costs (41.2% increase compared to 2003), and to a lesser degree, by increased transportation costs (3.1% increase compared to 2003), which were due to higher oil prices.

General and administrative expenses for 2004 increased 3.8% to 40.7 million compared to 2003, and as a percentage of net sales increased slightly from 5.1% in 2003 to 5.4% in 2004.

Operating income for 2004 decreased 5.4% to 40.0 million compared to 42.3 million reported in 2003, as a results of the factors described above.

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Other income (expense), net decreased to (3.9) million in 2004 from a net income of 3.6 million in 2003. Net interest income (expense), included in other income (expense), net, in 2004 was (0.6) million, compared to 0.5 million in 2003.

Foreign exchange gains, net, also included in other income (expense), net, were 2.3 million in 2004, compared to 6.3 million in 2003. The gain in 2004 was mainly due to the following:

A net realized gain of 5.0 million in 2004 (compared to a gain of 25.4 million in 2003) on the domestic currency swaps due to the difference between the forward rate of the domestic currency swaps and the spot rate at which the domestic currency swaps were closed (the Company uses the forward rate to protect its price risks against unfavorable exchange variations);

A net realized loss of 1.0 million in 2004 (compared to a loss of 7.6 million in 2003), from the difference between the invoice exchange rate and the collection/payment exchange rate;

A gain of 1.4 million (compared to a loss of 1.2 million in 2003) recorded in the consolidated statement of earnings from the conversion of non-euro financial statements of the Company s subsidiaries;

A net unrealized loss of 10.2 million in 2004 (compared to an unrealized loss of 16.6 million in 2003) on accounts receivable and payable; and

An unrealized gain of 7.1 million in 2004 (compared to an unrealized gain of 6.3 million in 2003), from the mark-to-market of domestic currency swaps.

The Group also recorded other expense in 2004 of 5.6 million compared to other expense of 3.1 million reported in 2003. The loss in 2004 was mainly due to the following:

A loss of 6.1 million in 2004 due to the impairment of goodwill related to the Group s operations and expectations in the United Kingdom;

A gain of 3.4 million in 2004 realized from the by disposal of the subsidiary Spagnesi S.p.A. ;

An expense net of 1.3 million deriving from the write-off of fixed assets;

Other expense, net of 1.5 million in 2004.

Since 2003, the Company does not follow hedge accounting, and records all fair hedge accounting, and records all fair value changes of its domestic currency swaps in the income statement.

The Group s effective income tax rate for 2004 was 48.8%, compared to 18.5% in 2003. The higher rate was due to the expiring, on December 27, 2003, of the last domestic tax exemption and to the negative impact of certain other expenses, recorded in the consolidated statement of earnings, that are not fiscally deductible.

Net earnings decreased from 37.3 million in 2003 to 18.4 million in 2004. On a per Ordinary Share, or ADS basis, net earnings decreased from 0.68 in 2003 to 0.34 in 2004. As a percentage of net sales, net earnings decreased from 4.9% in 2003 to 2.4% in 2004.

As disclosed in Note 27 to the Consolidated Financial Statements included in Item 18 of this annual report, established accounting principles in Italy vary in certain significant respects from generally accepted accounting principles in the United States. Net earnings under U.S. GAAP for the years ended December 31, 2004, 2003 and 2002 would have been 18.8 million, 38.0 million

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and 92.0 million, respectively, compared to net earnings under Italian GAAP for the same periods of 18.4 million, 37.3 million and 91.4 million, respectively.

2003 Compared to 2002

Net sales for 2003, including sales of leather- and fabric-upholstered furniture and other sales (principally polyurethane foam and leather sold to third parties, as well as accessories), decreased 4.4% to 769.6 million compared to 2002.

Net sales for 2003 of leather- and fabric-upholstered furniture decreased 8.3% to 674.0 million compared to 2002. The decrease was due primarily to the strong appreciation of the euro against other major currencies, particularly the U.S. dollar, and to a lesser degree to a decrease in units sold in Europe as a result of the stagnant European economy and a change in the mix of products sold toward lower-priced products. Net sales for 2003 of leather-upholstered furniture decreased 11.8% to 550.0 million compared to 2002, while net sales for 2003 of fabric-upholstered furniture increased 11.7% to 124.0 million compared to 2002.

In the Americas, net sales for 2003 of upholstered furniture decreased 12.6% to 320.1 million compared to 2002 because of the unfavorable conversion of US sales made in dollars to euro following the strong appreciation of the European currency. In Europe, net sales for 2003 of upholstered furniture decreased 4.0% to 313.5 million compared to 2002. In the rest of the world, net sales for 2003 of upholstered furniture decreased 3.6% to 40.3 million compared to 2002.

Net sales for 2003 of Natuzzi-branded furniture decreased 11.3% to 519.4 million compared to 2002. During the same period, net sales of the lower-priced Italsofa furniture increased 3.7% to 154.6 million compared to 2002. The growth of Italsofa was due to consumer price sensitivity resulting from sluggish economic conditions worldwide and the ability of the Company to offer a product at an attractive price while maintaining the Company s rigorous quality standards. The Company believes that the growing percentage of sales from the lower-priced Italsofa furniture relative to the higher-priced Natuzzi brand furniture should be counterbalanced in the medium term by the increasing penetration of the Natuzzi brand in the medium-high end of the upholstery market as a result of the marketing initiatives adopted by the Group.

Total net sales of Divani & Divani by Natuzzi, Natuzzi Stores and Kingdom of Leather stores increased 10.3% in 2003 to 106.0 million compared to 2002.

In 2003, total seats sold increased 1.0% to 3,058,835 from 3,027,658 sold in 2002. The slight increase was due to an increase of 8% in the Americas (1,699,160 seats) and a 0.9% increase in the rest of the world (excluding Europe) (178,109 seats), which almost completely offset a 7.6% decrease reported in Europe (1,181,566 seats).

The negative performance suffered in Europe reflects the difficult economic conditions reported in many countries: Germany (-24.2%), France (-5.1%), Belgium (-5.6%), Holland (-13.3%), Norway (-16.3%), Sweden (-27.5%), and Ireland (-43.7%). These reductions in sales were only partially offset by the increases in sales in the United Kingdom (+13.6%), mainly due to the acquisition of the Kingdom of Leather group; in Greece (+17.7%); and in Spain (+24.4%).

Seats sold in the United States and Canada in 2003 increased 6.8% and 25.0%, respectively. Growth in the United States and Canada was mainly the result of the growing success of the Group s lower-priced brand, Italsofa.

In the rest of the world, seats sold increased from 176,483 in 2002 to 178,109 in 2003. The rise included increases in Australia (+10.5%), Japan (+25.0%), New Zealand (+3.8%) and

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China (+6.6%), which were partially offset by lower sales in Israel (-19.1%), Korea (-33.8%) and Singapore (-38.9%).

In 2003, total leather-upholstered seats sold decreased 5.1% to 2,310,121 from 2,433,509 seats sold in 2002, while total fabric-upholstered seats sold increased 26.0% to 748,714 from 594,149 seats sold in 2002.

The Natuzzi brand sold 2,044,908 seats in 2003, 6.6% less than in 2002, while sales of Italsofa seats increased 21.0% to 1,013,927 compared to 2002.

Other net sales increased 35.8% to 95.6 million compared to 2002. The increase is due to the upgrade of the distribution channel dedicated to the Natuzzi brand and an increase in sales of accessories.

Cost of goods sold as a percentage of net sales increased from 64.3% in 2002 to 66.1% in 2003. The improvement of the margin was due to a decrease in the cost of leather and savings resulting from efficiencies achieved in manufacturing operations.

The Group s gross profit decreased 9.3% in 2003 to 260.8 million compared to 2002, as a result of the factors described above.

Selling expenses for 2003 increased 23.3% to 179.3 million compared to 2002, and as a percentage of net sales increased from 18.1% in 2002 to 23.3% in 2003, mainly due to higher marketing expenses.

General and administrative expenses for 2003 decreased 3.2% to 39.2 million compared to 2002, and as a percentage of net sales increased from 5.0% in 2002 to 5.1% in 2003.

Operating income for 2003 decreased 58.4% to 42.3 million compared to 101.8 million reported in 2002.

Other income (expense), net decreased to 3.6 million in 2003 from 14.6 million in 2002. Net interest income, included in other income (expense), net, in 2003 was 0.5 million, compared to 1.6 million in 2002.

Foreign exchange gains, net, also included in other income (expense), net, resulted in a gain of 6.3 million in 2003, compared to a gain of 9.3 million in 2002. The gain in 2004 was mainly due to the following:

A net realized gain of 25.4 million in 2003 (compared to a gain of 10.9 million in 2002) on the domestic currency swaps due to the difference between the forward rate of the domestic currency swaps and the spot rate at which the domestic currency swaps were closed (the Company uses the forward rate to protect its price risks against unfavorable exchange variations);

A net realized loss of 7.6 million in 2003 (compared to a loss of 8.8 million in 2002), from the difference between the invoice exchange rate and the collection/payment exchange rate;

A loss of 1.2 million (compared to a loss of 0.6 million in 2002) recorded in the consolidated statement of earnings from the conversion of non-euro financial statements of the Company s subsidiaries;

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A net unrealized loss of 16.6 million in 2003 (compared to an unrealized gain of 5.8 million in 2002) on accounts receivable and payable; and

An unrealized gain of 6.2 million in 2003 (compared to an unrealized gain of 2.0 million in 2002), from the mark-to-market of domestic currency swaps.

The Group also recorded other expense in 2003 of 3.2 million compared to other income of 3.7 million reported in 2002. The amount of 3.2 million reported for other expense in 2003 included an extraordinary loss of 4.3 million deriving from the impairment of fixed assets.

The Group s effective income tax rate for 2003 was 18.5%, compared to 21.5% in 2002. The lower rate was due to consolidated pre-tax earnings received from domestic and foreign companies that are entitled to tax exemptions.

Net earnings decreased from 91.4 million in 2002 to 37.3 million in 2003. On a per Ordinary Share, or ADS basis, net earnings decreased from 1.67 in 2002 to 0.68 in 2003. As a percentage of net sales, net earnings decreased from 11.4% in 2002 to 4.9% in 2003.

As disclosed in Note 27 to the Consolidated Financial Statements included in Item 18 of this annual report, established accounting principles in Italy vary in certain significant respects from generally accepted accounting principles in the United States. Net earnings under U.S. GAAP for the years ended December 31, 2003, 2002 and 2001 would have been 38.0 million, 92.0 million and 71.1 million, respectively, compared to net earnings under Italian GAAP for the same periods of 37.3 million, 91.4 million and 75.6 million, respectively.

Effect of Inflation

Management believes that the impact of inflation was not material to the Group s net sales or operating income in the three years ended December 31, 2004.

Liquidity and Capital Resources

Cash flows from operations were 68.3 million in 2004, compared to 38.2 million in 2003. The increase in cash flows from operations of 30.1 million from 2003 to 2004 resulted principally from more efficient credit collection, more favorable payment terms granted by the Group s suppliers, as well as the receipt of tax credits. The increase was partially offset by lower net earnings, 18.4 million in 2004 compared to 37.3 million in 2003, as well as higher inventories, mainly attributable to the provision of raw materials (leather, in particular) by the Group s foreign industrial plants. Cash and cash equivalents increased 23.7 million from 63.6 million in 2003 to 87.3 million in 2004.

Cash flows from investment activities in 2004 decreased 12.7 million to 37.1 million net cash used in investment activities compared to net cash used in investment activities in the previous year of 49.8 million. Capital expenditures were 51.9 million and 47.3 million in 2004 and 2003, respectively. In 2004, the Group continued to invest in its foreign plants: in particular, approximately 2.8 million in Baia Mare (Romania) for maintenance and improvements of the existing plant, 10.3 million in Pojuca-Bahia (Brazil) for the construction of a plant and 17.3 million in Shanghai (China) for construction of one more plant. See Item 4. Information on the Company Capital Expenditures for a description of the Group s planned capital expenditures. Other investments were made in Italy to increase overall efficiency and productivity. Significant investments were made to furnish retail galleries and stores. Capital expenditures were financed primarily with funds from operations.

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In 2004, cash from investing activities was positively affected, amounting to 9.4 million compared to 0.8 million in 2003, by the disposal of fixed assets, including an airplane, machinery, equipment and buildings, and the sale of Spagnesi S.p.A. in December 2004 for cash consideration of 5.5 million (see Note 1 to the Consolidated Financial Statements included in Item 19 of this annual report).

Cash used for financing activities in 2004 totaled 6.0 million versus 17.5 million in the previous year. This decrease primarily reflects lower dividends paid to shareholders, 7.7 million in 2004 compared to 18.0 million in 2003.

As at December 31, 2004, the Group had available lines of credit for cash disbursements totaling 109.0 million. The unused portion of these lines of credit amounted to approximately 103.4 million (see Note 11 to the Consolidated Financial Statements included in Item 18 of this annual report). The Group s long-term debt represented less than 1% of shareholders equity at December 31, 2004 and 2003 (see Note 16 to the Consolidated Financial Statements included in Item 18 of this annual report).

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

Contractual Obligations and Commitments

The following tables set forth the contractual obligations and commercial commitments of the Group as at December 31, 2004:

	Payments Due by Period (in euro thousands)				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Long-Term Debt(1)	5,569				