

2002 ANNUAL REPORT

Interface, Inc.

BUSINESS IN MOTION



Acceleration

PRESIDENT'S LETTER	2
FINANCIAL HIGHLIGHTS	6
POWERING INTO NEW MARKETS	9
MAKE-TO-ORDER	13
CUSTOMER SOLUTIONS	14
PRIORITIZED SPENDING	19
SUPPLIER-SIDE ECONOMICS	20
CAPITAL STRUCTURE	23
SUSTAINABILITY REPORT	24
BUSINESS SEGMENT OVERVIEW	29
BOARD OF DIRECTORS	34
EXECUTIVE OFFICERS	35
SHAREHOLDER INFORMATION	36

Momentum
Efficiency
Connectivity
Equilibrium
Synchronicity
Stability
Biomimicry



MOVING TOWARD OUR GOALS AT AN EVER-INCREASING VELOCITY

Is there a place for science in the business world, other than in the R&D lab? We think so. Our experience at Interface has convinced us that a company can learn a lot from the natural sciences, that is, nature. It has shown us practical models of how to solve problems, how to make the most of existing resources, how to compete successfully. And, most important, how to evolve. Interface is a company in motion, moving not just from point A to point B but in a trajectory from the conventional to the innovative.

As one of the world's largest producers of carpets and fabrics, Interface might have given in to inertia when the economy stalled. We had staying power. But we realized we also had momentum that could propel us into new markets.

We had something else, too. Modular carpet. Several years ago, our drive to achieve sustainability led to major design breakthroughs that redefined the original "carpet tile" category. We are the leading modular carpet producer in the world, perfectly positioned to leverage our modular design and production strengths to move into vast new markets, both here and abroad. And the timing for this is perfect as well. In market after market—education, healthcare, government, hospitality, retail and residential—buyers are discovering just how economical, easy to install and maintain, flexible, durable and good-looking modular carpet can be. We believe the category is about to explode, and Interface® products will lead the way around the world, accelerating the category's growth and capitalizing on it.

PRESIDENT'S LETTER



Dear Fellow Shareholders:

We are energized. We are focused. And we are transforming this Company based on current market realities and a clear vision of our future.

Interface entered 2002 with an aggressive plan of action to increase our operating efficiency and diversify our market opportunities—and with an enormous amount of determination. I'm pleased to report that we are reaching the velocity needed to complete our transformation.

A look at the numbers makes it clear why we are changing the way we do business. Make no mistake: we have been hit hard by the unprecedented downturn in our industry. In response, however, we've taken steps to make our operations as lean as possible in order to squeeze every ounce of profit out of our sales. We've rationalized ten manufacturing facilities, reduced our workforce by about 30%, and implemented a Company-wide supply chain management program to pare down our cost structure. These initiatives helped us generate \$39 million in free cash flow in 2002, which is not an easy thing to do in this environment.

In recent years, sales in our primary market, corporate office interiors, have fallen by 35%. We dominated the corporate office market, but it has also dominated us. We realized that this kind of dependence on a single, cyclical market was unhealthy, so a key element in our plan was to diversify. The office market will come back, and we'll get our share of the profits. But when it does, Interface will already be reaping the rewards of diversification.

By leveraging our existing strengths, we can use our momentum in broadloom and modular carpet and in fabrics to gain traction in new market segments. Though we have been tightening spending to help the bottom line, we haven't pulled back into our shells. We're working hard to grow the top line, developing product and service innovations to meet market-specific customer needs, and improving how we market them. Across all of our businesses, potential target segments have been carefully evaluated before resources are allocated. Each segment is sized up in terms of how big it is, how fast it's growing overall, what our current share is, how the competition stacks up, and what we can offer it, realistically.

What we can offer—better than any other company in the world—is modular carpet. And modular is poised to explode across virtually every market segment and around the globe. Interface is positioned to capitalize on this growth opportunity. As the acknowledged modular market leader, we have the vision, the skills and the

experience to lead the way in product development, production technologies, marketing innovations and high value customer service.

We are the company that has defined the successful model of modular carpet today—random patterning, cost-efficient installation and maintenance, interactive flexibility, recycled and recyclable materials—and our research and early successes show that large market segments beyond the corporate office are ready to buy into those qualities in a large way. We're ready for them, too, with our new i2™ modular products, which were specifically designed to be installed without regard to the directional orientation of the carpet tiles and without regard to the dye lots in which the products were manufactured. These benefits make installation, maintenance and replacement of the products easier, less expensive and less wasteful. A natural progression from the unprecedented success of our initial “random design” product, Entropy®, i2 is more than just a line of new products—it's a campaign to define a differentiated category of smart and stylish modular carpet for the commercial markets.

The U.S. market for carpet in schools is \$300 million annually, but there is currently a very low penetration of modular products. Traditionally, the education segment has opted for six-foot roll goods, but we are attacking that tradition head-on. Our i2 line of products is ideal for sales to schools, where ease of maintenance is a primary consideration. We have gained excellent traction in this market and we're expecting double-digit sales growth in 2003.

The hospitality industry, which in the U.S. also buys \$300 million of carpet every year, is a natural target for our beautifully designed modular products. Currently, modular carpet has virtually no penetration in this segment. But in recent months, major hotel chains have tested our modular carpet and found that it offers a variety of advantages over other floorcoverings. For example, carpet tiles can be quickly and selectively replaced with no special tools or skills, thus resulting in no lost revenues due to off-market rooms. The trial programs have already resulted in new orders.

Healthcare facilities also face serious carpet maintenance challenges that can be met with the greatest cost-effectiveness with modular products like ours. Our carpet tile has characteristics, such as the use of our Intersept® antimicrobial, static-controlling nylon yarns, and thermally pigmented, colorfast yarns, which make it attractive to this industry. We believe we can take a significant share of the \$400 million U.S. healthcare carpet market.

Of all the new segments for modular, the vast residential market is the most enticing. We believe today's consumers are ready to embrace this smart new way to cover the floor. With solid market research showing the way, we are launching modular carpet designed, packaged and promoted to introduce consumers to the unique attributes of “carpet squares.” Think about it: why wouldn't at least certain applications in the home—home offices, kids' rooms, finished basements, to name a few—be better served by modular carpet than traditional broadloom carpet? Our InterfaceFLOR™ design-it-yourself, do-it-yourself concept is being launched through three channels: retail stores, catalogs, and website. We believe we're hitting the \$11 billion residential carpet market at the right time, with the right products—and even a modest 2% share would *double* our U.S. modular floorcovering business.

We are also actively pursuing modular growth opportunities internationally. Much of what we do to attack new markets in the U.S. is transferable to Europe and Asia-Pacific. In Germany, where modular carpet constitutes only 5% of the commercial carpet market, we created new designs and installed a new sales team to capitalize

on what we see as an opportunity to push modular toward the level that it enjoys in the U.S. In the large Japanese market, where buyers went straight from hard vinyl tile to carpet tile, skipping over broadloom, we're experiencing significant improvements in sales. In addition, we recently introduced mid-priced products in Asia under our popular Heuga® brand, and they are opening up an abundance of new opportunities for us in a very promising marketplace.

Our broadloom business has struggled to keep pace in the wake of the severe corporate market decline, but we're optimistic about its future, too. While the popularity of modular carpet is accelerating, broadloom will retain a majority share of the market for years to come. We have rejuvenated our broadloom operations under the Bentley Prince Street banner, with focused management, improved operating efficiencies and the most revered brands in the commercial market. (In a 2002 *Floor Focus* magazine survey of top interior designers, our Bentley® and Prince Street® brands ranked highly in design, quality, performance, value and service, with Bentley taking #1 in quality.) But the major reason for optimism is diversification. For instance, we identified the government market as a prime target for broadloom sales and pursued it vigorously. We more than doubled our contract and non-contract government sales in 2002, and we're just getting started in this \$200 million U.S. market. We also introduced a line of broadloom products specifically tailored to the healthcare industry, and we've maintained our dominance in the small but profitable retail stores market.

Perhaps the greatest potential market for diversification for our broadloom products is the residential market, where we are making serious inroads. In 2002, we launched the Prince Street House & Home™ Collection of broadloom carpet, which won Best New Product Line at the annual International Design Guild residential products trade show in Atlanta. Also included within the Prince Street House & Home Collection is a line of attractive area rugs. We believe the consumer is ready for better carpet.

Our service business continues to provide us with a competitive advantage in the marketplace, because customers enjoy the single source accountability and solutions that it offers them. Moreover, we are using the customer relationships our dealer network has built to further enhance our efforts at penetrating new markets outside the corporate office sector.

Our fabrics business still is operating in a challenging environment, as a large percentage of our sales are to office furniture manufacturers, whose business is off by 35% from the year 2000 peak levels. We have formed business teams tasked with opening new territories in the residential, hospitality and government markets, and we're already seeing the benefits of their efforts. For example, our sales of fabrics for window treatments such as roman shades and vertical blinds have gone from zero to \$3 million over the past two years, and we expect them to approach \$10 million within another two years.

Although our access flooring business has suffered from the technology bust and fall off of new office construction, it's a fundamentally sound business, with market leading products, that will recover when the market turns up. However, in order to cut losses in the short term, we have decided to pursue divestiture or some other strategic solution for our access flooring operation.

Interface continues to strive towards its goal of sustainability by 2020, and 2002 marked significant progress in that direction. Right now, as you read this...

Interface facilities are producing carpet with recycled materials in both the face cloth and the backing... Interface crews are taking *back* old carpet for recycling... and Interface operations around the world are consuming less energy than would have been thought possible just a year ago. The growing sensitivity to sustainability in many market areas—like the architect and designer community, universities and government entities—is working to our advantage. And, when you recognize that waste is actually a potential profit center, you can see that the Company’s quest for sustainable manufacturing practices is “green” in more ways than one.

By creating and promoting environmentally-friendly products like Entropy random modular carpet and Terratex® upholstery fabric that is 100% recycled and designed to be recyclable, the Company is seeing real and immediate benefits from our sustainability efforts—and they can only grow over the coming years. And as we learn sustainable behavior, we also learn that nature already holds the answers to questions we haven’t even thought to ask. For any problem we face, any creative challenge we encounter, we have begun to look for a natural model to help shape our response. This is known as “biomimicry,” and it has everything to do with why this Company is facing such a bright future.

Yes, I said “bright future.” In 1973, when Interface was born, the economy was in the midst of the worst recession since the Great Depression. Just two years into our existence, Interface had to confront a major market decline. The Company had to learn quickly, and the main lesson learned was how to adapt to changes and grow stronger with each change. We’ve had to redefine ourselves many times over the years—through economic downturns, industry movements, the bursting of the technology bubble, and the aftermath of September 11th. And we’ve risen to the challenge every time, re-inventing and relearning our business, and always coming out better for it. So I have no doubt that we will make it through these difficult times and—with just a little help from the marketplace—I think we’ll see yet another great period for our Company.

I’d like to close by acknowledging the inspiring creativity, passion and commitment of all the people here at Interface—including David Oakey, whose unparalleled design leadership is helping us carry out our vision. We’ve been depending on them for more than we ever have before. We haven’t had to ask for more. They’ve just given it. As a group, they have spontaneously and enthusiastically gone above and beyond the call of duty, applying their brains and brawn to the transformation of the Company. Everything this Company is and will be, we owe to them. And my confidence in the Company—which is boundless—is really confidence in them. I look forward to the beginning of that bright future in 2003.

Sincerely,

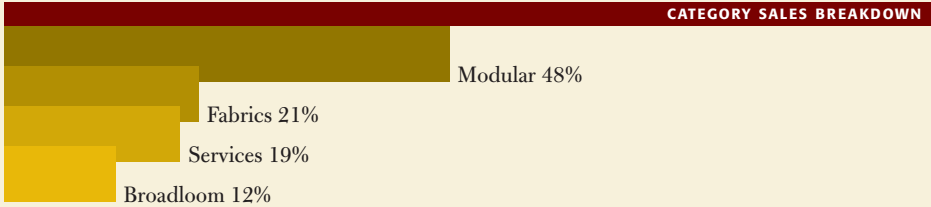
A handwritten signature in black ink that reads "Daniel T. Hendrix". The signature is fluid and cursive, with the first name "Daniel" being more prominent and the last name "Hendrix" following in a similar style.

Daniel T. Hendrix
President and Chief Executive Officer


FINANCIAL HIGHLIGHTS*

	FISCAL YEAR ENDED		
(in thousands, except share data)	2002	2001	2000
Net sales	\$ 924,084	\$ 1,058,846	\$ 1,223,895
Cost of sales	659,910	746,320	844,447
Gross profit on sales	264,174	312,526	379,448
Selling, general and administrative expenses	225,569	259,039	291,548
Restructuring charges	23,449	54,577	21,047
Operating income (loss)	15,156	(1,090)	66,853
<i>Other expense</i>			
Interest expense	42,022	35,887	36,959
Other	798	490	479
Total other expense	42,820	36,377	37,438
Income (loss) from continuing operations			
before taxes on income (benefit)	(27,664)	(37,467)	29,415
Taxes on income (benefit)	(9,905)	(11,546)	12,352
Income (loss) from continuing operations	(17,759)	(25,921)	17,063
Discontinued operations, net of tax	(14,525)	(10,366)	258
Cumulative effect of a change in accounting principle, net of tax	(55,380)	---	---
Net income (loss)	\$ (87,664)	\$ (36,287)	\$ 17,321
<i>Basic and diluted earnings (loss) per common share</i>			
Income (loss) from continuing operations	\$ (0.36)	\$ (0.52)	\$ 0.34
Discontinued operations	(0.29)	(0.20)	---
Cumulative effect of a change in accounting principle	(1.10)	---	---
Net income (loss)	\$ (1.75)	\$ (0.72)	\$ 0.34
<i>Balance Sheet Data</i>			
Current assets	\$ 366,721	\$ 400,247	\$ 461,312
Current liabilities	168,912	175,965	214,076
Total assets	863,510	954,754	1,034,849
Long-term debt	---	171,827	140,050
Senior notes	325,000	150,000	150,000
Senior subordinated notes	120,000	125,000	125,000
Total capitalization	\$ 674,078	\$ 755,409	\$ 793,457

* The balances for the current year and prior years have been adjusted to reflect the discontinued operations of our raised/access flooring business.



MANUFACTURING FACILITIES WORLDWIDE			
Americas		Europe	Asia-Pacific
Cartersville, GA	Dudley, MA	Lancashire, England	Picton, Australia
LaGrange, GA	East Douglas, MA	Shelf, England	Bangkok, Thailand
West Point, GA	Grand Rapids, MI	Yorkshire, England	
Los Angeles, CA	Aberdeen, NC	Scherpenzeel, Holland	
Guilford, ME	Elkin, NC	Craigavon, N. Ireland	
Newport, ME	Belleville, Canada		



We now have the momentum
to achieve a level of success
in diverse but related markets
that will rival our strength in
the core corporate office market.

The top of the page features a horizontal banner. On the left is a solid blue square with a fine, woven texture. On the right is a black and white photograph of a person in a light-colored, flowing dress, captured in a dynamic, blurred pose as if dancing or moving quickly through a wooded area with trees in the background. In the bottom right corner of the photograph, there is a small, stylized logo consisting of three overlapping circles.

Momentum

OVERCOMING RESISTANCE AND MOVING IN NEW DIRECTIONS

POWERING INTO NEW MARKETS

For years, Interface has relied heavily on the cyclical corporate office interiors market. And we've dominated that market. But when the current down cycle in that market began in July 2001, we quickly realized it was time to cushion the impact of future market declines by developing other markets. This is not just a process of market diversification. It's a matter of recognizing channels in which our creative and productive energies will have the greatest positive impact.

Before allocating any resources, we carefully evaluated potential target segments across all of our businesses. Each segment has been analyzed to determine how large it is, how quickly it's growing, what our current market share is, its competitive landscape, and what we have to offer it. The process has also involved the development of specific products and services to meet a target market's needs, using existing Interface technologies and capabilities to minimize expenditures. One of the greatest advantages for Interface is that several major market segments are now more receptive than ever to the benefits of random modular carpet—a highly successful product concept introduced by Interface and now being marketed as the i2 line. This latest Interface innovation has helped push modular to a 50% share of the U.S. commercial office carpet market, and we believe i2 will play a major role in driving a similar high level of penetration in other major carpet markets.

To get the maximum benefit from our market segmentation strategy, we have added new salespeople, changed compensation arrangements, shifted to account-based marketing and reorganized regions. We are also leveraging existing expertise and providing high level sales training—conducted by new, on-staff sales training professionals. As a result, we now have the momentum to achieve a level of success in diverse but related markets that will rival our strength in the core corporate office market when it recovers.

RESIDENTIAL/CONSUMER

Today's consumers are looking for something different and better in home furnishings, and one of the strongest trends today is products that cross over from the commercial market to the consumer market. Interface is well positioned to capitalize on this trend, in broadloom carpet, modular carpet and fabrics.

Our broadloom business is making a major push into the enormous U.S. residential market for carpet. We have launched the Prince Street House & Home Collection of broadloom products—recognized as Best New Product Line at the annual

International Design Guild residential products trade show in Atlanta—and area rugs designed in consultation with Suzanne Tick.

In modular carpet, our prospects are just as exciting. We've thoroughly researched the residential market and have launched the InterfaceFLOR brand of modular carpet products designed, packaged, promoted and sold to meet the unique needs of today's consumers.

We believe we're hitting the \$11 billion U.S. residential carpet market at the right time with the right products, because the market is looking for something new—and we would double our U.S. modular floorcovering business if we were to gain only a conservative 2% share.

Interface Fabrics Group is now expanding our business with several major players in the window treatment industry, based on our service capabilities, including the marketing of fabric for roman shades and vertical blinds. This group is already marketing the Stevens Linen™ and Carolina Decorative Fabrics™ lines to the high end residential upholstery market, and we are exploiting our existing relationships in this market to introduce new offerings.

One of the most exciting aspects of our focus on consumer markets is that much of what we learn in the U.S. can then be applied in Europe and in Asia-Pacific.

GOVERNMENT

Broadloom sales to GSA contract and non-contract federal government buyers more than doubled in 2002. This was a result of a focused effort in this market, and all signs indicate that Interface will continue to make inroads in this large carpet market.

Interface modular carpet also fared well among federal purchasers. The federal government consumes a higher proportion of modular carpet than most markets, making it a prime prospect for Interface as the country's leading modular manufacturer. Moreover, requirements that carpet products contain recycled and bio-based materials, as well as a growing number of projects following U.S. Green Building Council's LEED (Leadership in Energy and Environmental Design) certification guidelines, play perfectly into Interface's well known sustainability philosophy and reputation. Interface has also been included increasingly in state government contracts—which account for a substantial volume of carpet purchases annually. Many state contracts pose even stricter sustainability requirements than the federal government, which of course helps Interface.

The federal government's stance on sustainability has also opened doors for Interface Fabrics Group, which has launched an intensive marketing campaign to educate federal agencies about Terratex brand 100% recycled fabrics.

HEALTHCARE

Interface is already established in the healthcare market, selling broadloom, modular and fabric products.

Interface Fabrics Group is a leading provider of healthcare cubicle curtains and is working hard to expand its business. In healthcare facilities like assisted living centers, Interface is addressing special carpet needs, introducing a new broadloom line, and, in modular, promoting our patented Intersept antimicrobial, which protects the carpet from mold, fungal and bacterial growth. Our modular carpet products also help make living spaces more attractive and "warm" while greatly reducing the cost and labor involved in floorcovering maintenance. We believe that we will earn a significant share of the large healthcare carpet market.





HOSPITALITY

Hotels, resorts and convention centers represent a natural growth area for the modular approach to solving carpet maintenance problems. Major hotel chains have tested Interface modular carpet and confirmed its benefits over other flooring alternatives: faster, less expensive installation; easy repairs anyone can do with no special tools or skills; liquid-impermeable backing, with no odor-collecting pad; and no revenues lost due to off-market rooms. With more attention from sales and marketing, our Bentley Prince Street broadloom products should also see accelerated sales growth when the stalled hospitality sector gets moving again.

Interface Fabrics Group is also poised to make serious inroads in the hospitality market, with plans to launch a new brand to meet specialized needs. The Studio™ brand will be marketed globally to architects and designers for use in hotels, cruise ships and other venues. To reach a similar market, Infinity® fabrics are designed to meet the rigorous demands of performance seating in such installations as churches and stadiums. And, in response to market demand, Infinity fabrics will carry an unparalleled 10-year wear and colorfast warranty.

EDUCATION

This entire market, from daycare facilities to universities, is one of Interface's best opportunities for immediate growth in both broadloom and modular carpet sales. Combined sales were up significantly for the year, representing strong gains for both broadloom and modular carpet. Interface has focused a great deal of attention on this market, dedicating 20 modular salespeople in the U.S. We have also launched our new Cubic™ random modular product, the first in a series of products under the i2 collection designed to meet the special needs of the K-12 market at the right price points. Interface is showing the market why it makes sense to switch from six-foot roll goods to modular. With the right product mix, the industry's best sustainability position, and aggressive marketing, we expect to gain a greater share of the higher education carpet market, which some analysts predict will grow by over 17% in 2003.

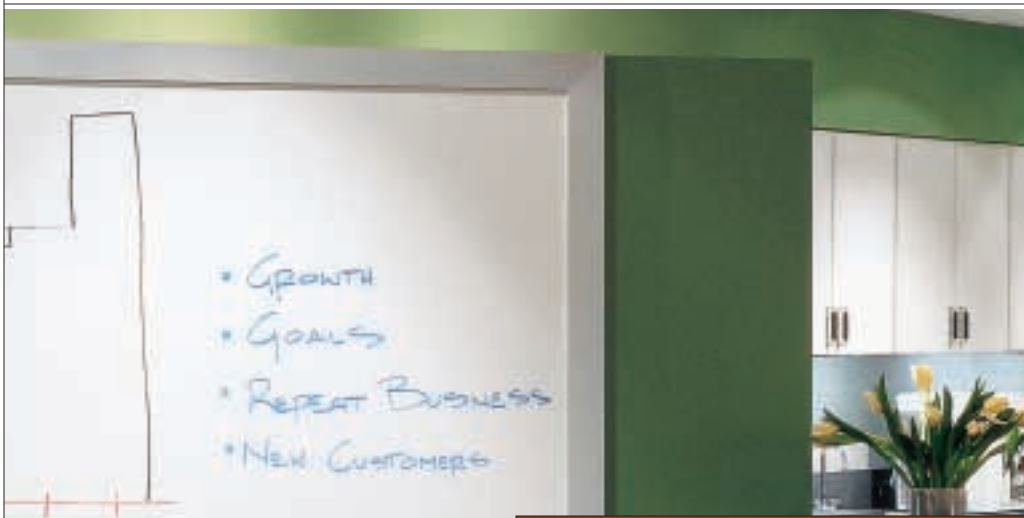


RETAIL SPACE

The name of the game for retailers is to build traffic, and the floorcovering pays the price. This carpet market is a particularly strong one for Interface, accounting for three of our top ten modular customers in the U.S. Retail space customers, once they make a purchase decision, often demand immediate, overnight installation to avoid interruption of business. By providing both product and service with single source accountability, our Re:Souce Americas distribution channel is uniquely capable of meeting this need. This gives us a distinct competitive advantage, as does the fact that the current low penetration of modular is projected in coming years to reach 50% of the soft floorcovering used in this market.

TENANT IMPROVEMENT

Owners and managers of rental properties represent a major carpet market for anyone who can meet two vital needs: mid-range pricing, and reliable maintenance, repair and replacement service. With the 2002 launch of our mid-priced BPS™ Collection of broadloom products through our service channel, we expect to capture a significant proportion of those sales and get our fair share of this business.



About 90% of our broadloom and modular carpet products are now made to order in the U.S. and in Asia-Pacific.

MANAGING OPERATIONS TO MEET DEMAND





Efficiency

MAKE-TO-ORDER

We've been restructuring operations for several years to reach one simple yet challenging goal: to make what's already been sold rather than trying to sell what's already been made. As a result, about 90% of our broadloom and modular carpet products are now made to order in the U.S. and in Asia-Pacific, and we are steadily moving towards that level in Europe as well. Using a technique called "mass customization," we are able to custom produce products quickly, achieving the best lead times in the industry and meeting customers' on-time delivery needs.

For us, the bottom line benefit of this approach is compelling because it has radically reduced inventories of both raw materials and finished goods and also reduced our fixed manufacturing costs. For example, we now use 60% fewer SKU's of yarn to produce carpet than we did prior to implementing mass customization. We're also improving inventory turns, best illustrated by our U.S. modular business, which has more than doubled its finished goods turns in the past three years.

The close analysis of all phases of manufacturing has led to further streamlining and cost reductions. Among the many improvements brought about through our QUEST zero waste initiative is a patented "portable creel" that reduces the cycle time for getting yarn to the modular carpet production equipment by 20%.

We also discovered that we could reduce the amount of carpet backing material used, allowing our machines to run faster and at a lower cost without diminishing the quality or performance of the finished products.

Our carpet production knowledge and skills are so honed, we can produce small runs cost-effectively, whether they are customized responses to customer requests, timely production of formerly off-the-shelf SKU's, or new products for test marketing. We're giving a whole new meaning to the term "supply and demand."

CUSTOMER SOLUTIONS

One day in 1974, when Interface was still in its start-up phase in the midst of a severe recession, founder Ray Anderson saw that there was not a single order on the books. Shocked, he came to the stark realization that the next order is the Company's next heartbeat. It was a lesson that shaped Interface's sales orientation and attitude about dealing with customers, and it's been in our DNA ever since. We are what is called "customer intimate" today. Rather than assuming we know what customers need, we form close relationships that enable us to learn their needs and develop effective solutions.

The most obvious sign that Interface is focused on providing customer solutions is the number of new modular, broadloom and fabrics products we introduced at the NeoCon trade show in 2002—more than any competitor.

Some of our solutions are developed to serve established market segments better, such as: the Infinity brand of upholstery fabric for performance seating that comes with unprecedented wear and colorfast guarantees; the introduction of mergible dye lots so commercial modular carpet customers can dispense with attic stock; 100% recycled Terratex workstation panel fabric for customers following U.S. Green Building Council's LEED certification guidelines; and the introduction of Intersept antimicrobial treatment for the healthcare market.

Many new Interface products are created to offer specialized qualities to appeal to new markets. In Asia-Pacific, the Heuga line of modular carpet has been introduced to hit mid-level price points and win orders from many local businesses. Here in the U.S., Interface is targeting the consumer market with new broadloom and modular products: Prince Street House & Home broadloom products and area rugs designed in consultation with Suzanne Tick, and InterfaceFLOR modular carpet kits for stylishly simple do-it-yourself solutions.

Connectivity

JOINING TOGETHER TO FORM STRONG BONDS





It's in our DNA that the next order is the Company's next heartbeat.



Other new offerings from Interface are actually product-service combinations, like TekSolutions®: just-in-time, cut-to-fit fabric components that enable furniture makers to trim inventory and labor costs. We are exploring other ways to bundle products and services together to form better value equations for customers, such as our Re:Source® channel to install, maintain and reclaim carpet for commercial customers for life. The possibilities are as numerous as the types of customers we serve and will change with our capabilities and market conditions, so value delivery is being engrained as an essential part of how we do business.

The goal of customer satisfaction drives virtually everything we do. It's why we got into the service business, not just in the U.S. but through alignments internationally. As we open new channels of communication and distribution in established and new markets, we are training distributors and dealers to deliver more value. Even our emphasis on modular carpet in new markets is all about customer satisfaction because modular opens up a whole new range of end user benefits.

Our belief in sustainability preceded market demand. Our knowledge and leadership in this area, especially in the "green building" movement, now resonate deeply with many of our customers around the globe. As pioneers in recycling and repurposing used carpet, in creating near 100% recycled products, in switching to "green energy" to power our facilities, and in so many other environmentally sensitive actions, Interface is influencing others to adopt sustainable practices. In fact, our sustainability experts are regularly invited to high level meetings to share our insights and experiences with corporate leaders around the world, and we produce and distribute educational materials to show many others that sustainable business is good business.









Equilibrium

PRIORITIZED SPENDING

Just as we seek to eventually eliminate waste entirely in our drive for sustainability, we also continue searching for ways to achieve greater spending efficiencies in our operations. Forged through the acquisition of more than 50 different companies, Interface thrived for years by focusing on sales growth. But the downturn in our core market caused us to sharpen our focus. Now, our people are doing more with less. Efficiency is the name of the new game.

We've continued squeezing selling, general and administrative expenses hard. We have trimmed total SG&A costs by a remarkable, sometimes painful, \$90 million since their peak in 1998.

As part of our program to simplify, speed up and improve the efficiency of production operations, we've rationalized our facilities by closing 10 plants since 2000, and are in the process of closing two more. We're also consolidating and integrating other operations. This will enhance profitability by reducing operating costs.

We have also rationalized our product lines, reducing the total number of SKU's in our broadloom business by about 40% in the past two years.

Concern with bottom line results forced us to look at our payroll commitments as well, so we have found it necessary to reduce our workforce by about 30% during the past two years, a difficult but necessary action.

As in 2001, capital expenditures in 2002 were limited. We had already invested in manufacturing capacity and technology upgrades in recent years, so we were able to focus spending on projects that demonstrate a significant payback in one year or less.

It's clear that we're serious about minimizing expenditures at Interface, but that does not mean we are cutting costs across the board. While we are diligently working to improve the bottom line, we are also investing to strengthen the top line. Orders are still the heartbeats of our Company. We earnestly believe that the best interests of the Company and its shareholders will be served by judicious but sufficient spending on such things as new salespeople, new product development, and new marketing campaigns in segments with the highest potential. By building on our strengths, sharpening our competitive edge, upgrading sales capabilities and recalibrating all operations while the economy is slow, Interface will be poised to capitalize fully when the commercial interiors market emerges from its unprecedented downturn.

BALANCING TOP LINE INVESTMENTS WITH BOTTOM LINE RESULTS

We have trimmed total SG&A costs by a remarkable, sometimes painful, \$90 million since their peak in 1998.

SUPPLIER-SIDE ECONOMICS

Supply chain management is a key element in Interface's plan for reducing operating costs, conserving working capital, and improving production efficiency, while enhancing service to customers. Because the supply chain includes everyone from our suppliers' suppliers to our customers' customers, extensive collaboration and coordination are essential.

Interface implemented a Company-wide program to tighten the supply chain early in 2002. By year's end, this program had yielded a \$33.6 million reduction in working capital across all divisions around the world. With results like this hitting the bottom line, the benefits of supply chain management are being realized by each business unit, and a cultural shift is well underway.

Supply chain management activities are focused in three major areas: inventory performance; receivables optimization; and supplier and spend management.

Inventory performance involves close analysis of our end-to-end order fulfillment activities and determining which products the market really wants. By carefully gauging market demand, reviewing what's offered, re-profiling product lines and resetting service levels accordingly, the risks associated with carrying inventory—which is viewed as a liability—are greatly reduced. This approach brings sales and operations people together to collaboratively fine-tune production decisions day by day. Inventories are reduced without cramping sales, and the Company can take full advantage of the greater flexibility that results from the simplification of what's offered to customers. With inventory performance techniques well established within the Company, Interface is now working with both suppliers and customers to further improve end-to-end supply chain performance optimization.

Teams focused on the second area of supply chain management—receivables optimization—are reducing the “days outstanding” gap between when product ships out and when the payment for it comes in. By reducing this float—which is, in effect, a loan to customers—Interface can significantly enhance working capital performance and save a lot of money.

The third area of focus is supplier and spend management. Realizing that purchasing can be handled more effectively by working collectively, the Company now continuously examines all of its spending to leverage Interface's economies of scale. At the divisional and the corporate levels, in individual countries and regions as well as globally, there are many opportunities for savings through better supplier management: yarns, dyes, chemicals, transportation, travel, telecommunications, information technology, real estate, basic production and administrative supplies, and so on. What's more, suppliers work closely with Interface teams to reduce the total cost of ownership associated with a particular process, product, commodity or service, such as providing yarn on metered cones that carry just the right amount of yarn for a production run, providing web-based tools to better manage spending, or working jointly to resolve specific supply chain challenges.

Overall, supply chain management involves a very large number of people across the globe who are focused on reducing costs and driving value on a day-in and day-out basis. Much of it consists of saving pennies at a time, but it quickly adds up to millions.


Synchronicity



A photograph of a locker room. In the background, there are two rows of blue metal lockers. The floor is covered in a blue and grey patterned carpet. On the right side, there is a glass display case filled with various trophies and awards. An orange banner is overlaid on the left side of the image.

COLLECTIVE ACTION YIELDING POWERFUL RESULTS

By year's end, our supply chain management program had yielded a \$33.6 million reduction in working capital.



In 2002, we generated
\$39 million in free cash flow,
and established a flexible
capital structure.

Stability



BUILDING A SOLID FOUNDATION FOR GROWTH AND PROFITABILITY

CAPITAL STRUCTURE

With the cooperation of our lending partners, Interface has been able to navigate through a challenging business environment. Although we're a leveraged company, we have financial flexibility. Reacting early to the economic downturn, we began working towards having the kind of liquidity it takes to run a business in these difficult times. In 2002, we refinanced debt to establish a more flexible capital structure, repurchased \$5 million of our public bonds, and generated \$39 million in free cash flow.

We work diligently to enhance our capital stability so that the Company can withstand an unusually long down cycle. We have \$445 million in public bonds outstanding, with extended maturities, so our first payment of principal is not due until November 2005. We have a \$100 million revolving credit facility in place with our primary bank group, with no borrowing against it at the end of 2002. And we anticipate moving to an asset-based lending facility for even greater flexibility. In short, we currently have the liquidity we need to run the Company effectively.

Unlike many companies these days, we have capital resources that will enable us to adapt to evolving conditions, respond to market opportunities, change gears when appropriate and weather problems when necessary.

With a flexible capital structure and a record of good corporate governance, Interface can focus all its energies on building the business.

SUSTAINABILITY REPORT

Since Ray Anderson put Interface on the path towards sustainability back in 1994, the Company has made great strides in defining and implementing actions that will move us in that direction. Though many companies, including some of our competitors, now talk about sustainability, too much is still mostly just talk. Some seem to think that reclaiming used carpet for recycling is enough. But, as laudable as recycling programs are, they barely scratch the surface.

The breadth of sustainability initiatives at Interface today demonstrates how comprehensive an approach must be if it is to succeed.

We set a goal: to be sustainable by 2020, accounting for *no* net reduction in the earth's resources in the conduct of our business and doing no harm to the biosphere. Pretty remarkable for a company that makes carpet and industrial textiles, and considering the fact that the majority of the material consumed for raw materials and energy in the conventional manufacturing processes is from nonrenewable fossil fuel. In the beginning, there were plenty of doubters, even in the Company. But we embarked on an intense learning process, put key management tools in place, and posted a timetable showing what we would have to do, year by year, to reach our goal in 2020. We're on schedule to meet our sustainability goals. As statistics on our *interfacesustainability.com* website indicate, Interface leads not only our industry, but others as well, in sustainable business practices.

We attribute our rapid progress to the fact that, throughout the Company, people have grasped the concept of sustainability, realizing that it's good business not just good deeds. The success of our newest modular carpet designs and Terratex brand fabric is making this clear to everyone. So does our customers' support.

We didn't start making carpet tiles with the idea of preserving natural resources. But it had inherent installation and maintenance advantages that translated into greater economy, efficiency and waste reduction in comparison with traditional broadloom carpet. So, as we looked for ways to differentiate our modular products, it was natural to seek ways of amplifying those qualities. When designer David Oakey stopped struggling to hide the seams and decided to look at them positively, he broke down a major barrier in modular design and set the stage for an idea that is now propelling modular carpet to new levels of desirability and into vast new markets.

LEARNING FROM NATURE WHILE PROTECTING ITS RESOURCES

Biomimicry

The success of our newest modular carpet designs and Terratex brand fabric is making it clear that sustainability is good business.





The idea behind i2, our newest product concept, is an example of biomimicry. As used by influential science writer Janine M. Benyus, *biomimicry* means observing nature to see the successful results of millions of years of trial and error, learning what works and how, and getting the inspiration to solve the problems we encounter.

Oakey observed that, in nature, “flooring” has random and diverse, yet attractive, patterns. By using this kind of random design, Oakey made it possible for Interface to make modular carpet that can be laid in any direction. The look is clean, contemporary and as changeable as the customer wants it to be. Installation and maintenance are easy and less expensive. Changing layouts can be accommodated cost-effectively. And waste is radically reduced. Interface further enhanced the “green” quality of its modular carpet by reducing fiber content and by using recycled materials for the face cloth and the backing. Our initial product in this line, Entropy, is our fastest growth modular product ever.

In our fabrics business, we have converted a majority of our polyester products to polyester fibers produced from 100% post-consumer plastic soda bottles, avoiding over 39,000 metric tons of greenhouse gas (GHG) emissions. In addition, over 75% of our Guilford of Maine® fabric line is made from renewable or recycled raw materials. These and other achievements have resulted in a total global reduction of absolute GHG emissions by 31% from baseline years.

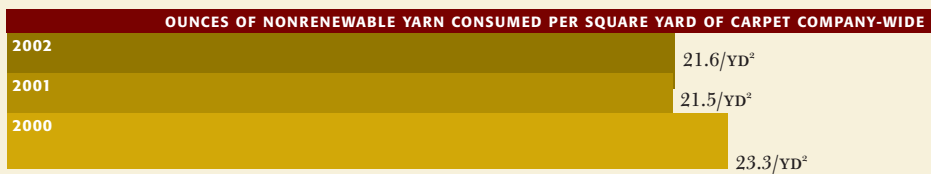
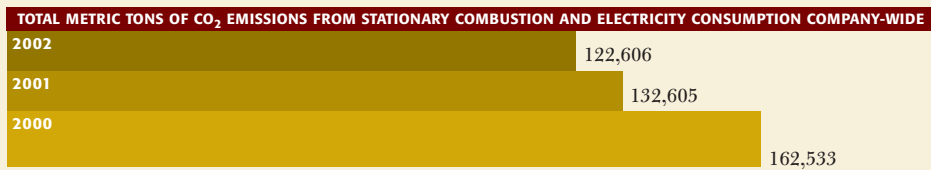
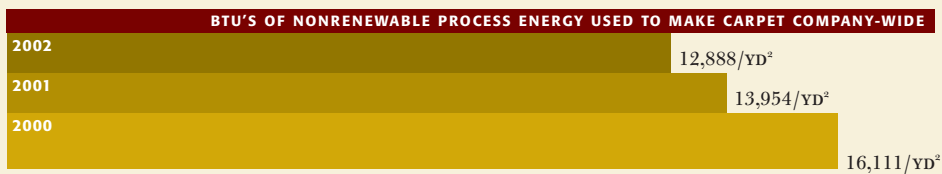
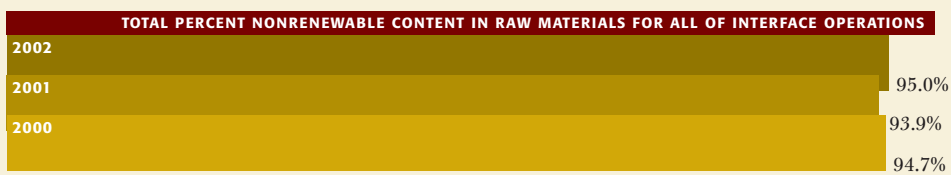
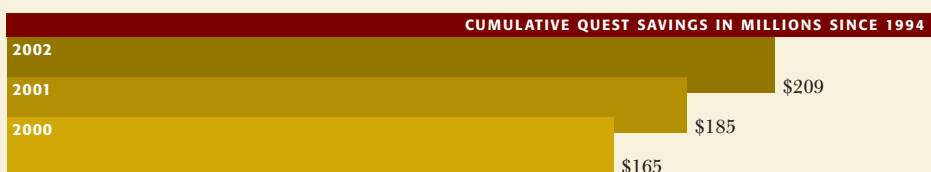
In a simultaneous effort to reduce environmental footprint, both our carpet and fabrics businesses have significantly reduced their consumption of water per unit of production—Interface Fabrics Group by 33% and our carpet plants by 76% compared with a 1996 baseline year.

Achievements like these have made it clear that sustainable behavior can be profitable. Interface employees at all levels are believers, and the race for sustainability is on.

The concept of biomimicry, introduced to our markets so successfully by David Oakey, is now being applied in many aspects of how our Company works: product design, manufacturing, distribution, marketing.

So, while we are proud that we’ve reduced the volume of scrap material going off to landfills from our plants by 79% since 1996, that 10% of the carpet we sell now has post-consumer recycled backing, and that 8% of the energy used to make our products is now from renewable sources, we know that all this is just the beginning.

As the charts indicate, Interface leads our industry in sustainable business practices. As we practice biomimicry and draw more and more inspiration from nature, our leadership will grow stronger every day. We thank our customers for embracing and supporting these initiatives.





BUSINESS SEGMENT OVERVIEW

The year 2002 was marked by a great deal of progress in transforming the Company, but we simply could not outrun the decline of the corporate office market, now down 35% from its peak in year 2000. Rather than waiting for that market to rebound, Interface has been aggressively moving into new areas. But some of the most important activities at Interface have been enterprise-wide. In aspects of our work where there were common challenges and the likelihood of synergistic solutions, Interface employees got together formally and informally to explore the possibilities.

As a result, the Company has now implemented several programs that are enhancing our profitability, increasing our efficiency, strengthening relations with suppliers and customers and moving us closer to sustainability. From the sharing of best practices among facilities, segments and departments, to the cost-saving coordination of global purchases, to the implementation of joint marketing strategies, Interface business segments will continue working together and finding synergies.

MODULAR CARPET

Our modular story will keep getting better and better.

Interface pioneered carpet tile in the U.S. in the 1970's, and we later acquired the company that invented it nearly 50 years ago in Europe. We have led the industry in perfecting the aesthetic and functional

qualities of this highly profitable type of floorcovering ever since. Modular carpet is what Interface is all about and what got us where we are today. We've always believed it is a better floorcovering solution than any other floorcovering and that it could become the standard in the commercial market. And, when we began pursuing sustainability, it was a natural fit with our modular thinking.

Modular carpet significantly reduces waste that occurs during installation. And our innovative Entropy product—inspired by nature and conceived by David Oakey Designs—can be positioned randomly, cutting waste down to less than 1%. Add to this the reductions in labor and down-time and the fact that stains and worn spots can be replaced easily, and it's obvious why so many architects, designers and facilities managers and their clients opt for Interface modular floorcovering. And the recent trend towards interior design flexibility—with corporate customers sometimes looking for products that facilitate change for the sake of change—simply reinforces the appeal of modular.

With a combination of good science, common sense and creativity, Interface's Entropy product fulfilled the true promise of modular carpet and defined a whole new floorcovering category. It is the fastest growing product in the history of our Company. Our random-oriented products accounted for 35% of our

modular sales within just 24 months of introduction; we expect the percentage to reach 50% this year.

The year 2002 also marked the birth of the next generation of modular carpet, recently launched as the i2 line. A broad collection of random modular products including Entropy, i2 delivers on the full promise of modular.

The corporate office interiors market has been stalled for three years now, but as the leading modular provider, with a 35% share and the definitive i2 line, Interface will reap major rewards when this market rebounds.

Interface is now moving quickly beyond the corporate office market with i2, because the very qualities that have made our modular products so strong in that market are attracting other customers as well. We are aggressively pursuing growth in other domestic and international markets, primarily healthcare, hospitality, retail space and education. Our produce-to-demand capabilities make it possible for us to design and produce modular products to meet the express needs of each market. About 50% of the carpet purchased in the U.S. specified office market is modular, but it accounts for less than 20% of the carpet sold in other segments of the U.S. commercial market. We believe they, too, will reach the 50% modular level by 2008, and a commanding share of that modular growth will be won by Interface.



The most enticing new market for modular is the residential/consumer market. The clean, modern look of Interface modular, the options of easy do-it-yourself installation and periodic “design-it-yourself” redecoration of the floor, and the all-around efficiency of modular carpet are converging with consumer preferences and the trend of commercial products—kitchen appliances, for example—crossing over from the commercial to the consumer market. The appeal of Interface modular products is even greater for the growing number of people sensitive to environmental impact and the goal of sustainable industry.

Interface is positioning modular carpet as the smart way to cover floors in home offices, children’s rooms, game rooms, dens, basements and garages. Products are marketed to consumers through retail and direct selling channels. Test roll-outs of our InterfaceFLOR modular carpet are being executed in 2003 through Design Within Reach, new concept stores by Crate & Barrel, and other retailers. We will also be taking orders directly from consumers through our www.interfaceflor.com website.

One great advantage Interface has in marketing modular to consumers is our ability to respond to feedback very quickly. By monitoring web sales patterns and reports from our retailing partners, we can respond effectively to quantitative demands and also adjust our product line on the fly, extending on winning colors and designs, dropping laggards, and introducing new ideas to gauge marketability. We expect to have a thorough understanding of consumer buying behavior and trends and the ability to capitalize on it in real time.

BROADLOOM CARPET

The future of the commercial carpet market may belong to modular, but broadloom will continue to account

for the majority of carpeting sold for years to come, and Interface has what it takes to keep our broadloom business at the forefront. We have the most recognized commercial broadloom brands in the U.S.—Bentley and Prince Street. Designers voted Bentley the top broadloom company in the Best Overall Business Experience category in a 2002 *Floor Focus* magazine survey. And we have implemented a plan to create a highly profitable high end broadloom niche business catering to the commercial, institutional, tenant improvement and residential markets.

The consolidation of broadloom production into one facility and separation of broadloom and modular carpet operations management are now helping Interface recover from the decline of the corporate office market. The Company has significantly reduced the break-even point in broadloom operations, but its primary market remains sluggish. In response, we are aggressively moving into new markets. Rather than merely relying on existing contacts among architects and designers, broadloom sales representatives are pursuing decision makers in government, healthcare, education and hospitality markets. Armed with products designed to meet specific market needs, we made significant inroads with these buyers in 2002. As the economy recovers, broadloom sales across the board should increase significantly. Interface broadloom customers, new and old, will be given white glove service as part of our five star customer care program.

Another growth opportunity for Bentley Prince Street is the residential market. In addition to traditional broadloom rolls, marketed through large chains and high end furniture stores, we have also introduced Prince Street House & Home area rugs beautifully designed in consultation with Suzanne Tick.

FABRICS

For our fabrics business, success in 2003 will come from differentiation and diversification. A restructuring initiative in 2002 has laid the base for enhanced profitability by rationalizing three plants to consolidate their production into two sites and shedding excess footprint. Interface Fabrics Group has also revamped its marketing strategy to include strong value messaging not just to our customers but also to our customers' customers, such as architects and designers and end users who have tremendous influence on fabric choices.

Interface dominates in fabrics for the contract furniture market by providing solutions for customers with products like Terratex. Terratex fabric is made of 100% recycled materials, so it is preferred by the growing number of buyers sensitive to environmental impact—most notably, federal and state governments and customers following the U.S. Green Building Council's LEED certification guidelines. And Interface introduced Terratex upholstery fabric with the distinction of being the first product that is both 100% recycled and designed to be recyclable. Interface Fabrics Group was recently awarded major new adoptions by some of the industry's leading manufacturers.

In the fabrics trade, products are categorized in grades, based on quality and price. The tight economy has pushed most buyers towards the lower priced grades, so Interface has responded by creating a new family of fabrics that use less material but perform like fabrics with more material. This high value option is catching on quickly with customers.

We also add value for furniture manufacturers with a range of integrated products and services called TekSolutions. Most often, this involves just-in-time delivery of fabric pieces that have already been cut to fit based on the customer's specifications. We also offer special product



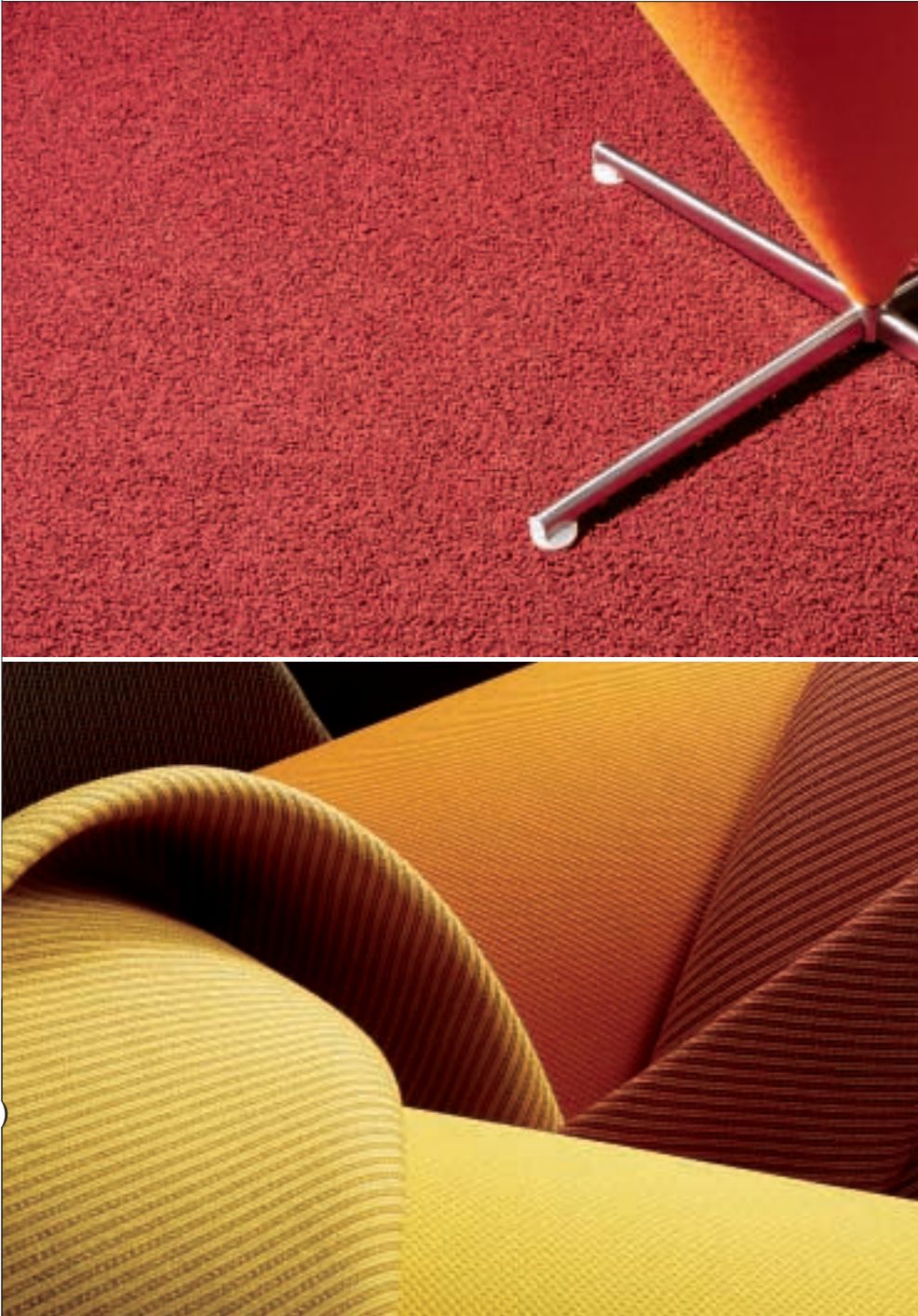
treatment services, such as lamination, cutting and coating.

With workstation panel makers trending back up to the 60" high panel rather than a 48" version; with fabric sales teams cultivating relationships with customers serving the residential, government and hospitality markets; and with new product introductions to customers that produce roman shades and vertical blinds, we expect to hold our own in 2003.

SERVICES

Like the TekSolutions product-and-service strategy in our fabrics business, Re:Source Americas was conceived as a way to capture major accounts by offering turnkey floorcovering service. Re:Source Americas serves as a single source that can meet all the client's floorcovering needs—a wide range of products including both broadloom and modular carpet, hard surface floorcoverings made by other companies, as well as the full gamut of floorcovering related services, including installation and maintenance—a service area we are expanding.

High standards of quality, proactive attention to customer needs, and quick professional response to customer requests build lasting relationships. This makes it easy for customers to get the best the floorcovering industry has to offer. For Interface, these relationships generate a steady flow of service work, position us for future product sales, and give us realistic, real time feedback on what's going on in our markets. We see service as a differentiator for us in our markets, and we also expect it to become a business multiplier as, for example, we build the maintenance side of our service operations. Customers in many markets—education, healthcare, tenant improvement, and especially retail space—look for the single source accountability of a product-and-service provider like Re:Source



Americas. The eventual government insistence that used carpet be recycled rather than thrown in the landfill will further enhance the appeal of our services.

INTERNATIONAL

No other floorcoverings company in the world rivals the global capabilities of Interface. With manufacturing facilities on four continents and marketing operations in about 100 countries, Interface offers global sourcing for multi-national firms as well as strong product and service support for local customers.

The key to Interface's international success lies in our recognition that customers in different countries have different priorities and preferences. So, rather than trying to simply market what works in the U.S., we find out what drives buying decisions in key countries and then create products to meet their specific needs. This line of thinking resulted in a major organizational change in 2002. We decided our business groups in Europe and in Asia-Pacific should no longer be jointly managed but should operate independently. This change enables each region to respond more effectively to local conditions, and positive results were seen almost immediately.

In Asia-Pacific, the Heuga brand of mid-priced products has been introduced to capitalize on exciting new market opportunities in China, Malaysia, South Korea and other countries. In Japan, which is the second largest modular carpet market in the world, sales were up by almost 50% in 2002. With a larger sales team in place, orders up, and customers shifting from a price to a design orientation, Asia-Pacific management is projecting that sales will more than double in five years. Prospects in Australia are good, too, with sales reaching record highs as 2002 ended and business evenly spread across the health-care, education and corporate segments. Sales to the Chinese market are still low, but with a strong local presence now

and the right products in place, Interface business in China represents a significant long term growth opportunity.

In Europe, we see strong potential and only fragmented competition. In the U.K., where Interface holds a 25% share of the modular carpet market, a new key account sales team is developing new contacts in the education and healthcare markets. As the first company in the U.K. to convert all of its electrical energy needs to 100% "green energy" and one that is well known as a sustainability leader, Interface is given access to the highest levels at organizations that share our belief in sustainable practices. In Germany, which is the second largest overall carpet market in the world, a new Interface sales team is concentrating on core business, showing architects and designers and their corporate clients the benefits of converting from other floorcoverings to modular carpet. Modular constitutes only a 5% share of the German market but we believe that can triple in a relatively short time. In other European countries, like France and Spain, Interface's produce-to-demand capability enables us to respond to country-specific tastes and needs, and an expanded European sales force is working to increase share across the continent.

ACCESS FLOORING

Interface Architectural Resources, our raised flooring operations, has a lot of long term potential, but its business has fallen off by 62% from year 2000 levels due to decreased spending in technology and new construction. Its products are excellent and there's no reason it should not return to profitability once the overall corporate market rebounds. However, we are intent on cutting our short term losses. We are planning a strategic solution, such as a joint venture, strategic alliance or divestiture. Until a plan is finalized, we will continue to aggressively operate this business as usual.



BOARD OF DIRECTORS



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Chairman of the Board
◆ ▲



Dianne Dillon-Ridgley
*U.N. Representative
World YWCA
(Geneva, Switzerland)*
▲



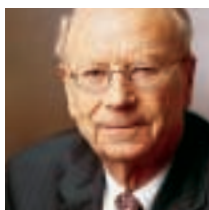
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Interface, Inc.*

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- Compensation Committee Member
- ▲ Nominating Committee Member

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Operations

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Senior Vice President
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(Continental Europe)

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Robin Hales
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Marketing and Product
Development

Michael See
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Operations (Asia)

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Finance and Administration

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(President—Chatham & Intek)

Paul Paydos
Vice President
Technical Services

J. Derrill Rice
Vice President
New Businesses

SHAREHOLDER INFORMATION

FORM 10-K

A copy of the Company's Annual Report on Form 10-K, filed each year with the Securities and Exchange Commission, may be obtained by shareholders without charge by writing to:
Mr. Patrick C. Lynch
Chief Financial Officer
Interface, Inc.
2859 Paces Ferry Road
Suite 2000
Atlanta, Georgia 30339

ANNUAL MEETING

The annual meeting of shareholders will be at 3:00 p.m. on May 20, 2003 at:
Interface, Inc.
2859 Paces Ferry Road
Atlanta, Georgia 30339

TRANSFER AGENT AND DIVIDEND DISBURSING AGENT

EquiServe Trust Company, N.A.
P.O. Box 43012
Providence, Rhode Island 02940-3010

NUMBER OF SHAREHOLDERS OF RECORD AT MARCH 17, 2003

Class A—974
Class B—52

CHANGE OF ADDRESS

Please direct all changes of address or inquiries as to how your account is listed to:
Registrar
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Providence, Rhode Island 02940-3010

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TICKER SYMBOL

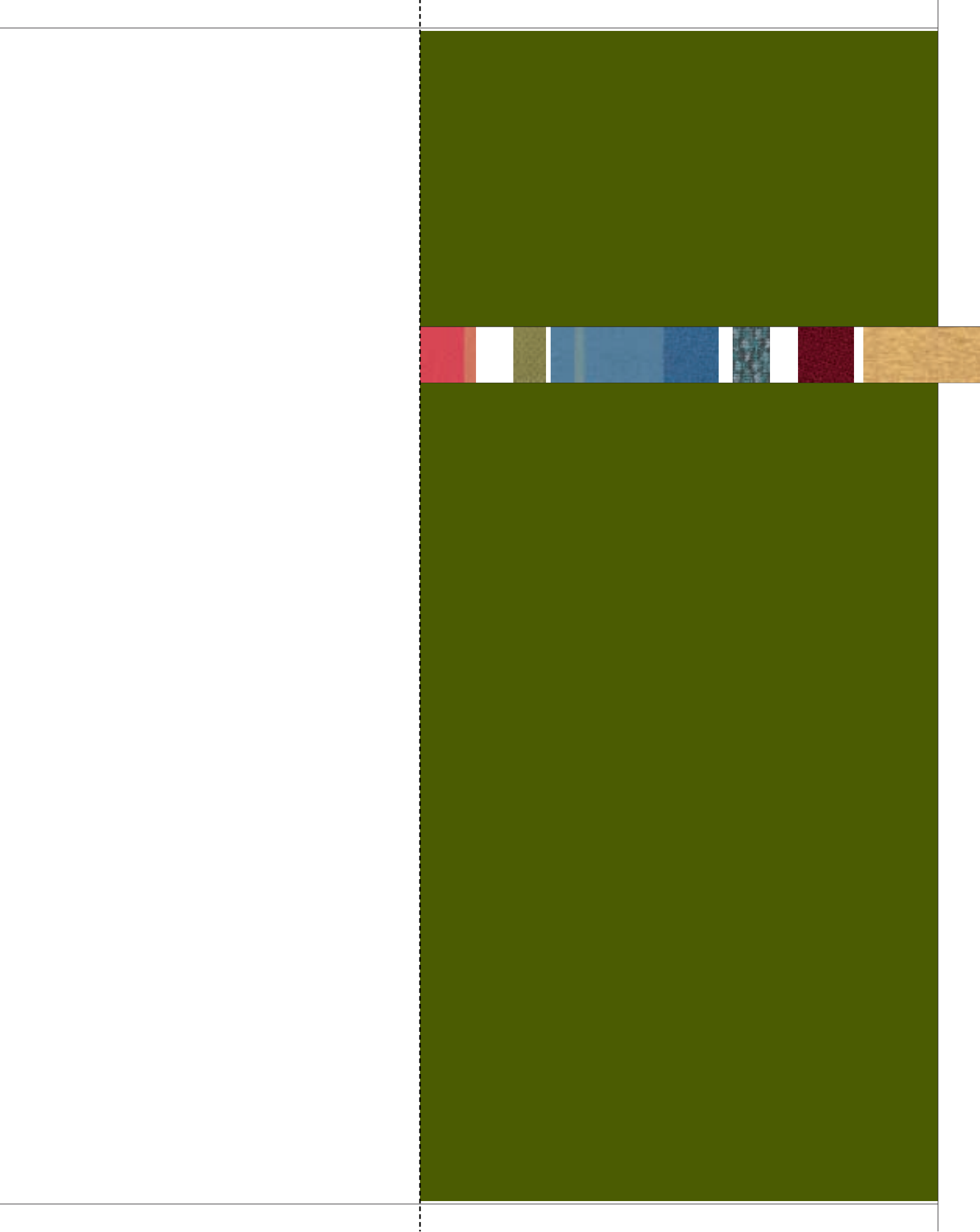
IFSIA (Nasdaq)

FORWARD-LOOKING STATEMENTS

This report contains statements which may constitute "forward-looking statements" under applicable securities laws, including statements regarding the intent, belief, or current expectations of Interface, Inc. (the "Company") and members of its management team, as well as the assumptions on which such statements are based. Any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those contemplated by such forward-looking statements. Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements are set forth under the heading "Safe Harbor Compliance Statement for Forward-Looking Statements" in Item 1 of the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2002, and are hereby incorporated by reference. The Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

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