

NATUZZI S P A  
Form 20-F  
June 30, 2011

**Table of Contents**

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

**FORM 20-F  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the Fiscal Year Ended: December 31, 2010**

**Commission file number: 001-11854**

**NATUZZI S.p.A.**

(Exact name of Registrant as specified in its charter)

**Republic of Italy**

(Jurisdiction of incorporation or organization)

**Via Iazzitiello 47, 70029 Santeramo in Colle Bari, Italy**

(Address of principal executive offices)

**Mrs. Silvia Di Rosa**

**Tel. +39 335 78 64 209**

**sdirosa@natuzzi.com**

**Via Iazzitiello 47, 70029 Santeramo in Colle, Bari, Italy**

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of each class                                                     | Name of each exchange on which registered |
|-------------------------------------------------------------------------|-------------------------------------------|
| <b>American Depositary Shares, each representing one Ordinary Share</b> | <b>New York Stock Exchange</b>            |

|                                                       |                                                               |
|-------------------------------------------------------|---------------------------------------------------------------|
| <b>Ordinary Shares, with a par value of 1.00 each</b> | <b>New York Stock Exchange</b><br>(for listing purposes only) |
|-------------------------------------------------------|---------------------------------------------------------------|

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

As of December 31, 2010 **54,853,045 Ordinary Shares**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files).

Yes  No  Not Applicable

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

IFRS

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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**Table of Contents**

**TABLE OF CONTENTS**

|                                                                      | Page     |
|----------------------------------------------------------------------|----------|
| <b><u>PART I</u></b>                                                 | <b>2</b> |
| <u>Item 1. Identity of Directors, Senior Management and Advisers</u> | 2        |
| <u>Item 2. Offer Statistics and Expected Timetable</u>               | 2        |
| <u>Item 3. Key Information</u>                                       | 2        |
| <u>Selected Financial Data</u>                                       | 2        |
| <u>Exchange Rates</u>                                                | 4        |
| <u>Risk Factors</u>                                                  | 4        |
| <u>Forward Looking Information</u>                                   | 10       |
| <u>Item 4. Information on the Company</u>                            | 10       |
| <u>Introduction</u>                                                  | 10       |
| <u>Organizational Structure</u>                                      | 12       |
| <u>Strategy</u>                                                      | 13       |
| <u>Manufacturing</u>                                                 | 16       |
| <u>Supply-Chain Management</u>                                       | 20       |
| <u>Products</u>                                                      | 22       |
| <u>Advertising</u>                                                   | 23       |
| <u>Retail Development</u>                                            | 24       |
| <u>Markets</u>                                                       | 24       |
| <u>Incentive Programs and Tax Benefits</u>                           | 28       |
| <u>Management of Exchange Rate Risk</u>                              | 31       |
| <u>Trademarks and Patents</u>                                        | 31       |
| <u>Regulation</u>                                                    | 32       |
| <u>Environmental Regulatory Compliance</u>                           | 32       |
| Table of Contents                                                    | 4        |

|                                                             |    |
|-------------------------------------------------------------|----|
| <u>Insurance</u>                                            | 32 |
| <u>Description of Properties</u>                            | 33 |
| <u>Capital Expenditures</u>                                 | 34 |
| <u>Item 4A. Unresolved Staff Comments</u>                   | 34 |
| <u>Item 5. Operating and Financial Review and Prospects</u> | 34 |
| <u>Critical Accounting Policies</u>                         | 34 |
| <u>Results of Operations</u>                                | 37 |
| <u>2010 Compared to 2009</u>                                | 38 |
| <u>2009 Compared to 2008</u>                                | 41 |
| <u>Liquidity and Capital Resources</u>                      | 45 |
| <u>Contractual Obligations and Commitments</u>              | 46 |

**Table of Contents**

**TABLE OF CONTENTS**

|                                                                  | Page |
|------------------------------------------------------------------|------|
| <u>Trend information</u>                                         | 47   |
| <u>Related Party Transactions</u>                                | 47   |
| <u>New Accounting Standards under Italian and U.S. GAAP</u>      | 48   |
| <u>Item 6. Directors, Senior Management and Employees</u>        | 50   |
| <u>Compensation of Directors and Officers</u>                    | 53   |
| <u>Share Ownership</u>                                           | 54   |
| <u>Statutory Auditors</u>                                        | 54   |
| <u>External Auditors</u>                                         | 55   |
| <u>Employees</u>                                                 | 55   |
| <u>Item 7. Major Shareholders and Related Party Transactions</u> | 57   |
| <u>Major Shareholders</u>                                        | 57   |
| <u>Related Party Transactions</u>                                | 57   |
| <u>Item 8. Financial Information</u>                             | 58   |
| <u>Consolidated Financial Statements</u>                         | 58   |
| <u>Export Sales</u>                                              | 58   |
| <u>Legal and Governmental Proceedings</u>                        | 58   |
| <u>Dividends</u>                                                 | 59   |
| <u>Significant Changes</u>                                       | 60   |
| <u>Item 9. The Offer and Listing</u>                             | 60   |
| <u>Trading Markets and Share Prices</u>                          | 60   |
| <u>Item 10. Additional Information</u>                           | 61   |
| <u>By-laws</u>                                                   | 61   |
| <u>Certain Contracts</u>                                         | 70   |
| Table of Contents                                                | 6    |

|                                                                                              |           |
|----------------------------------------------------------------------------------------------|-----------|
| <u>Exchange Controls</u>                                                                     | 70        |
| <u>Taxation</u>                                                                              | 71        |
| <u>Documents on Display</u>                                                                  | 76        |
| <u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>                   | 76        |
| <u>Item 12. Description of Securities Other than Equity Securities</u>                       | 78        |
| <b><u>PART II</u></b>                                                                        | <b>79</b> |
| <u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>                              | 79        |
| <u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u> | 79        |
| <u>Item 15. Controls and Procedures</u>                                                      | 79        |
| <u>Item 16. [Reserved]</u>                                                                   | 82        |
| <u>Item 16A. Audit Committee Financial Expert</u>                                            | 82        |

**Table of Contents**

**TABLE OF CONTENTS**

|                                                                                         | Page      |
|-----------------------------------------------------------------------------------------|-----------|
| <u>Item 16B. Code of Ethics</u>                                                         | 82        |
| <u>Item 16C. Principal Accountant Fees and Services</u>                                 | 82        |
| <u>Item 16D. Exemptions from the Listing Standards for Audit Committees</u>             | 83        |
| <u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u> | 83        |
| <u>Item 16F. Change in Registrant's Certifying Accountant</u>                           | 83        |
| <u>Item 16G. Corporate Governance</u>                                                   | 84        |
| <b><u>PART III</u></b>                                                                  | <b>88</b> |
| <u>Item 17. Financial Statements</u>                                                    | 88        |
| <u>Item 18. Financial Statements</u>                                                    | 88        |
| <u>Item 19. Exhibits</u>                                                                | 88        |
| <u>Exhibit 8.1</u>                                                                      |           |
| <u>Exhibit 12.1</u>                                                                     |           |
| <u>Exhibit 12.2</u>                                                                     |           |
| <u>Exhibit 13.1</u>                                                                     |           |



**Table of Contents**

**Presentation Of Financial Information**

In this annual report, references to        or euro are to the euro and references to U.S. dollars, dollars, U.S.\$ or United States dollars.

Amounts stated in U.S. dollars, unless otherwise indicated, have been translated from the euro amount by converting the euro amounts into U.S. dollars at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate ) for euros on June 24, 2011 of U.S. \$1.4189. The foreign currency conversions in this annual report should not be taken as representations that the foreign currency amounts actually represent the equivalent U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated.

The Consolidated Financial Statements included in Item 18 of this annual report are prepared in conformity with accounting principles established by the Italian Accounting Profession ( Italian GAAP ). These principles vary in certain significant respects from generally accepted accounting principles in the United States ( U.S. GAAP ). See Note 26 to the Consolidated Financial Statements included in Item 18 of this annual report. All discussions in this annual report are in relation to Italian GAAP, unless otherwise indicated.

In this annual report, the term seat is used as a unit of measurement. A sofa consists of three seats; an armchair consists of one seat.

The terms Natuzzi, Company, Group, we, us, and our, unless otherwise indicated or as the context may require, mean Natuzzi S.p.A. and its consolidated subsidiaries.

**Table of Contents**

**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 information presented under Operating and Financial Review and Prospects included in Item 5 of this annual report. The statement of operations 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 loss and shareholders' equity, see Note 26 to the Consolidated Financial Statements included in Item 18 of this annual report.

**Table of Contents**

|                                                                          | <b>Year Ended At December 31,</b>                                           |               |                                                  |               |               |             |  |
|--------------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------|--------------------------------------------------|---------------|---------------|-------------|--|
|                                                                          | <b>2010</b>                                                                 | <b>2010</b>   | <b>2009</b>                                      | <b>2008</b>   | <b>2007</b>   | <b>2006</b> |  |
|                                                                          | (millions of<br>dollars,<br>except<br>per Ordinary<br>Share) <sup>(1)</sup> |               |                                                  |               |               |             |  |
|                                                                          |                                                                             |               | (millions of euro, except per Ordinary<br>Share) |               |               |             |  |
| <b>Statement of Operations Data:</b>                                     |                                                                             |               |                                                  |               |               |             |  |
| <i>Amounts in accordance with Italian GAAP:</i>                          |                                                                             |               |                                                  |               |               |             |  |
| Net sales:                                                               |                                                                             |               |                                                  |               |               |             |  |
| Leather- and fabric-upholstered furniture                                | \$ 608.6                                                                    | 460.5         | 450.6                                            | 587.8         | 563.5         | 660.2       |  |
| Other <sup>(2)</sup>                                                     | 76.8                                                                        | 58.1          | 64.8                                             | 78.2          | 70.9          | 75.2        |  |
| Total net sales                                                          | 685.4                                                                       | 518.6         | 515.4                                            | 666.0         | 634.4         | 735.4       |  |
| Cost of sales                                                            | (424.9)                                                                     | (321.5)       | (329.8)                                          | (478.8)       | (460.6)       | (490.5)     |  |
| Gross profit                                                             | 260.5                                                                       | 197.1         | 185.6                                            | 187.2         | 173.8         | 244.9       |  |
| Selling expenses                                                         | (203.9)                                                                     | (154.3)       | (149.6)                                          | (172.3)       | (173.9)       | (186.2)     |  |
| General and administrative expenses                                      | (56.0)                                                                      | (42.4)        | (46.6)                                           | (49.9)        | (49.0)        | (42.2)      |  |
| Operating income (loss)                                                  | 0.6                                                                         | 0.4           | (10.6)                                           | (35.0)        | (49.1)        | 16.5        |  |
| <i>Operating income (loss) per Ordinary Share</i>                        | <i>0.01</i>                                                                 | <i>0.01</i>   | <i>(0.02)</i>                                    | <i>(0.64)</i> | <i>(0.90)</i> | <i>0.30</i> |  |
| Other income (expense), Net <sup>(3)</sup> <sup>(4)</sup> <sup>(5)</sup> | (5.8)                                                                       | (4.4)         | 3.1                                              | (25.8)        | (2.6)         | 2.8         |  |
| Income (loss) before taxes and minority interests                        | (5.2)                                                                       | (4.0)         | (7.5)                                            | (60.8)        | (51.7)        | 19.3        |  |
| Income taxes                                                             | (9.3)                                                                       | (7.0)         | (9.8)                                            | (1.5)         | (11.4)        | (7.1)       |  |
| Income (loss) before non-controlling interests                           | (14.5)                                                                      | (11.0)        | (17.3)                                           | (62.3)        | (63.1)        | 12.2        |  |
| Non-controlling interest                                                 | 0.1                                                                         | 0.1           | 0.4                                              | (0.4)         | (0.5)         | (0.1)       |  |
| Net income (loss)                                                        | (14.6)                                                                      | (11.1)        | (17.7)                                           | (61.9)        | (62.6)        | 12.3        |  |
| <i>Net income (loss) per Ordinary Share</i>                              | <i>\$ (0.27)</i>                                                            | <i>(0.20)</i> | <i>(0.32)</i>                                    | <i>(1.13)</i> | <i>(1.14)</i> | <i>0.23</i> |  |
| <i>Dividends declared per share</i>                                      |                                                                             |               |                                                  |               |               |             |  |

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*Amounts in  
accordance with U.S.  
GAAP:*

|                                                                         |                   |                   |                   |                   |                   |                   |
|-------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Net sales                                                               | 675.1             | 510.8             | 506.0             | 670.1             | 635.9             | 736.8             |
| Operating income<br>(loss)                                              | 0.6               | 0.4               | (14.2)            | (40.0)            | (46.4)            | 22.7              |
| <i>Operating income<br/>(loss) per Ordinary<br/>Share</i>               | <i>0.01</i>       | <i>0.01</i>       | <i>(0.26)</i>     | <i>(0.73)</i>     | <i>(0.85)</i>     | <i>0.41</i>       |
| Net income (loss)                                                       | (12.3)            | (9.3)             | (25.7)            | (55.7)            | (60.0)            | 14.5              |
| <i>Net income (loss) per<br/>Ordinary Share (basic<br/>and diluted)</i> | <i>\$ (0.22)</i>  | <i>(0.17)</i>     | <i>(0.47)</i>     | <i>(1.02)</i>     | <i>(1.09)</i>     | <i>0.26</i>       |
| <i>Weighted average<br/>number of Ordinary<br/>Shares Outstanding</i>   | <i>54,853,045</i> | <i>54,853,045</i> | <i>54,853,045</i> | <i>54,850,643</i> | <i>54,817,086</i> | <i>54,733,796</i> |

**Balance Sheet Data:**

*Amounts in  
accordance with  
Italian GAAP:*

|                                                                                  |          |       |       |       |       |       |
|----------------------------------------------------------------------------------|----------|-------|-------|-------|-------|-------|
| Current assets                                                                   | \$ 396.2 | 298.6 | 301.9 | 318.5 | 364.1 | 407.3 |
| Total assets                                                                     | 668.6    | 503.9 | 508.6 | 543.8 | 617.5 | 674.7 |
| Current liabilities                                                              | 143.0    | 107.8 | 116.8 | 136.3 | 146.0 | 133.0 |
| Long-term debt                                                                   | 18.0     | 13.6  | 5.9   | 3.3   | 2.1   | 2.4   |
| Non-controlling<br>interest                                                      | 2.8      | 2.1   | 1.9   | 0.8   | 0.1   | 0.6   |
| Shareholders' equity<br>attributable to Natuzzi<br>S.p.A. and<br>Subsidiaries(6) | 428.7    | 323.1 | 325.0 | 345.2 | 411.6 | 478.9 |
| Net Asset                                                                        | 431.5    | 325.2 | 326.9 | 346.0 | 411.7 | 479.5 |

*Amounts in  
accordance with U.S.  
GAAP:*

|                                                                               |          |       |       |       |       |       |
|-------------------------------------------------------------------------------|----------|-------|-------|-------|-------|-------|
| Total assets                                                                  | \$ 674.7 | 508.5 | 521.1 | 560.5 | 627.5 | 674.9 |
| Shareholders' equity<br>attributable to Natuzzi<br>S.p.A. and<br>Subsidiaries | \$ 422.3 | 318.3 | 327.6 | 353.3 | 408.5 | 468.4 |
| Net Asset                                                                     | \$ 425.1 | 320.4 | 329.5 | 354.1 | 408.6 | 469.0 |

- 1) Income Statement amounts are converted from euros into U.S. dollars by using the average Federal Reserve Bank of New York euro exchange rate for 2010 of U.S. \$1.3216 per 1 euro. Balance Sheet amounts are converted from euros into U.S. dollars using the Federal Reserve Bank of New York Noon Buying Rate of U.S. \$1.3269 per 1 euro as of December 31, 2010. Source: Bloomberg (USCFEURO Index).
- 2) Sales included under "Other" principally consist of sales of polyurethane foam and leather to third parties and sales of living room accessories.
- 3)

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 2010 Compared to 2009, Item 11. Quantitative and Qualitative Disclosures about Market Risk and Notes 3, 23 and 24 to the Consolidated Financial Statements included in Item 18 of this annual report.

**Table of Contents**

- 4) Other income (expense), net, in 2006 was negatively affected by the provisions for contingent liabilities.
- 5) Other income (expense), net in 2008 was negatively affected by the impairment losses of long-lived assets, a one-time employee termination benefit and the provision for contingent liabilities. See Note 23 to the Consolidated Financial Statements included in Item 18 of this annual report.
- 6) Share capital as of December 31, 2010, 2009, 2008, 2007 and 2006 amounted to 54.9 million, 54.9 million, 54.9 million, 54.8 million and 54.7 million, respectively. Shareholder's Equity represents the Total Equity attributable to Natuzzi S.p.A and its subsidiaries.

**Exchange Rates**

The following table sets forth, for each of the periods indicated, the Federal Reserve Bank of New York Noon Buying Rate for the euro expressed in U.S. dollars per euro.

| <b>Year:</b> | <b>Average<sup>(1)</sup></b> | <b>At Period End</b> |
|--------------|------------------------------|----------------------|
| 2006         | 1.2661                       | 1.3197               |
| 2007         | 1.3797                       | 1.4603               |
| 2008         | 1.4695                       | 1.3919               |
| 2009         | 1.3955                       | 1.4332               |
| 2010         | 1.3216                       | 1.3269               |

  

| <b>Month ending:</b> | <b>High</b> | <b>Low</b> |
|----------------------|-------------|------------|
| 31-Dec-10            | 1.3395      | 1.3089     |
| 31-Jan-11            | 1.3715      | 1.2944     |
| 28-Feb-11            | 1.3794      | 1.3474     |
| 31-Mar-11            | 1.4212      | 1.3813     |
| 30-Apr-11            | 1.4821      | 1.4211     |
| 31-May-11            | 1.4875      | 1.4015     |

- (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. Source: Federal Reserve Statistical Release on Foreign Exchange Rates Historical Rates for Euro Area; Bloomberg (USCFEURO Index)

The effective Noon Buying Rate on June 24, 2011 was U.S. \$1.4189 to 1 euro.

**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.

**The Group has a recent history of losses; the Group's future profitability and financial condition depend on its ability to continue to successfully restructure its operations** The Group reported net losses in 2010 ( 11.1 million), 2009 ( 17.7 million), 2008 ( 61.9 million) and 2007 ( 62.6 million), and an operating income of 0.4 million in 2010 after three years of operating losses ( 10.6 million in 2009, 35.0 million in 2008 and 49.1 million in 2007). In addition, the Group's net sales have declined from 735.4 million in 2006 to 518.6 million in 2010.

**Table of Contents**

The Group attributes these negative results to a difficult macroeconomic environment affecting the furniture industry as a whole, and in particular the Group was faced with the following factors in 2010:

price competition from low-cost manufacturers;

continuing sluggishness of major economies, with particular reference to those in Europe;

a sharp increase in shipping costs and raw material; and

continuing unfavorable currency conditions.

The Company is currently working on a long-term business plan ( the L-T Plan ) whose main goal is to set forth the operational and financial guidelines for the next few years, along with the corresponding actions to be taken in order to recover market share and profitability at the Group level.

The Group s future operating and financial performance and business prospects will depend in large part on the successful implementation of the L-T Plan, which will address the financial and economic uncertainties facing the Group as well as the savings and efficiencies to be realized based on the restructuring of the Group s operations.

If the L-T Plan is not successfully implemented, there could be a material adverse effect on the Group s financial condition, results of operations and business prospects.

**The recent worldwide economic downturn over the past few years has impacted the Group s business and could continue to significantly impact our operations, sales, earnings and liquidity in the foreseeable future**

Economic conditions deteriorated significantly in the United States and worldwide in late 2008 and general economic conditions did not fully recover in 2009. During 2010, the global economy started to show, on the whole, small signs of recovery, although the pace of recovery waned in the last months of 2010, and there were considerable differences in the rate of economic recovery (if any) among regions. In fact, growth in 2010 turned out to be robust in major emerging markets, such as China and India, whereas economic conditions remained sluggish in mature markets, in particular such as those in Europe, which continued to be affected by the sovereign debt crisis of some Eurozone countries, primarily Greece, but also involving Portugal, Ireland and Spain. Prospects for full economic recovery still remain uncertain, especially in the so-called western economies, where private consumption is negatively impacted by a general weakness in the job market, continuing vulnerability in the real-estate sector, high levels of public indebtedness in most developed countries, and a decreasing level of savings among families. Lastly, the recent social and political tensions in the Middle East and Northern Africa have added a further level of uncertainty on the supply-side, and, consequently, on the purchasing power of private consumers.

These persistently negative conditions have resulted in a decline in our sales and earnings over the past few years and could continue to impact our sales and earnings in the future. Sales of residential furniture are impacted by downturns in the general economy primarily due to decreased discretionary spending by consumers. The general level of consumer spending is affected by a number of factors, including, among others, general economic conditions, inflation, and consumer confidence, all of which are generally beyond our control. Consumer purchases of residential furniture decline during periods of economic downturn, when disposable income is lower. The economic downturn also impacts retailers, our primary customers, and may result in the inability of our customers to pay the amounts owed to us. In addition, if our retail customers are unable to sell our products or are unable to access credit, they may experience financial difficulties leading to bankruptcies, liquidations, and other unfavorable events. If any of these events occur, or if unfavorable economic conditions continue to challenge the consumer environment, our future sales, earnings, and liquidity would likely be adversely impacted.

**Table of Contents**

**The Group's operations have benefited in 2010 and in previous years from a temporary work force reduction program that, if not continued, may have an impact on the Group's future performance** Due to the persistently difficult business environment that has negatively affected the Group's order flow over the past few years, in October 2010 the Company renewed the agreement with the Italian trade unions pursuant to which it was entitled to benefit from the *Cassa Integrazione Guadagni Straordinaria* (or CIGS), an Italian temporary lay-off program, for a one-year period that will expire in October 2011. There is no guarantee that the Group will be able to renew this lay-off program upon the expiration of its one year term and, if such lay-off program is not renewed, the future performance of the Group may be impacted. For more information see Item 6. Directors, Senior Management and Employees.

**A failure to offer a wide range of products at different price-points could result in a decrease in our future earnings** The Group has been trying for the past few years to widen its price-point offerings in order to attract a wider base of consumers. The potential inability of the Group in achieving this goal may negatively affect the Group's ability to generate future earnings.

**Our growth strategy includes, in part, the development of new stores each year. If we and our dealers are not able to open new stores or effectively manage the growth of these stores, our ability to grow and our profitability could be adversely affected** Our ability and the ability of our dealers to identify and open new stores in desirable locations and operate such stores profitably is an important factor in our ability to grow successfully. We have in the past and will likely continue to purchase or otherwise assume operation of company-brand stores from independent dealers to the extent that such stores are considered strategic for the promotion of the Natuzzi Brand. Increased demands on our operational, managerial, and administrative resources could cause us to operate our business, including our existing and new stores, less effectively, which in turn could cause deterioration in our profitability.

**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 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 such as those being experienced in some of our markets, such as the United States and, particularly, Europe.

In 2010, the Group derived 35.7% of its leather and fabric-upholstered furniture net sales from the Americas, 51.7% from Europe and 12.6% from the rest of the world. A prolonged economic slowdown in the United States and Europe may have a material adverse effect on the Group's results of operations.



**Table of Contents**

**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 93.6% of net sales of upholstered furniture in 2010 derived from the sale of leather-upholstered furniture. Consumers have the choice of purchasing upholstered furniture in a wide variety of styles and materials, and consumer preferences 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 Group operates in a highly competitive industry that includes a large number of manufacturers. 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 principally competes in the upholstered furniture sub-segment of the furniture market. In Europe, the upholstered furniture market is highly fragmented. In the United States, the upholstered furniture market includes a number of relatively large companies, some of which are larger and have greater financial resources than the Group. Some of the Group's competitors offer extensively advertised, well-recognized branded products.

Competition has increased significantly in recent years as foreign producers from countries with lower manufacturing costs have begun to play an important role in the upholstered furniture market. Such manufacturers are often able to offer their products at lower prices, which increases price competition in the industry. In particular, manufacturers in China, Eastern Europe and South America have increased competition in the lower-priced segment of the market. As a result of the actions and strength of the Group's competitors and the inherent fragmentation in some markets in which it competes, the Group is continually subject to the risk of losing market share, which may lower its sales and profits.

Market competition may also force the Group to reduce prices and margins, thereby reducing its cash flows.

The highly competitive nature of the industry means that we are constantly at risk of losing market share, which would likely result in a loss of future sales and earnings. In addition, due to high levels of competition, it may not be possible for us to raise the prices of our products in response to inflationary pressures or increasing costs, which could result in a decrease in our profit margins.

**Fluctuations in currency exchange rates have adversely affected and may adversely affect the Group's results**

The Group conducts a substantial part of its business outside of the euro zone. An increase in the value of the euro relative to other currencies used in the countries in which the Group operates will reduce the relative value of the revenues from its operations in those countries, and therefore may adversely affect its operating results or financial position, which are reported in euro. In addition to this risk, the Group is subject to currency exchange rate risk to the extent that its costs are denominated in currencies other than those in which it earns revenues. In 2010, a significant portion of the Group's net sales, but only approximately 40% of its costs, were denominated in currencies other than the euro. The Group is therefore exposed to the risk that fluctuations in currency exchange rates may adversely affect its results, as has been the case in recent years. For more information, see Item 11, Quantitative and Qualitative Disclosures about Market Risk.

**The Group faces risks associated with its international operations** The Group is exposed to risks that arise from its international operations, including changes in governmental regulations, tariffs or taxes and other trade barriers, price, wage and exchange controls, political, social, and economic instability in the countries where the Group operates, inflation and interest rate fluctuations. Any of these factors could have a material adverse effect on the Group's results.

**Table of Contents**

**The price of the Group's principal raw material is difficult to predict** Leather is used in approximately 87.4% of the Group's upholstered furniture production, and the acquisition of cattle hides represents approximately 20.0% of total cost of goods sold. The dynamics of the raw hides market are dependent on the consumption of beef, the levels of worldwide slaughtering, worldwide weather conditions and the level of demand in a number of different sectors, including footwear, automotive, furniture and clothing.

**Introduction of a new integrated management system** At the end of 2008, the Group adopted a new Enterprise Resource Planning system entitled SAP for its operations worldwide with the aim of enabling Management to achieve better control over the Company through:

- improved quality, reliability and timeliness of information;
- improved integration and visibility of information stemming from different management functions and countries; and
- optimization and global management of corporate processes.

The overall estimated investment for the project is about 10.6 million. The adoption of the new SAP system, which will replace the existing accounting and management systems, poses several challenges relating to, among other things, training of personnel, communication of new rules and procedures, changes in corporate culture, migration of data, and the potential instability of the new system. In order to mitigate the impact of such critical issues, the Company decided to implement the new SAP system on a step-by-step basis, both geographically and in terms of processes. In relation to each step of the project, the Company has set up a contingency plan in order to ensure business continuity. However, there can be no assurance that the new SAP system will be successfully implemented and failure to do so could have a material adverse effect on the Group's operations.

In 2010, the implementation of the project proceeded according to the original plan. The implementation for production materials purchases and warehouse management took place in Romania and China which are the first countries that have been fully integrated with the new system. Additionally, the implementation of the SAP system in 2010 has involved our Demand Planning process as well. The implementation of the SAP system has involved a change in the management culture of the Company. This new culture is being implemented to create a more productive working environment and to better prepare for the transition to the new technological platform. We continue to proceed with the rollout of the SAP system with the appropriate contingency plans in place in order to avoid future problems.

**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 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. In recent years, the Italian Parliament replaced these incentive programs with an investment incentive program for all under-industrialized regions in Italy, which is currently being implemented by the Group through grants, research and development benefits. There are no indications at this time that the Italian Government will implement new initiatives to support companies located in under-industrialized regions in Italy. Therefore, 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.

**Table of Contents**

In recent years, the Group has opened manufacturing operations in China, Brazil and Romania and has been granted tax benefits and export incentives by the relevant governmental authorities in those countries. During the course of 2010, part of these tax benefits and export incentives were reduced or expired. There can be no assurance that the Group will continue to be eligible for such tax benefits or export incentives for its current or future investments.

**The Group is dependent on qualified personnel** The Group's ability to maintain its competitive position will depend to some considerable degree upon the personal commitment of its founder, chairman and CEO, Mr. Pasquale Natuzzi, as well as its ability to continue to attract and maintain highly qualified managerial, manufacturing and sales and marketing personnel. 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.

**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 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; however, pursuant to the Deposit Agreement, ADS holders do have the right to give instructions to The Bank of New York Mellon, the ADS depository, 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 if they were shareholders of a company incorporated in the United States.

**One shareholder has a controlling stake of the company** Mr. Pasquale Natuzzi, who founded the Company and is currently Chief Executive Officer and Chairman of the Board of Directors, beneficially owns 29,358,089 Ordinary Shares, representing 53.5% of the Ordinary Shares outstanding (58.7% of the Ordinary Shares outstanding if the Ordinary Shares owned by members of Mr. Natuzzi's immediate family (the Natuzzi Family) are aggregated). As a result, Mr. Natuzzi has the ability to exert significant influence over our corporate affairs and to control 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 wholly-owned by Mr. Natuzzi and with its registered office located at Via Gobetti 8, Taranto, Italy. In addition, under the Deposit Agreement dated as of May 15, 1993, as amended and restated as of December 23, 1996 and as of December 31, 2001 (the Deposit Agreement), among the Company, The Bank of New York Mellon, as Depository (the Depository), and owners and beneficial owners of American Depositary Receipts (ADRs), the Natuzzi Family has a right of first refusal to purchase all the rights, warrants or other instruments which The Bank of New York Mellon, as Depository under the Deposit Agreement, 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. Because a change of control of the Company would be difficult to achieve without the cooperation of Mr. Natuzzi and the Natuzzi Family, the holders of the Ordinary Shares and the ADSs may be less likely to receive a premium for their shares upon a change of control of the Company.

**Table of Contents**

**Forward Looking Information**

The Company 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 management's current plans, estimates and projections (including, but not limited to, plans, estimates and projections associated with our 2010 Budget), 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.

Projections and targets included in this annual report are intended to describe our current targets and goals, and not as a prediction of future performance or results. The attainment of such projections and targets is subject to a number of risks and uncertainties described in the paragraph below and elsewhere in this annual report. See Item 3. Key Information Risk Factors.

Forward-looking statements involve inherent risks and uncertainties, as well as other factors that may be beyond our control. 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. The Company cautions readers that the foregoing list of important factors is 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, living room furnishings and accessories.

The Group is one of the world's leading companies for the production of leather-upholstered furniture and believes that it has a leading share of the market for leather-upholstered furniture in the United States and Europe based on research conducted by CSIL, a well known, unaffiliated and reputable Italian market research firm, with reference to market information for the years 2007 and 2009 for the market for leather-upholstered furniture in the United States and Europe, respectively (Sources: CSIL, The European market for upholstered furniture, July 2009; CSIL, The US market for upholstered furniture, October 2007). Our distribution network covers approximately 100 countries.

**Table of Contents**

The Group sells its Natuzzi branded furniture principally through franchised *Divani & Divani by Natuzzi* and *Natuzzi* furniture stores. As of March 31, 2011, the Group sells its furniture through 111 *Divani & Divani by Natuzzi* and 178 *Natuzzi* stores, of which 54 are directly owned by the Group, and through 15 concessions in the United Kingdom. The concessions are store-in-store concept managed directly by a subsidiary of the Company located in the United Kingdom. As of March 31, 2011, there were 358 Natuzzi galleries worldwide (store-in-store concept managed by independent partners).

In the last quarter of 2005 and the beginning of 2006, the Group moved some of the production of its most popular Natuzzi models in the United States under a collection named *Natuzzi Editions* to its manufacturing facilities outside of Italy in order to increase profitability by avoiding increased production costs at its Italian plants due to the weak U.S. dollar. This move included limited models and covers made of leather and microfibers, but did not include any Total Look furnishings. The *Natuzzi Edition* collection is mainly distributed through wholesale customers.

In the last quarter of 2009, throughout 2010 and in the first quarter of 2011, based on the success and sales volumes generated by the *Natuzzi Editions* Collection, the Group decided to promote this collection as a distinct brand under the *Natuzzi Editions* label in the Americas region and under the *Editions* label in Europe and our Rest of the World region, with limited numbers of models and covers exclusively for wholesale distribution, thus targeting the medium/medium-low segment of the market. The Group strategically decided to leverage the Natuzzi name in the Americas region, and therefore launched the brand as *Natuzzi Editions* due to its name recognition in the marketplace and in order to assure prior customers of the Group's continuing strength and presence in that region. In Europe and the Rest of the World, the brand was launched as *Editions* in order to avoid conflicting with the Group's well-established network of stores and galleries that are already operating under the Natuzzi name.

The *Editions* brand was officially presented in January 2010 during a well-known worldwide trade fair in Koln, Germany, as a new trademark intended for the traditional wholesale market. Both the *Natuzzi Editions* and the *Editions* collections are targeted specifically to large customers and should help the Group to recover market share. They both offer a very targeted collection of products, with a high level of attention to the achievement of an excellent service at competitive prices.

Since 2007, the Group has refreshed and updated the image of its Italsofa brand and operates a total of 28 Italsofa stores (two of which are directly owned by the Group) as of March 31, 2011, with the objective of positioning Italsofa as a higher market alternative to very low-cost Chinese competitors. By March 31, 2011, the Group has also opened 22 stores in Europe and Asia. In 2011, the Group intends to continue developing the Italsofa retail channel in Europe and the Middle East. In addition, the Group has decided to allocate marketing investments for both communications and for the Italsofa display system to support this new retail channel.

On June 7, 2002, the Company changed its name from *Industrie Natuzzi S.p.A.* to *Natuzzi S.p.A.* The Statuto, or By-laws, of the Company provide that the duration of the Company is until December 31, 2050. 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 the Chairman of the Board of Directors, Chief Executive Officer, and controlling shareholder of the Company. Most 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.

**Table of Contents**

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: +39 080 882-0111. The Company's general sales agent subsidiary in the United States is Natuzzi Americas, Inc. ( Natuzzi Americas ), located at 130 West Commerce Avenue, High Point, North Carolina 27260. Natuzzi Americas telephone number is: +1 336 887-8300.

**Organizational Structure**

Natuzzi S.p.A. is the parent company of the Natuzzi Group. As of April 30, 2011, the Company's principal operating subsidiaries were:

| <b>Name</b>                    | <b>Percentage of ownership</b> | <b>Registered office</b>  | <b>Activity</b> |
|--------------------------------|--------------------------------|---------------------------|-----------------|
| Italsofa Nordeste S/A          | 100.00                         | Salvador de Bahia, Brazil | (1)             |
| Italsofa Shanghai Ltd          | 96.50                          | Shanghai, China           | (1)             |
| Softaly Shanghai Ltd           | 100.00                         | Shanghai, China           | (1)             |
| Natuzzi China Ltd              | 100.00                         | Shanghai, China           | (1)             |
| Italsofa Romania               | 100.00                         | Baia Mare, Romania        | (1)             |
| Natco S.p.A.                   | 99.99                          | Santeramo in Colle, Italy | (2)             |
| I.M.P.E. S.p.A.                | 90.84                          | Santeramo in Colle, Italy | (3)             |
| Nacon S.p.A.                   | 100.00                         | Santeramo in Colle, Italy | (4)             |
| Lagene S.r.l.                  | 100.00                         | Santeramo in Colle, Italy | (4)             |
| Natuzzi Americas Inc.          | 100.00                         | High Point, NC, USA       | (4)             |
| Natuzzi Iberica S.A.           | 100.00                         | Madrid, Spain             | (4)             |
| Natuzzi Switzerland AG         | 100.00                         | Dietikon, Switzerland     | (4)             |
| Natuzzi Nordic                 | 100.00                         | Copenhagen, Denmark       | (4)             |
| Natuzzi Benelux S.A.           | 100.00                         | Hereentals, Belgium       | (4)             |
| Natuzzi Germany GmbH           | 100.00                         | Köln, Germany             | (4)             |
| Natuzzi Sweden AB              | 100.00                         | Stockholm, Sweden         | (4)             |
| Natuzzi Japan KK               | 100.00                         | Tokyo, Japan              | (4)             |
| Natuzzi Services Limited       | 100.00                         | London, UK                | (4)             |
| Natuzzi Trading Shanghai Ltd   | 100.00                         | Shanghai, China           | (4)             |
| Natuzzi Oceania PTI Ltd        | 100.00                         | Sidney, Australia         | (4)             |
| Natuzzi Russia OOO             | 100.00                         | Moscow, Russia            | (4)             |
| Italholding S.r.l.             | 100.00                         | Bari, Italy               | (5)             |
| Natuzzi Netherlands Holding    | 100.00                         | Amsterdam, Holland        | (5)             |
| Natuzzi Trade Service S.r.l.   | 100.00                         | Santeramo in Colle, Italy | (6)             |
| La Galleria Limited            | 100.00                         | London, UK                | (7)             |
| Natuzzi United Kingdom Limited | 100.00                         | London, UK                | (7)             |
| Kingdom of Leather Limited     | 100.00                         | London, UK                | (7)             |

(1) Manufacture and distribution

(2) Intragroup leather dyeing and finishing

(3) Production and distribution of polyurethane foam

(4) Services and Distribution

(5) Investment holding

(6) Transportation services

(7) Dormant

See Note 1 to the Consolidated Financial Statements included in Item 18 of this annual report for further information on the Company's subsidiaries.

**Table of Contents**

**Strategy**

The negative performance of the Group in 2010 and in recent years has largely been the result of several challenges specific to the furniture industry and prevalent in the economy at large. For instance, the discretionary spending of consumers on furnished goods has been negatively impacted by the persistent effects of the global economic downturn, largely as a result of lower home values, high levels of unemployment and personal debt, and reduced access to consumer credit.

In an effort to address these challenges and to restore the positive performance of the Group, the Board of Directors in February 2010 approved the 2010 Budget, which took into account the prevailing financial and economic uncertainty. This budget replaced the previous three-year Business Plan for 2009-2011 approved by the Board in October 2008 since the economic downturn persisted and the Group's actual results ended up being lower than the targets contemplated by the three-year plan.

As mentioned above, the Group is currently working on a long-term business plan (L-T Plan), which will set forth the macro targets of turnover and profitability of the Group over the next few years. This L-T Plan will mainly focus on the recovery of sales in major markets (namely, North America and Europe), as well as the development of fast growing markets such as China, Brazil and India. If the Group is unable to fully implement the strategies that will be contained in the L-T Plan or if such strategies do not achieve their intended effects, the Group may continue to suffer losses. See Item 3. Key Information Risk Factors for discussions of the risks and uncertainties that may impact the Group's results and plans.

In order to accomplish its primary objectives, the L-T Plan will employ a growth strategy based on:

1. increasing competitiveness;
2. improving service to clients;
3. improving product quality;
4. striving for innovation;
5. the development of the new B2B trademark Edition , launched in 2010;
6. introduction of a specific Key-Account program that should help the Group recover market share among large customers in historical markets such as North America and, in particular, Europe;
7. creating more efficiency in the manufacturing and procurement process by revising product cost structures and focusing more on the R&D and engineering process;
8. eliminating waste and redundancies in Group processes, with a focus on increasing integration within the Group by completing the SAP rollout; and
9. a new commercial organization with focus on differentiation by brands, regions and distribution channels.



## **Table of Contents**

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 and efficiency. To achieve these objectives, the Group's principal strategic objectives include:

**Repositioning the Brand Portfolio Strategy of the Group** The Group is focusing in all price segments of the leather and non-leather upholstered furniture market. The Group has divided its extensive product range into three different brands Natuzzi, Italsofa, and Natuzzi Editions/Editions in an effort to address specific market segments and increase its sales and profitability.

**1) The Natuzzi brand** offers high-end, high-quality products, with detailed designs and customized materials and finishes. The Group aims to position this brand as one that helps consumers rediscover the home as a welcoming place, a place of happiness and well-being. The Group also wants to establish an inspirational image for this brand through the style and quality of its products, and the concepts and presentation in its stores. Finally, the Group seeks to broaden this brand's market by bringing consumers in various countries around the world product collections filled with beautiful, Italian-style living room design. Products under this brand are distributed through the Group's stores, galleries, and qualified free market (multi-brand) retailers that carry high-end products.

From the identification of consumer preferences and market trends to the delivery of the living room in the consumer's home, Natuzzi directly controls the production and distribution value chain, with the aim of ensuring ultimate quality at competitive prices. All models are designed in the Group's Style Center in Italy and are primarily manufactured at the Group's Italian factories.

**2) The Italsofa brand** targets the medium-to-medium low segment of the market. The Group aims to position this brand offering Italian style products at the best value. The brand includes a wide range of sofas and armchairs in leather, fabric and microfiber, which are available in different versions, coverings and colors. Products are designed and engineered in Italy and mainly manufactured at the Group's factories outside Italy, to provide the best possible value in the market. Products under this brand are mainly distributed through the wholesale channel in addition to single-brand stores and galleries.

**3) The Natuzzi Editions/Editions Brand** is a new brand, for the North American and European markets, respectively, that aims to generate the volumes necessary to sustain the Group's production sites around the world. The Natuzzi Editions/Editions collection of sofas and armchairs are tailored to suit every taste and every style and the collection is developed solely for wholesale distribution. The Group is positioning this brand in the medium to medium-low segment of the market and it contains a wide range of models and functionality, from stationary to sectionals, from motions to leather recliners and sofas, from traditional to transitional, and from casual to modern. For Europe and the Rest of the World, the Group offers a selection of unique models specifically tailored and designed for the enthusiasts of Italian made products. Like our other brands, all of the Natuzzi Editions/Editions models are designed and engineered in Italy.

With the introduction of the Natuzzi Editions/Editions brand, the Group aims to shift its Italsofa wholesale business to Natuzzi Editions/Editions in order to enable Italsofa to become exclusively a consumer Brand. In this way the Group will guarantee continuity of turnover in the wholesale distribution channel.

Competition has increased significantly in recent years within the medium-to-medium low segment as foreign producers from countries with lower manufacturing costs have begun to play an important role in the upholstered furniture market. Such manufacturers are often able to offer their products at lower prices, which increases price competition in the industry. In particular, manufacturers in China, Eastern Europe and South America have increased competition in the lower-priced segment of the market.

**Table of Contents**

In response to this increase and the inherent fragmentation in some markets in which the Group competes, the Group will continue to focus its efforts on improving product quality, design, reliable customer service and marketing support.

**Improvement of the Group's Retail Program and Brand Development** The Group has made significant investments to improve its existing distribution network and strengthen its brand, primarily through an increase in the number of Natuzzi stores and Natuzzi galleries worldwide. See Item 4. Information on the Company Markets.

As of March 31, 2011, the Group sells its furniture through 111 *Divani & Divani by Natuzzi* and 178 *Natuzzi* stores, of which 54 are directly owned by the Group, and through 15 concessions in the United Kingdom. The concessions are store-in-store concept managed directly by a subsidiary of the Company located in the United Kingdom. As of March 31, 2011, there were 358 Natuzzi galleries worldwide (store-in-store concept managed by independent partners).

In the prior year, the Group was finally able to penetrate the Indian market, through the opening of premium location store in New Delhi together with a second opening in Hyderabad, and more store openings set for the rest of 2011. Milestones in 2010 Retail Development have included the opening of new stores in Moscow and Cairo. Strategic openings also took place in the beginning of 2011, with specific reference to the new store in London (located on Tottenham Court Road, the furniture street in London) as well as in Guadalajara, Mexico.

In 2010 the Group also organized the annual Retail Congress in Italy, inviting all of its worldwide partners to visit the Group's headquarters for product selection and collection renewal, and to participate in strategy sessions aimed at developing marketing and advertising plans for the upcoming year.

The future Retail Development will be focused on expansion through partners. The willingness to support all of our partners and our joint efforts in continuously looking for new retail solutions aimed at increasing the profitability of our stores are clearly visible at the Group's headquarters, where three new showrooms have been built (one for each Brand) in order to properly test the effectiveness of the Group's retail concept as well as to host all of the visitors during the Congress in an energizing setting.

The expansion of products that the Group offers for the high-end segment has required an adjustment to the presentation of such products at their points of sale. The Natuzzi product offering is increasingly oriented towards the concept of total living. Therefore, single-brand Natuzzi points of sale have been recently refurbished in order to recreate a complete living room environment, including the use of interior decorations.

**Product Diversification and Innovation** The Group believes that it is the Italian manufacturing company in the designer furniture and home decoration industry most capable of offering consumers carefully developed, coordinated living rooms at competitive prices through its Total Look offer. The Total Look offer is conceived in accordance with the latest trends in design, materials and colors, and includes high quality sofas, furnishings and accessories, all of which are developed in-house and presented in harmonic and personalized solutions. The Group has taken a number of steps to broaden its product lines, including the development of new models, such as modular and motion frames, and the introduction of new materials and colors, including exclusive fabrics and microfibers. See Item 4. Information on the Company Product Development In order to add to its already vast offerings in upholstered furniture, the Group has begun to invest in its furnishings and accessories offerings.

**Table of Contents**

Beginning in 2006, the Group has further widened its collection of accessories by introducing wall units, dining tables and chairs, in order to complete its living room environment offering. The Group believes that expanding its Total Look offerings will strengthen its relationships with the world's leading distribution chains, which are interested in offering branded packages. The Group has invested in Natuzzi Style Center in Santeramo in Colle, Italy, to serve as a creative hub for the Group's design activities.

**Manufacturing**

Our manufacturing facilities are located in Italy, China, Romania and Brazil.

As of March 31, 2011, the Group operated six production facilities in Italy and three warehouses (one for leather, one for finished goods and one for accessories). Four of the facilities are engaged in upholstery cutting and sewing and assembly of finished and semi-finished products, and employed (net of those workers temporarily laid-off), as of the same date, 2,618 workers, 37% of whom are not directly involved in production. Seven of these nine facilities are located either in, or within a 25-mile radius of, Santeramo, where the Group's headquarters are located. Assembly operations at the Group's production facilities also include leather cutting and sewing and attaching foam and covering to frames.

These operations retain many characteristics of production by hand and are coordinated at the production facilities through the use of a management information system that identifies by number (by means of a bar-code system) each component of every piece of furniture and facilitates its automatic transit through the different production phases up to the storehouse.

In July 2006, the Group initiated an industrial restructuring program to improve the flow of production logistics and simplify job assignments in order to increase productivity while improving product quality.

In June 2010, the Group initiated a Lean Production process review that is aimed at improving product quality while regaining competitiveness. In December 2010, new prototypes of the more efficient product line have been created. The industrialization of the prototyped product lines is still in progress.

Operations at all of the Group's facilities are normally conducted Monday through Friday with two maximum 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. 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 for processing, drying and finishing, and then arranges for the finished leather to be shipped to the Group's assembly facilities. 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 Item 4. Information on the Company Manufacturing Supply-Chain Management .

**Table of Contents**

The Group produces, directly and by subcontracting, nine grades of leather in approximately 15 finishes and 118 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 primarily used in the manufacture of most Natuzzi-branded leather products, while split leather is used, in addition to top grain leather, in the manufacture of some Natuzzi-branded products and most Italsofa 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 employed 55 workers as of March 31, 2011, 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 sells foam to third parties.

As a result of intensive R&D activity, the Company has developed a new family of highly resilient materials. The new polymer matrix is safer than others available in the market because of its improved flame resistance, and it is more environmentally-friendly because it can be disposed of without releasing harmful by-products and because the raw materials used to make it cause less harmful environmental impacts during handling and storage.

The Group manufactures the Italsofa and Editions Collection mainly outside Italy. If orders exceed production capacity at the foreign plants, Italsofa products and Editions products are also manufactured in the Company's Italian plants.

The Group owns the land and buildings for its principal assembly facilities located in Santeramo in Colle, Matera, 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.

The Chinese plant owned by the Group was subject to an expropriation process by local Chinese authorities since the plant is located on land that is intended for public utilities.

Negotiations involving the expropriation process began in 2009 and have now been concluded. The agreement setting forth the payment of compensation for the expropriated plant was signed with Chinese authorities on January 26, 2011. As compensation for this expropriation, the parties agreed upon a total indemnity of Chinese Yuan 420 million, which is equivalent to approximately 46 million based on the Yuan-euro exchange rate as of June 24, 2011. The Company has collected the full amount of the indemnity payment from the local Chinese authorities.

The Group has identified another area that would compensate for the production capacity reduction caused by the expropriation. The new production plant of 88,000 square meters was made ready in January 2011. The relocation process began in February 2011 and was completed, as planned, by the end of May 2011, after moving equipment and machinery to the new plant. The relocation has produced an approximately 20% manpower turn-over because of the distance of the new plant compared to the old one (around 35 kilometers). Management has already reabsorbed the turn-over effect by hiring new manpower by the end of April 2011.

**Table of Contents**

Furthermore, in order to minimize the imbalances on production capacity caused by the relocation, a new plant of 15,000 square meters was leased, starting in July 2010. This smaller plant is located 1 kilometer from the new production plant of 88,000 square meters and focuses on sofa sewing and assembly processes.

The Group owns two plants in Brazil that have been used for the production of furnishings for the Americas region. Due to the appreciation over the past few years of the local currency versus the U.S. dollar in particular, which has reduced the competitiveness of these two plants, the Group decided to temporarily close one plant and reduce the production capacity of the other, down to a level that remains sufficient to serve only the Brazilian market.

However, after frequent interactions between the Group and top local retailers in the past few years, as well as in light of the high level of fragmentation of the Brazilian market that contains mostly small producers with low levels of know-how, the Group believes that the Latin American region currently represents a very good opportunity for the development of additional business.

Therefore, it is the Group's intention to continue investing in the Latin American market, with a particular focus on Brazil, by better organizing operating, sales and marketing activities as well as developing the current distribution channel of Italsofa and Natuzzi points of sales.

The land and buildings of the remaining production facilities are leased from lessors with whom the Group enjoys long-term relationships. Although the lease terms vary in length, under Italian law the leases for the Group's Italian plants must have a minimum term of six years. 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 leases on acceptable terms when they expire. The Group owns substantially all the equipment used in its facilities.

Starting in July 2010, the Company ceased all supplying relationships with sub-contractors near Santeramo in Colle and internalized their portion of production with the aim of better ensuring high quality standards and customer service.

**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, Germany, Colombia and South America, Scandinavian countries, 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. The hides in the middle categories are purchased mainly in Italy and certain other parts of Europe and hides in the highest categories are 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 10 suppliers, with whom the Group enjoys long-term and stable relationships. Hides are generally purchased from the suppliers pursuant to orders given every one to two months specifying the number of hides, the purchase price and the delivery date.

**Table of Contents**

Hides purchased from Europe are delivered directly by the suppliers to the Group's leather facilities near Udine, while those purchased outside of Italy 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.

During the first quarter of 2010, the prices for hides had been increasing since the final quarter of 2009. In the second and third quarters of 2010, the prices for hides remained substantially stable. Due to the volatile nature of the hides market, there can be no assurances that any current trend of stabilized prices will continue. See Item 3. Key Information Risk Factors The price of the Group's principal raw material is difficult to predict.

The Group also purchases fabrics 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 some microfibers are in the lowest price categories. Fabrics are purchased exclusively in Italy from about a dozen suppliers which provide the product at the finished stage. Microfibers are purchased in Italy, South Korea, Taiwan through some 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. 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 fabrics or microfiber is introduced into the collection.

Fabrics and microfibers purchased from the Italian suppliers are delivered directly by the suppliers to the Group's facility in Laterza, while those purchased outside of Italy are delivered to an Italian port and then sent to the Laterza facility. Microfibers and fabrics included into Italsofa and Editions are delivered directly by the suppliers to Chinese, Romanian and Brazilian ports and then sent to the Group's Shanghai, Baia Mare and Salvador de Bahia 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 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 the beginning of 2010, fabric prices were stable, but beginning in the second half of 2010, the market prices for fabrics and microfibers were influenced by the strong rising trend of raw materials. Some of these raw materials (like cotton) rose to historically high price levels. 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, Taiwan and India. 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, which has increased in the last past few months. The Group obtains wood and wood products for its wooden frames from suppliers in Italy and Eastern Europe. Through its plant located in Romania, the Group has begun engaging directly in the cutting and transportation of wood from Romanian forests.

**Table of Contents**

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**

**Procurement Policies and Operations Integration** In order to improve customer service and reduce industrial costs, the Group in 2009 established a definitive policy for handling suppliers and supply logistics. All of the sub-departments working in the Logistics Department have been reorganized to maximize efficiency throughout the supply-chain. The Logistics Department now coordinates periodic meetings among all of its working groups in order to identify areas of concern that arise in the supply-chain, and to identify solutions that will be acceptable to all groups. The Logistics Department is responsible for monitoring the proposed solutions in order to ensure their effectiveness. Additionally, in order to improve access to supply-chain information throughout the Group, the Logistics Department (with the support of the Information Systems department) has created a new portal that allows the Logistics Department and other departments (such as Customer Service and Sales) to monitor the movement of goods through the supply-chain.

**Production Planning (Order Management, Production, Procurement)** The Group's commitment to reorganizing procurement logistics has led to:

- 1) the development of a logistic-production model to customize the level of service to customers;
- 2) a 16.0% reduction in the size of the Group's inventory of raw materials and/or components, particularly those pertaining to coverings. This positive impact was made possible by both the development of software that allows more detailed production programming and broader access by suppliers themselves, and a more general reorganization of supplier relationships. Suppliers are now able to provide assembly lines at Italian plants with requested components within four hours;
- 3) the planning and partial completion of the industrial reorganization of the local production center; and
- 4) since January 2009, the SAP system has been implemented through the organization.

The Group also plans procurements of raw materials and components:

- i) **On demand** for those materials and components (which the Group identifies by code numbers) that require a shorter lead time for order completion than the standard production planning cycle for customers' orders. This system allows the Group to handle a higher number of product combinations (in terms of models, versions and coverings) for customers all over the world, while maintaining a high level of service and minimizing inventory size. Procuring raw materials and components on demand eliminates the risk that these materials and components would become obsolete during the production process; and

**Table of Contents**

ii) **Upon forecast** for those materials and components requiring a long lead time for order completion. The Group utilizes a new forecast methodology, developed in cooperation with a consulting firm. This methodology balances the Group's desire to maintain low inventory levels against the Sales Department's needs for flexibility in filling orders, all the while maintaining high customer satisfaction levels. This new methodology is currently being developed together with the Group's Information Systems Department, in order to create a new intranet portal, called Worldwide Demand Planning tool. This tool is working for sales coming from the North American and Asia Pacific market, under the supervision of a forecast manager. Once completed, it will further support corporate logistics and operations managers to better forecast the future demand for the Group's products so as to improve the lead time from material supply to sales delivery.

Special production programs those requiring lead times shorter than three weeks are only available to a restricted group of customers, for a limited group of collections and product combinations.

Lead times can be longer than those mentioned above when a high number of unexpected orders are received.

Delivery times vary depending on the place of discharge (transport lead times vary widely depending on the distance between the final destination and the production plant).

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 while minimizing handling and transportation costs.

**Load Optimization** With the aim of decreasing costs and safeguarding product quality, the Group attains optimum load levels for shipping by using a software developed through a research partnership with the University of Bari and the University of Copenhagen, completed in June 2006.

This software manages customers' orders to be shipped by sea with the goal of maximizing the number of orders shipped in full containers. If a customer's order does not make optimal use of container space, revisions to the order quantities are suggested. This activity, which was previously a prerogative of the Group's headquarters, has been almost completely transferred to Natuzzi Americas in High Point, North Carolina. Now, this software is also undergoing testing by customers.

As far as the load composition by truck is concerned, the Group has commissioned a software development project to minimize total transport costs by taking into account volume and route optimization for customers' orders in defined areas. A prototype of this software was delivered to the Group in November 2007. The Group concluded testing of this prototype in September 2008 and it is currently operational. This software was developed by the Group jointly with Polytechnic of Bari and the University of Lecce.

**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 2010, the Group shipped 9,036 containers to overseas countries and approximately 5,350 full load mega-trailer trucks to European destinations. To improve service levels, a method of Supplier Vendor Rating is under development to measure performance of carriers and distributors providing direct service. This rating system has first been extended to transport by land, and, later, also to the transport by sea.

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.



**Table of Contents**

**Products**

The Group is committed to the conception, prototyping (for sofas and furnishings), production (for sofas only) and commercialization of a wide range of upholstered furniture, both in leather and in fabric, as well as furnishings and accessories. The Group also collaborates with acclaimed third-party designers and engineers for the conception and prototyping of certain products in order to enhance brand visibility, especially with respect to the Natuzzi Brand.

New models are the result of a constant information flow that stems from the market (whose preferences are analyzed, filtered and translated by the product managers into a brief, including specific styles, functions and price points), and is communicated to the group of designers who, through constant work with the team from the prototypes department, sketches the creation of new products in accordance with the guidelines received. The diversity of customer tastes and preferences and the natural inclination of the Group to offer new solutions results in the development of products that are increasingly personalized.

The product development process is also based on specific needs of particular clients (key accounts / mass dealers) who are capable of generating a critical mass of sales that enable the product to achieve the right market penetration.

The Group's product range falls within five broad categories of furniture: stationary furniture (sofas, loveseats and armchairs); sectional furniture; motion furniture; sofa beds; and occasional chairs (including recliners and body massage chairs).

The Group's wide range of products includes a comprehensive collection of sofas and armchairs with particular styles, coverings and functions, with more than two million combinations. The Group's offering is divided into three different brands and collections that satisfy different market needs:

- a) Natuzzi Collection: an inspirational, high-end brand, vigorously promoted worldwide as "Made in Italy";
- b) Italsofa Collection: a brand that aspires to provide customers with tasteful designs at affordable prices; and
- c) Editions/Natuzzi Editions Collection: a trademark that aims to generate volumes necessary to regain market share.

The Natuzzi Collection, positioned in the medium-high market, focuses on making Italian quality and style accessible through coordinated and innovative living rooms. This collection stands out for high quality in the choice of materials and finishes, as well as the creativity and details of its designs. As of March 31, 2011, this line of products offered 134 models, including a collection designed by Paola Navone and nine models exclusively available only for Italian market. Regarding the range of coverings offered, the Natuzzi Retail collection has 15 leather articles in 81 colors and 24 fabric articles in 85 colors. In 2010, a new wall unit furniture was introduced to the Natuzzi Collection with vibrant and fresh colors, available in both opaque and shiny lacquer. The market seemed to welcome the new products and thus older furnishings were completely renewed worldwide. The collection also includes a selection of additional furniture (wall units, tables, lamps, carpets), accessories (pots and candles), furniture for the dining room (tables, chairs, lamps) to offer complete furniture with the aim enabling the Group to become a real Lifestyle Company.

**Table of Contents**

The Italsofa Collection, which is characterized by a young and vibrant style, in 2010 had a complete style makeover to differentiate it from Chinese competitors and the collection was divided into two macro groups: Retail and Wholesale. The Brand launched a transformation of Italsofa from a wholesale to a retail brand and thus introduced affordable design products. As of March 31, 2011, this Italsofa Collection consisted of 27 models in the Wholesale collection, including exclusive models to key accounts, and 41 models in the Retail collection. In the coming months, models catalogued as Wholesale will be re-classified as Editions/Natuzzi Editions. Regarding the range of coverings offered, Italsofa Retail collection has 3 leather articles in 23 colors and 9 fabric articles in 34 colors.

The Natuzzi Editions/Edizioni collection, as of March 31, 2011, consisted of 138 models including eight models developed exclusively for key accounts. The increase in the number of models in this collection is mainly due to the introduction of this collection in the European and Asian markets, which resulted in the addition of more modern styles to the product portfolio. Regarding the range of coverings offered in the collection, Natuzzi Editions/Edizioni offers 13 articles in leather available in 65 colors and two articles in fabric with 9 colors.

The Group's overall sales are also partly the result of unbranded production, developed on the basis of specific provision agreements for important key accounts and mass-dealer clients like IKEA and Macy's.

**Innovation** remains a strategic activity for the Group. Product Development efforts in 2010 continued to focus on the design of new products, particularly the study of better furniture coverings, and also on improvement of the manufacturing process, with the goal of adapting to the preferences of our target consumers. See also Item 4. Information on the Company Manufacturing. In 2010, with the aim of focusing on material innovation, Natuzzi signed an agreement with Material Connexion (an international consulting company) in order to develop a personalized program for researching advanced, sustainable new materials, which are contained in a library located in the Style Center.

More than 150 highly-qualified people work in these activities, and typically about 70 new sofa models are generally introduced each year. The Group conducts its research and development efforts and activities from its headquarters in Santeramo in Colle, Italy in accordance with stringent quality standards and has earned the ISO 9001 certification for quality and the ISO 14001 certification for its low environmental impact. The ISO 14001 certification also applies to the Company's tannery subsidiary, Natco S.p.A. The Group's plant in Laterza and the Santeramo headquarters have also received an ISO 9001 certification for their roles in the design and production of furnishings and accessories.

Research and development expenses were 7.0 million in 2010.

**Advertising**

The Group's Communications System was developed to regulate all methods used in each market to advertise the brand name, and it operates simultaneously 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.

**Table of Contents**

Advertising in store galleries is carried out with the help of the Retail Advertising Kit, a collection of templates that enable direct advertising of consumer brands or the advertising of such brands in conjunction with the retailer's brand.

**Retail Development**

The team belonging to the Retail Department continues to work on providing all of the useful sales tools to the market, with specific reference to all of the manuals and guidelines to be followed when it comes to managing a store and/or a gallery (Store Operations Manual, Visual Merchandising Manual, etc.) as well as all of the missing tools that are designed to enhance the performance of the store (for more information, see Item 4. Information on the Company Strategy ).

**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. In 1990, the Group began selling its leather-upholstered products in Italy and abroad through franchised *Divani & Divani by Natuzzi* and *Natuzzi* furniture stores. Since 2001, the Group has also sold its furniture through directly owned *Natuzzi* stores and *Divani & Divani by Natuzzi* stores. Starting from the second half of 2007, the Group has sold its promotional line in China through *Italsofa* stores, of which there were 14 as of the end of March 2011.

The following tables show the leather and fabric-upholstered furniture net sales and number of seats sold of the Group broken down by geographic market for each of the years indicated:

**1) Leather and Fabric Upholstered Furniture, Net Sales (in millions of euro)**

|                               | 2010         |               | 2009         |               | 2008         |               |
|-------------------------------|--------------|---------------|--------------|---------------|--------------|---------------|
| <b>Americas<sup>(1)</sup></b> | <b>164.2</b> | <b>35.7%</b>  | <b>139.8</b> | <b>31.0%</b>  | <b>208.6</b> | <b>35.5%</b>  |
| Natuzzi brand                 | 15.5         | 3.4%          | 15.3         | 3.4%          | 19.4         | 3.3%          |
| Other <sup>(2)</sup>          | 148.7        | 32.3%         | 124.5        | 27.6%         | 189.1        | 32.2%         |
| <b>Europe</b>                 | <b>238.1</b> | <b>51.7%</b>  | <b>263.7</b> | <b>58.5%</b>  | <b>323.7</b> | <b>55.1%</b>  |
| Natuzzi brand                 | 145.0        | 31.5%         | 159.9        | 35.5%         | 196.9        | 33.5%         |
| Other <sup>(2)</sup>          | 93.1         | 20.2%         | 103.8        | 23.0%         | 126.8        | 21.6%         |
| <b>Rest of the world</b>      | <b>58.2</b>  | <b>12.6%</b>  | <b>47.0</b>  | <b>10.4%</b>  | <b>55.5</b>  | <b>9.4%</b>   |
| Natuzzi brand                 | 31.6         | 6.8%          | 27.8         | 6.2%          | 32.8         | 5.6%          |
| Other <sup>(2)</sup>          | 26.6         | 5.8%          | 19.2         | 4.3%          | 22.6         | 3.9%          |
| <b>Total</b>                  | <b>460.5</b> | <b>100.0%</b> | <b>450.6</b> | <b>100.0%</b> | <b>587.8</b> | <b>100.0%</b> |

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

(2) Starting in 2010, the Other item includes net sales from the Natuzzi Editions/Edizioni and Italsofa brands, as well as the Unbranded products. Therefore, net sales for the years 2008 and 2009 have been classified accordingly.

**Table of Contents****2) Leather and Fabric Upholstered Furniture, Net Sales (in seats) <sup>(3)</sup>**

|                               | 2010             |               | 2009             |               | 2008             |               |
|-------------------------------|------------------|---------------|------------------|---------------|------------------|---------------|
| <b>Americas<sup>(1)</sup></b> | <b>886,471</b>   | <b>45.4%</b>  | <b>785,156</b>   | <b>40.8%</b>  | <b>1,272,560</b> | <b>46.7%</b>  |
| Natuzzi brand                 | 40,112           | 2.1%          | 43,520           | 2.3%          | 69,352           | 2.5%          |
| Other <sup>(2)</sup>          | 846,359          | 43.3%         | 741,636          | 38.6%         | 1,203,207        | 44.2%         |
| <b>Europe</b>                 | <b>847,451</b>   | <b>43.4%</b>  | <b>943,103</b>   | <b>49.0%</b>  | <b>1,211,939</b> | <b>44.5%</b>  |
| Natuzzi brand                 | 370,626          | 19.0%         | 414,876          | 21.6%         | 529,012          | 17.9%         |
| Other <sup>(2)</sup>          | 476,826          | 24.4%         | 528,227          | 27.5%         | 682,927          | 26.6%         |
| <b>Rest of the world</b>      | <b>220,670</b>   | <b>11.3%</b>  | <b>194,961</b>   | <b>10.1%</b>  | <b>237,809</b>   | <b>8.7%</b>   |
| Natuzzi brand                 | 73,050           | 3.7%          | 70,855           | 3.7%          | 90,430           | 3.3%          |
| Other <sup>(2)</sup>          | 147,620          | 7.6%          | 124,106          | 6.5%          | 147,379          | 5.4%          |
| <b>Total</b>                  | <b>1,954,592</b> | <b>100.0%</b> | <b>1,923,220</b> | <b>100.0%</b> | <b>2,722,307</b> | <b>100.0%</b> |

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

(2) Starting in 2010, the Other item includes unit data from the Natuzzi Editions/Editions and Italsofa brands, as well as the Unbranded products. Therefore, the number of units sold for the years 2008 and 2009 have been classified accordingly.

(3) Includes seats produced at Group-owned facilities and, until June 2010, also by subcontractors. Seats are a unit measurement. A sofa consists of three seats; an armchair of one.

**1. United States and the Americas.**

In 2010, net sales of leather and fabric-upholstered furniture in the United States and the Americas were 164.2 million, up 17.4% from 139.8 million reported in 2009, and the number of seats sold increased by 12.9%, from 785,156 in 2009 to 886,471 in 2010.

The Group's principal customers are major retailers. The Group advertises its products to retailers and, recently, to consumers in the United States and Canada both 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 its High Point, North Carolina offices each Spring and Fall to promote its products.

The Group's sales in the United States and Canada were handled by Natuzzi Americas until June 30, 2010. Starting on July 1, 2010, as a part of general reorganization of the Group's commercial activities, world-wide third-party sales have been handled by the parent company, Natuzzi S.p.A. Natuzzi Americas still maintains offices in High Point, North Carolina, the heart of the most important furniture manufacturing and distribution region in the United States, and provides to Natuzzi S.p.A with agency services. The staff at High Point provides customer service, trademarks and products promotions, credit collection assistance, and generally acts as the customers contact for the Group. As of March 31, 2011, the High Point operation had 66 employees, 31 independent sales representatives and eight sub-representatives for the United States and Canada. They are regionally supervised by four Vice Presidents.

As mentioned above, beginning on July 1, 2010, the invoicing for the Group's Latin American operations has been managed by the parent company, Natuzzi S.p.A. A new local representative office is now operating in Sao Paulo, Brazil, and takes care of trademarks and products promotion activities for all markets south of the US-Mexico border. As of March 31, 2011, the Natuzzi Latin American representative office in Brazil had eight sales representatives.



**Table of Contents**

A directly owned store operates in New York City under the brand *Natuzzi*. In addition to this store, as of March 31, 2011, there are six *Natuzzi* single-brand stores operating in the Americas that are owned by local dealers (one in each of the US, Venezuela, Panama and three in Mexico). The launch of a *Natuzzi* brand store in Brazil is planned for 2012.

**2. Europe.**

During 2010, the Group continued to consolidate its position in Europe by investing in stores and galleries. Net sales of leather and fabric-upholstered furniture in Europe (including Italy) decreased by 9.7% in 2010 to 238.1 million (down from 263.7 million in 2009), with the number of seats sold decreasing by 10.1%, from 943,103 in 2009 to 847,451 in 2010.

**2a) Italy.** Since 1990, the Group has sold its upholstered products within Italy principally through the *Divani & Divani* franchised network of furniture stores (now *Divani & Divani by Natuzzi*). As of March 31, 2011, there were 98 *Divani & Divani by Natuzzi* stores and one *Natuzzi* store located in Italy. The Group directly owns 20 of these stores, as well as the store operating under the *Natuzzi* name.

**2b) Outside Italy.** The Group expands into the European markets mainly through single-brand stores (local dealers, franchisees or directly operated stores). As of March 31, 2011, 115 single-brand stores were operating in Europe: under the *Divani & Divani by Natuzzi* franchise brand 11 were located in Portugal, and two in Greece; two *Italsofa* stores (Spain and Montenegro); and the remaining 102 under the *Natuzzi* name (25 in France, 21 in Spain, 11 in Holland, eight in the United Kingdom, seven in Russia, five in Switzerland, three in the Czech Republic, three in Poland, two in Malta, two in Cyprus, two in Ukraine, two in Slovenia, two in Croatia, one each in Germany, Romania, Latvia, Belgium, Denmark, Hungary, Serbia, Bosnia-Herzegovina, and Estonia). Of these stores, 32 were directly owned by the Group as of March 31, 2011 and all were operated under the *Natuzzi* name: 21 in Spain (of which two are outlets), five in Switzerland, five in the United Kingdom, and one in Denmark. Apart from the *Natuzzi* stores, the Group also operates 15 concessions in the United Kingdom.

Given the size of the Russian market and its strategic relevance to the Group's future growth, a local representative office was opened in Moscow in February, 2010 with the aim of managing sales, marketing and customer service for Russia and Ukraine, and to supervise the opening of new single-brand stores in the Russian market.

**3. Rest of the World.**

**3a) Middle East & Africa.** In 2010, net sales of leather and fabric-upholstered furniture in the Middle East & Africa increased 31.2% to 15.1 million (from 11.5 million in 2009), and the number of seats sold increased by 31.6%, from 44,385 in 2009 to 58,416 in 2010.

**Table of Contents**

The tables below summarize the Group's yearly turnover (in thousands of euro) and the relative percentage of total upholstery net sales for 2009 and 2010 with particular reference to turnover generated in countries currently subject to sanctions by the Office of Foreign Assets Control of the United States Department of the Treasury.

| Country                           | Natuzzi brand    |                | 2009<br>Other *  |                | Total 2009       |                |
|-----------------------------------|------------------|----------------|------------------|----------------|------------------|----------------|
|                                   | Net Sales        | %              | Net Sales        | %              | Net Sales        | %              |
| IRAN                              | 123.3            | 0.06%          | 62.6             | 0.03%          | 185.9            | 0.04%          |
| SUDAN                             | 0.0              | 0.00%          | 0.0              | 0.00%          | 0.0              | 0.00%          |
| SYRIA                             | 23.8             | 0.01%          | 30.1             | 0.01%          | 53.9             | 0.01%          |
| All Other Countries               | 202,907.4        | 99.93%         | 247,409.0        | 99.96%         | 450,316.4        | 99.95%         |
| <b>Total upholstery net Sales</b> | <b>203,054.5</b> | <b>100.00%</b> | <b>247,501.7</b> | <b>100.00%</b> | <b>450,556.2</b> | <b>100.00%</b> |

| Country                           | Natuzzi brand    |                | 2010<br>Other *  |                | Total 2010       |                |
|-----------------------------------|------------------|----------------|------------------|----------------|------------------|----------------|
|                                   | Net Sales        | %              | Net Sales        | %              | Net Sales        | %              |
| IRAN                              | 56.6             | 0.03%          | 183.5            | 0.07%          | 240.1            | 0.05%          |
| SUDAN                             | 0.0              | 0.00%          | 0.0              | 0.00%          | 0.0              | 0.00%          |
| SYRIA                             | 57.6             | 0.03%          | 63.7             | 0.02%          | 121.3            | 0.03%          |
| All Other Countries               | 192,031.8        | 99.94%         | 268,136.3        | 99.91%         | 460,168.2        | 99.92%         |
| <b>Total upholstery net Sales</b> | <b>192,146.0</b> | <b>100.00%</b> | <b>268,383.5</b> | <b>100.00%</b> | <b>460,529.6</b> | <b>100.00%</b> |

\* Including Italsofa and Natuzzi Editions/Editions brands, as well as Unbranded products. Considering that the combined sales for Iran and Syria have never exceeded one-tenth of one-percent of Natuzzi total upholstery net sales in any of the two last years (or, indeed, at any point in the Group's history), Natuzzi does not believe that its activities in and contacts with Iran and Syria constitute a material part of its operations. No turnover has ever been generated in Sudan. If Natuzzi's activities or sales in Iran and Syria were to change materially from their current *de minimis* levels, the Company will evaluate such changes and, in any event, continue to comply with its disclosure obligations under the federal securities laws of the United States.

Furthermore, the Group does not believe that a reasonable investor would consider Natuzzi's interests and activities in Iran or Syria to be a material investment risk, either from an economic, financial or reputational point of view, given their extremely limited extent and nature.

The Group has not had, nor has any plans to have, any commercial contacts with the governments of Iran or Syria, or with entities controlled by such governments. To the best of Natuzzi's knowledge, the Group is in business with independent Iranian and Syrian dealers that are not controlled by, owned or otherwise related to the governments of Iran or Syria.

As of March 31, 2011, the Group had a total of 16 *Natuzzi* stores in the Middle East & Africa: four in Israel, three each in Saudi Arabia and Turkey, two in the United Arab Emirates, and one each in Egypt, Kuwait, Lebanon and Qatar.

**Table of Contents**

In addition, six single-brand stores were operating under the brand *Italsofa* in Israel and one in the United Arab Emirates.

**3b) Asia-Oceania.** In 2010, net sales of leather and fabric-upholstered furniture in the Asia-Oceania region increased 21.3% to 43.1 million (up from 35.5 million in 2009), and the number of seats sold increased 7.8%, from 150,576 in 2009 to 162,255 in 2010.

Natuzzi Trading (Shanghai) Co., Ltd. acts as a regional office and manages the commercial part of the business throughout the region. Furthermore, the Group also controls a subsidiary in Japan and an agency in South Korea. All of these offices report to the regional office in Shanghai. The general strategy for the *Natuzzi* brand is to further expand the store network throughout the region, with a strong emphasis on the Chinese market.

As of March 31, 2011, 51 single-brand *Natuzzi* stores were operating in the Asia-Oceania market: 25 in China, 14 in Australia, four in Taiwan, two in Singapore, and one each in the Philippines, New Zealand, Thailand, Malaysia, South Korea and Indonesia. The Group also maintains 16 galleries in the Asia-Oceania region with locations in Japan, New Zealand, Thailand and Indonesia, including a gallery presence in Australia, specifically at 7 David Jones department stores.

In 2007, the Group launched an initiative to redefine the image of its *Italsofa* brand, with the objective of positioning *Italsofa* within a higher market segment in contrast to low-cost Chinese competitors. As of March 31, 2011, there were 14 *Italsofa* single-branded stores in China. The Group is currently planning to further expand its presence in China, specifically with single-brand stores located in medium-sized cities across the country.

**India.** The Group is focusing its efforts and seeking to further invest in the Indian market. A local representative office was opened in New Delhi in the beginning of 2010 to manage sales, marketing and customer service and supervise the *Natuzzi* stores and *Italsofa* retail roll out in the Indian market. As of March 31, 2011, the Group operates one *Natuzzi* store in New Delhi.

**Expansion into New Markets** 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). Although the Group is currently a leader in the leather-upholstered furniture segment in the United States and in Europe, it is now focusing its attention on the development of new foreign markets, like Latin America, China and India (Sources: CSIL, *Upholstered Furniture: World Market Outlook 2011*, August 2010). The Group intends to continue to consolidate its growth in these markets.

**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 84% of its sales and obtains credit insurance for almost 90% of this amount; 7% of the Group's sales are commonly made to customers on a cash against documents and cash on delivery basis; and lastly, 9% of the Group's sales are supported by a letter of credit or payment in advance.

#### **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, which includes the area that serves as the center of the Group's operations. The investment incentive program provided tax benefits, capital grants and subsidized loans. In particular, a substantial portion of the Group's earnings before taxes and non-controlling interests from 1994 to 2003 was derived from Group companies to some extent from such tax exemptions. These 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.



**Table of Contents**

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 prepared a multi-faceted program of industrial investments for the increase of the production capacity of leather and fabric upholstered furniture in the area close to its headquarters in Italy. According to this Program Agreement, the Company should have made investments for 295.2 million and at the same time the Italian government should have contributed in the form of capital grants for 145.5 million. In 1997, the Company received, under the aforementioned project, capital grants for 24.2 million. During 2003, the Company revised its growth and production strategy due to the strong competition from competitors in countries like China and Brazil. Therefore, as a consequence of this change in the economic environment in 2003, the Company requested to the Italian Ministry of Industrial Activities for the revision of the original Program Agreement as follows: reduction of the investment to be made from 295.2 million to 69.8 million, and reduction of the related capital grants from 145.5 million to 35.0 million. In April 2005, the Company received from the Italian Government the final approval of the Program Agreement confirming these revisions. In 2010, a committee appointed by the Ministry of Industrial Activities prepared the final technical report according to which the overall industrial investments acknowledged under the last version of the Program Agreement as agreed in 2005 changed from 69.8 million to the final amount of 66.0 million. Accordingly, the related total capital grants under the Program Agreement changed from 35.0 million to the final amount of 33.3 million. Therefore, the receivable for capital grants still due to the Company is 9.1 million. However, in 2010, the Ministry of Industrial Activities determined an overall net receivable of only 7.1 million. In fact, the Ministry of Industrial Activities claims that interest in arrears of 1.8 million has accrued on capital grants paid in advance in 1997 for investments originally planned and subsequently not included in the final version of the Program Agreement, as agreed in 2005. The remaining part of the reduction of 0.2 million is attributable to fees owed to Committee appointed by the Ministry. Hence, the Company has allocated in its balance sheet, as a precautionary measure, an overall devaluation for such receivable of 3.7 million, as the result of the 1.7 million reduction in the final amount of capital grants not approved (reduced from 35.0 million to 33.3 million), the claimed interest in arrears ( 1.8 million), and the fees due to the Ministry Committee ( 0.2 million).

On April 27, 2004, the Technical-Scientific Committee of the Italian Ministry of Education, University and Research 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 3.0 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, planned as part of the project, are already underway thanks to the collaborative efforts of specialized in-house personnel and university researchers from the University of Lecce and the Polytechnic University of Bari. In 2007 and 2008, the Company provided the aforementioned Committee with the complete list of expenses to be acknowledged under such project and that had been incurred between 2002 through 2007. As a result of these costs, the Italian Government in June 2008 provided a 2.0 million subsidized loan and a 1.5 million operating subsidy to the Company and in February 2010 also provided a 0.6 million subsidized loan and a 0.6 million operating subsidy. In 2010, the committee appointed by the Ministry of Education University and Research prepared the final technical report according to which all of the costs incurred were acknowledged. Therefore, in 2010, the Ministry provided a 0.4 million subsidized loan and a 0.3 million operating subsidy to the Company. All of the receivables under this project have been collected by the Company.

**Table of Contents**

In 2006, the Company entered into an agreement with the Italian Ministry of Industrial Activities for the incentive program denominated Integrated Package of Benefits Innovation of the working national program Developing Local Entrepreneurs for the creation of a centralized information system in Santeramo in Colle that will be utilized by all Natuzzi points-of-sale around the world. This agreement acknowledges costs of 7.2 million and 1.9 million for the development and industrialization program, respectively. On March 20, 2006, the Italian Industrial Ministry issued a concession decree providing for a provisional grant to the Company of 2.8 million and a loan of 4.3 million, to be repaid at a rate of 0.74% over 10 years. Between December 2006 and September 2008, the Company provided the aforementioned Committee with the list of expenses to be acknowledged under such project and that have been incurred between July 2005 and November 2007 (date of completion of the program) totaling 10.8 million. In April 2009, the Italian Government provided, as advance payment, a 3.9 million subsidized loan and a 1.9 million operating subsidy to the Company. In 2010, the Ministry Committee has completed the acknowledgement of all of the costs incurred by the Company under the aforementioned project and, therefore, is expected to issue shortly the final decree necessary for the disbursement of the subsidies still owed to the Company.

During 2008, the Italian Ministry of Industrial Activities approved a new incentive program, entitled Made in Italy Industry 2015. The objective of this program is to facilitate the realization and development of new production technologies and services with high innovation value in order to stimulate awareness for products that are made in Italy. In December 2008, the Company submitted to the Italian Ministry of Industrial Activities its proposal, entitled i-sofas. The i-sofas program envisions a total investment of 3.9 million, up to 1.7 million of which may be contributed as a grant by the Italian Ministry of Industrial Activities. In March 2010, the Company was informed by the Italian Ministry of Industrial Activities that the i-sofas program had been approved and subsequently, in May 2010, the Company was also entitled to a grant from the Italian Government. According to the final approval, the related total capital grants under the Made in Italy Industry 2015 program were reduced from 3.9 million to the final amount of 1.9 million and, accordingly, capital grants for 0.8 million.

In November 2008, the Puglia regional authorities launched an incentive program in order to support companies located in the Puglia regional district that intend to invest in new production process changes, production diversification and industrial research. In January 2009, the Company submitted its proposal, entitled UthinkLean. The UThinkLean program envisions a total investment of 11.3 million, up to 3.7 million of which may be contributed as a grant by the Puglia regional authorities. However, in April 2011, the Company was informed by the Puglia regional authorities that this program was not approved for a grant.

In April 2010, Natuzzi S.p.A., as the leader of a coalition of 19 institutions (including universities, research centers and other industrial companies), submitted to the MIUR (*The Italian Ministry of Education, University and Research*) a project proposal entitled Future Factory, which hopes to be financed using P.O.N. (*Piano Operativo Nazionale - National Operating Plan*) funds. This project concerns the research and development of technologies and advanced applications for the control, monitoring and management of industrial processes. This project anticipates an overall cost of 17.4 million, of which Natuzzi is supposed to bear 3.3 million (2.6 million as industrial research-related costs, and 0.7 million as experimental activity-related costs). In March 2011, the MIUR informed the Company that it was included on a short list of companies being considered for the grant. However, there can be no guarantee that the Company will receive any such grant from the Italian Government.

**Table of Contents**

In December 2010, Italsofa Romania, an operating subsidiary wholly owned by the Company, took part in a European consortium (Augmented Reality Technologies in FACTories – ARTiFACT) of partners who excel in their respective fields of knowledge. The main objective of the project is to enhance the competitiveness of European companies and to optimize production efficiency in order to provide workers on the shop-floor level with context-based information. In addition, the industrial partners and scientific research institutes involved in the project are able to challenge international competitors. The ARTiFACT consortium consists of 14 European partners. The total investments included in the ARTiFACT project amount to 5.6 million, and the overall capital grant is 3.8 million, of which 0.2 million is earmarked for Italsofa Romania.

Certain of the Group's foreign subsidiaries, including Natuzzi China Ltd and Italsofa Nordeste S.A. enjoy significant tax benefits, such as corporate income tax exemptions or reductions of the applicable corporate income tax rates.

**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, Italsofa, Natuzzi Editions and Editions trademarks. These trademarks and certain other trademarks, such as Divani & Divani by Natuzzi, have been registered as such in Italy, the European Union, 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 1,500 design patents and patents pending. Applications are made with respect to new product introductions that the Group believes will enjoy commercial success and have a high likelihood of being copied.

**Table of Contents**

**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-U.S. 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. Our products are subject to regulations applicable in the countries where they are manufactured and sold. Our production processes are regularly inspected to ensure compliance with applicable regulations. While management believes that the Group is currently in compliance in all material respects with such laws and regulations (including 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 Item 4. Information on the Company Environmental Regulatory Compliance, Item 10. Additional Information Exchange Controls and Item 10. Additional Information Taxation.

**Environmental Regulatory Compliance**

The Group operates all of its facilities in compliance with all applicable laws and regulations.

**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, product liability claims and Directors and Officer Liabilities. While the Group's insurance does not cover 100% of these risks, management believes that the Group's present level of insurance is adequate in light of past experience.

**Table of Contents****Description of Properties**

The location, approximate size and function of the principal physical properties used by the Group as of April 30, 2011 are set forth below:

| <b>Location</b>                      | <b>Size<br/>(approximate<br/>square<br/>meters)</b> | <b>Function</b>                                                                                                                                                                 | <b>Production<br/>Capacity<br/>per day</b> | <b>Unit of<br/>Measure</b> |
|--------------------------------------|-----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|----------------------------|
| Santeramo in Colle (BA) Italy        | 29,000                                              | Headquarters, prototyping, manufacturing of wooden frames, showroom (Owned)                                                                                                     | 704                                        | Frames                     |
| Santeramo in Colle, Iesce (BA) Italy | 28,000                                              | Sewing and product assembly (Owned)                                                                                                                                             | 1,400                                      | Seats                      |
| Matera La Martella Italy             | 38,000                                              | General warehouse of sofas and accessory furnishing (Owned)                                                                                                                     | N.A.                                       | N.A.                       |
| Ginosa (TA) Italy                    | 16,000                                              | Sewing and product assembly (Owned)                                                                                                                                             | 900                                        | Seats                      |
| Laterza (TA) Italy                   | 11,000                                              | Leather cutting (Owned)                                                                                                                                                         | 7,500                                      | Square Meters              |
| Laterza (TA) Italy                   | 13,000                                              | Fabric and lining cutting, leather warehouse (Owned)                                                                                                                            | 6,000                                      | Linear Meters              |
| Laterza (TA) Italy                   | 20,000                                              | Accessory Furnishing Packaging and Warehouse (Owned)                                                                                                                            | N.A.                                       | N.A.                       |
| Qualiano (NA) Italy                  | 12,000                                              | Polyurethane foam production (Owned)                                                                                                                                            | 87                                         | Tons                       |
| Pozzuolo del Friuli (UD) Italy       | 21,000                                              | Leather dyeing and finishing (Owned)                                                                                                                                            | 14,000                                     | Square Meters              |
| High Point U.S.A. North Carolina     | 10,000                                              | Office and showroom for Natuzzi Americas (Owned)                                                                                                                                | N.A.                                       | N.A.                       |
| Baia Mare Romania                    | 75,600                                              | Leather cutting, sewing and product assembly, manufacturing of wooden frames, polyurethane foam shaping, fiberfill production and wood and wooden product manufacturing (Owned) | 2,900                                      | Seats                      |
| Shanghai China (FENGPU)              | 88,000                                              | Leather cutting, sewing and product assembly, manufacturing of wooden frames, polyurethane foam shaping, fiberfill production (Leased)                                          | 3,000                                      | Seats                      |
| Shanghai (Fengpu) China              | 15,000                                              | Sewing and product assembly (Leased)                                                                                                                                            | 700                                        | Seats                      |
| Salvador de Bahia (Bahia) Brazil     | 28,700                                              | Leather cutting, sewing and product assembly,                                                                                                                                   | 700                                        | Seats                      |

manufacturing of wooden  
frames, polyurethane foam  
shaping, fiberfill production  
(Owned)

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 75.0% 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. Up until July 2010, the Group utilized subcontractors to meet demand variability.

**Table of Contents****Capital Expenditures**

The following table sets forth the Group's capital expenditures for each year for the three-year period ended December 31, 2010:

|                 | <b>Year ending December 31,</b><br>(millions of Euro) |             |             |
|-----------------|-------------------------------------------------------|-------------|-------------|
|                 | <b>2010</b>                                           | <b>2009</b> | <b>2008</b> |
| Land and plants | 0.2                                                   | 0.3         | 1.1         |
| Equipment       | 13.8                                                  | 1.6         | 5.1         |
| Other assets    | 3.1                                                   | 6.7         | 9.8         |
| <b>Total</b>    | <b>17.1</b>                                           | <b>8.6</b>  | <b>16.0</b> |

Capital expenditures during the last three years were primarily made to make improvements to property, plant and equipment, to implement SAP as well as for the expansion of the Company's retail network. For further discussion see Notes 9 and 10 to the Consolidated Financial Statements included in Item 18 of this annual report. In 2010, capital expenditures were primarily made to open new *Natuzzi* stores and *Natuzzi* galleries, to make improvements at the Group's existing facilities (those located in Baia Mare, Romania, and other facilities located in and around Santeramo in Colle, Italy, in particular to implement a photovoltaic plant in all our Italian production sites) in order to increase productivity, save energy and to implement the SAP system. The Group expects that capital expenditures in 2011 will be approximately 29 million, which is expected to be financed with cash flow from operations. The Group plans to direct such capital expenditures mainly to open new stores and galleries, towards the continued implementation of SAP and to achieve productivity improvements in existing plants and to complete the process of relocating its existing Chinese facilities to new venues in light of the expropriation process relating to its current facilities and completed in May 2011. The Group expects almost all of the new store and gallery openings to be in the Europe region.

**Item 4A. Unresolved Staff Comments**

None.

**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 losses and shareholders' equity, see Note 26 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 which affect the reported amounts of assets and liabilities as of any reporting date and the reported amounts of revenues and expenses during any reporting period. The Group's financial presentation could be materially different if different estimates, judgments or assumptions were used. The following discussion addresses the estimates, judgments 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, judgment or assumption were used. Although management believes these estimates to represent the best outcome of the estimation process, actual results could differ from such estimates, due to, among other things, the following factors: uncertainty, lack or limited availability of information, availability of new informative elements, variations in economic conditions such as prices, costs, other significant factors including evolution in technologies, industrial practices and standards (e.g. removal technologies) and the final outcome of legal, environmental or regulatory proceedings.





**Table of Contents**

**Recoverability of Long-lived Assets Including Goodwill and Other Intangible Assets** The Group periodically reviews the carrying values of the long-lived assets held for use and the carrying values 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.

In particular in 2010, our market capitalization increased, by approximately 9.5%, but is still below our company's book value. Many factors could have contributed to this situation, including, without limitation, general economic and financial conditions, our financial results, movement in stock market prices and, from time to time, an illiquid trading market for our ADSs. As a result of market capitalization and other triggering events discussed in detail in Notes 9, 10, 23, and 26(d) of the Consolidated Financial Statements included in Item 18 of this annual report, the Company had to analyze its overall valuation and performed an impairment analysis of its long-lived assets, including intangible assets, and goodwill in accordance with Italian GAAP and US GAAP (long-lived assets have to be tested for impairment whenever the events or changes in circumstances indicate that the carrying amount of an asset may be not recoverable; goodwill has to be tested at least once a year or whenever the events or changes in circumstances indicate that the carrying amount of goodwill may be not recoverable). The key inputs that were used in performing the impairment tests related to the estimated long term growth rate of 1%, the weighted average cost of capital equal to 9.9%, and an estimated average growth rate in sales of 6% for the subsequent years.

Based on this impairment analysis, the Company recorded in its consolidated statements of operation for the year ended December 31, 2010 under US GAAP an impairment loss of 0.7 million related to the goodwill of its reporting unit named Italian retail owned stores. Under Italian GAAP, no impairment loss was recorded as a consequence of the amortization process already performed on a straight line basis over a period of five years, that has already reduced the carrying value of the goodwill.

For a discussion of the differences between Italian GAAP and US GAAP with respect to the above impairment charges and the effect on net loss and shareholders' equity as of December 31, 2010, please see Note 26(d) of the Consolidated Financial Statements included in item 18 of this annual report. For further discussion about our impairment testing process, please see Notes (9) and (10) of the Consolidated Financial Statements included in item 18 of this annual report.

Furthermore, the Company would like to underline that the net book value of goodwill (net of impairment charge) as of December 31, 2010 under Italian GAAP and US GAAP was 0.2% and 1.2% of total assets, respectively (see notes 10 and 26(d) of the Consolidated Financial Statements included in item 18 of this annual report).

**Table of Contents**

**Recoverability of Deferred Tax Assets** Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the accounting in the consolidated financial statements of existing assets and liabilities and their respective tax bases, as well as for losses available for carrying forward in the various tax jurisdictions. Deferred tax assets are reduced by a valuation allowance to an amount that is reasonably certain to be realized. Deferred tax assets and liabilities are calculated using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

In assessing the feasibility of the realization of deferred tax assets, management considers whether it is reasonably certain that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and the tax loss carry forwards are utilized.

Given the cumulative loss position of Natuzzi and of most of its Italian and foreign subsidiaries as of December 31, 2010 and 2009 (see note 14 of the Consolidated Financial Statements included in item 18 of this annual report), management considered the scheduled reversal of deferred tax liabilities and tax planning strategies, in making this assessment. However, after a reasonable effort as of December 31, 2010 and 2009, management has not identified any relevant tax planning strategies available to reduce the need for a valuation allowance. Therefore, at December 31, 2010 and 2009 the realization of the deferred tax assets is primarily based on the scheduled reversal of deferred tax liabilities (see note 14 of the Consolidated Financial Statements included in item 18 of this annual report).

Based upon this analysis, management believes it is more likely than not that the Group will realize the benefits of the deductible differences and net operating loss carry forwards (see note 14 of the Consolidated Financial Statements included in item 18 of this annual report), net of the existing valuation allowances at December 31, 2010 and 2009.

Changes in the assumptions and estimates related to future taxable income, tax planning strategies and scheduled reversal of deferred tax liabilities could affect the recoverability of the deferred tax assets. If actual results differ from such estimates and assumptions the Group financial position and results of operation may be affected.

**Allowances for Returns and Discounts** The Group records revenues net of returns and discounts. The Group estimates sales returns 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 and discounts may differ significantly from these estimates if factors such as economic conditions, customer preferences or changes in product quality differ from the ones used by the Group in making these estimates.

**Table of Contents**

**Allowance for Doubtful Accounts** The Group makes estimates and judgments in relation 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 creditworthiness of its customers and general economic conditions. Changes to assumptions relating to these estimates could affect actual results. Actual results may differ significantly from the Group's estimates if factors such as general economic conditions and the creditworthiness of its customers are different from the Group's assumptions.

**Revenue Recognition** Under Italian GAAP, the Group recognizes sales revenue, and accrues associated costs, 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 sales terms such that ownership, and thus risk, is transferred to the customer when the customer takes possession of the goods. These sales terms are referred to as delivered duty paid, delivered duty unpaid, delivered ex quay and delivered at customer factory. Delivery to 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 26(c) to the Consolidated Financial Statements included in Item 18 of this annual report.

**Results of Operations**

**Summary** Despite a series of challenges, including increasingly stiff industry competition and reduced consumer discretionary spending as a result of the global economic downturn, aspects of the Group's performance in 2010 improved as compared with its performance in 2009, although its sales volume was substantially unchanged during that time. In 2010, the Group had net losses of \$11.1 million, which was an improvement compared to net losses of \$17.7 million in 2009, although the Group experienced a 0.6% increase in net sales, from \$515.4 million in 2009 to \$518.6 million in 2010. In 2010, the Group sold 1,954,592 seats, an increase of 1.6% as compared to 2009. In 2010, net sales of Natuzzi branded products, which target the high-end of the market, decreased by 5.4% to \$192.1 million (from \$203.1 million in 2009), with the number of Natuzzi-branded seats sold increasing by 8.6% as compared to 2009. Net sales of the Natuzzi Editions/Editions, Italsofa brand and Unbranded products increased by 8.4% in 2010, to \$268.4 million from \$247.5 million in 2009, with the number of seats sold increasing by 5.5%.

The Group's negative performance in 2010 was principally due to a decrease in the sales volume of *Natuzzi*-branded products though it was partially offset by improvement in gross margin. In particular, we believe that the underperformance in sales was primarily caused by a number of ongoing factors in the global economy that have negatively impacted the discretionary spending of consumers. These economic factors include lower home values, high levels of unemployment and personal debt, and reduced access to consumer credit. These developments, coupled with the ongoing malaise of the global financial system and capital markets, have caused a decline in consumer confidence and curtailed consumer spending.

Due to the combined effect of a slight increase in net sales volume of our products, of the improvement in gross margin partially offset by the poor performance of the Group's retail network, and of the low efficiency of the manufacturing plant operating in Brazil, the Group reported an operating income in 2010 (as compared to an operating loss in 2009) and its net financial position worsened mostly due to cash flow used in investing activities in 2010.

Despite these challenges, the Group continued to invest in the repositioning of the *Natuzzi* brand and the reorganization of its sales activities in 2010, as well as in the ongoing restructuring of its operations, with the aim of regaining its competitiveness and ensuring its long-term profitability.

**Table of Contents**

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

|                                     | <b>Year Ended December 31,</b> |             |             |
|-------------------------------------|--------------------------------|-------------|-------------|
|                                     | <b>2010</b>                    | <b>2009</b> | <b>2008</b> |
| Net sales                           | 100.0%                         | 100.0%      | 100.0%      |
| Cost of sales                       | 62.0                           | 64.0        | 71.9        |
| Gross profit                        | 38.0                           | 36.0        | 28.1        |
| Selling expenses                    | 29.7                           | 29.0        | 25.9        |
| General and administrative expenses | 8.2                            | 9.0         | 7.4         |
| Operating margin                    | 0.1                            | (2.0)       | (5.2)       |
| Other income (expense), net         | (0.8)                          | 0.6         | (3.9)       |
| Income taxes                        | 1.4                            | 1.9         | 0.2         |
| Net loss                            | (2.1)                          | (3.3)       | (9.3)       |

See Item 4. Information on the Company Markets for tables setting forth the Group's net leather- and fabric-upholstered furniture sales and seats sold, which are broken down by geographic market, for the years ended December 31, 2008, 2009 and 2010.

**2010 Compared to 2009**

**Net Sales** for 2010, including sales of leather and fabric-upholstered furniture and other sales (principally sales of polyurethane foam and leather sold to third parties as well as of accessories), increased 0.6% to 518.6 million, as compared to 515.4 million in 2009.

Net sales for 2010 of leather and fabric-upholstered furniture increased 2.2% to 460.5 million, as compared to 450.6 million in 2009. The 2.2% increase was due to a combination of factors, principally (i) a 1.6% increase in the number of seats sold, (ii) a 3.2% increase in sales as reported in euro stemming from the depreciation of the euro against the U.S. dollar, and (iii) a 2.6% decrease due to targeted pricing strategies and advertising with respect to certain product models. Net sales of *Natuzzi*-branded furniture accounted for 41.7% of our total furniture net sales in 2010 (as compared to 45.1% in 2009), and net sales of *Natuzzi Editions/Editions*, *Italsofa* brand and Unbranded products accounted for 58.3% of our total net sales for 2010 (as compared to 54.9% in 2009).

Net sales for 2010 of leather upholstered furniture increased 4.2% to 431.1 million, as compared to 413.7 million in 2009, and net sales for 2010 of fabric upholstered furniture decreased 20.0% to 29.4 million, as compared to 36.8 million in 2009.

In the Americas, net sales of upholstered furniture in 2010 increased by 17.4% to 164.2 million, as compared to 139.9 million in 2009, and seats sold increased by 12.9% to 886,471, as compared to 785,156 in 2009. Net sales of *Natuzzi Editions/Editions*, *Italsofa* brand and Unbranded products increased 19.3% compared to 2009, while net sales of the higher-priced *Natuzzi*-branded furniture increased 1.3% as compared to 2009. In Europe, net sales of upholstered furniture in 2010 decreased 9.7% to 238.1 million, as compared to 263.7 million in 2009, due to the combined effect of a 9.3% decrease in net sales of *Natuzzi*-branded furniture and to a 10.3% decrease in net sales of *Natuzzi Editions/Editions*, *Italsofa* brand and Unbranded products. In the Rest of the World, net sales of upholstered furniture increased 23.8% to 58.2 million, as compared to 47.0 million in 2009.

**Table of Contents**

Net sales for 2010 of the *Natuzzi*-branded furniture decreased 5.4% to 192.1 million, as compared to 203.1 million in 2009, with the number of *Natuzzi*-branded seats sold decreasing by 8.6%. During 2010, net sales of Natuzzi Editions/Edizioni, Italsofa brand and Unbranded products increased 8.4% to 268.4 million, as compared to 247.6 million in 2009, with the number seats sold increasing by 5.5%.

In 2010, total seats sold increased 1.6% to 1,954,592 from 1,923,220 sold in 2009. Negative performance was recorded in the Europe region (down 10.1% to 847,451 seats), whereas the Group had positive results in the Americas region (up 12.9% to 886,471 seats) and the Rest of the World (up 13.2% to 220,670 seats).

The following provides a more detailed country -by- country examination of the changes in volumes in our principal markets, according to the Group's two main sales categories:

**Natuzzi Brand.** In terms of seats sold under the *Natuzzi* brand, the Group recorded negative results in the United States (-19.8%), Korea (-15.6%), France (-18.0%), Italy (-2.8%), Germany (-25.4%), Ireland (-37.6%), Portugal (-27.7%), Denmark (-43.6%) and Belgium (-15.4%). Positive results were reported in Canada (+22.9%), China (+28.3%), and UAE (+15.3%).

**Natuzzi Editions/Edizioni, Italsofa brand and Unbranded products.** The Group recorded a decrease in terms of seats sold in many countries, among which were Saudi Arabia (-10.0%), Belgium (-11.4%), France (-9.3%), Holland (-36.9%), Sweden (-15.0%) and Germany (-24.3%). Positive results were reported in the United States (+11.9%), Canada (+23.1), Israel (+16.3%), the United Kingdom (+7.1%), Portugal (+ 19.1) and China (+53.1%).

**Other Net Sales** (principally sales of polyurethane foam and leather sold to third parties, as well as of accessories) decreased 10.3% to 58.1 million, as compared to 64.8 million in 2009.

**Cost of Sales** in 2010 decreased in absolute terms by 2.5% to 321.5 million (representing 62.0% of net sales), as compared to 329.8 million (or 64.0% of net sales) in 2009. The improvement in cost of sales, as a percentage of net sales, was due to the decrease in the cost of leather and of other principal raw materials, as well as improvements in material efficiency and plant rationalization.

**Gross Profit.** The Group's gross profit increased 6.2% in 2010 to 197.1 million, as compared to 185.6 million in 2009 as a result of the factors described above.

**Selling Expenses** increased 33.1% in 2010 to 154.3 million, as compared to 149.6 million in 2009, and, as a percentage of net sales, increased from 29.0% in 2009 to 29.7% in 2010. This increase was mainly due to an increase in transportation expenses.

**General and Administrative Expenses.** In 2010, the Group's general and administrative expenses decreased by 8.8% to 42.4 million, from 46.6 million in 2009, and, as a percentage of net sales, decreased from 9.0% in 2009 to 8.2% in 2010 as a result of the efficiency process the Group has been trying to implement for the past few years.

**Operating Income.** The Group had an operating income of 0.4 million for 2010, as compared to an operating loss of 10.6 million in 2009, as a result of the factors described above.

**Other Income (expenses), net.** The Group registered other expenses, net, of 4.4 million in 2010 as compared to other income, net of 3.1 million in 2009. Net interest expenses, included in other expense, net, in 2010 was 1.0 million, as compared to net expenses of 1.1 million in 2009. See Note 23 to the Consolidated Financial Statements included in Item 18 of this annual report.

**Table of Contents**

The Group registered a 1.0 million foreign-exchange net gain in 2010 (included in other income (expense), net), as compared to a net gain of 6.9 million in 2009. The foreign exchange gain in 2010 primarily reflected the following factors:

- a net realized loss of 3.1 million in 2010 (which was unchanged from 2009) on domestic currency swaps due to the difference between the forward rates of the domestic currency swaps and the spot rates at which the domestic currency swaps were closed (the Group uses the forward rate to hedge its price risks against unfavourable exchange rate variations);
- a net realized gain of 5.8 million in 2010 (compared to a loss of 2.4 million in 2009), from the difference between invoice exchange rates and collection/payment exchange rates;
- a net unrealized gain of 0.8 million in 2010 (compared to an unrealized gain of 7.8 million in 2009) on accounts receivable and payable; and
- a net unrealized loss of 0.8 million in 2010 (compared to an unrealized gain of 4.4 million in 2009), from the mark-to-market of domestic currency swaps.

The Group also recorded other expenses, included in other income (expense), net, in 2010 of 4.5 million, compared to other expenses of 2.6 million reported in 2009. These expenses reflected the following factors:

- a 3.8 million contingent-liabilities provision for estimated losses related to some claims (including tax claims) and legal actions in 2010, while in 2009, the provisions for contingent liabilities amounted to 3.8 million;
- other expenses of 0.5 million deriving from the write-off of fixed assets in 2010, while in 2009, the other expenses deriving from the write off of fixed assets amounted to 0.6 million;
- 0.2 million as other expense, net in 2010, compared to other income, net of 2.9 million in 2009.

The Group does not use hedge accounting and records all fair value changes of its domestic currency swaps in its statement of operations.

**Income Taxes.** In 2010, the Group suffered a negative effective tax rate of 172.5% on its losses before taxes and non-controlling interests, compared to the Group's negative effective tax rate of 131.6% reported in 2009.

For the Group's Italian companies the negative effective tax rate (*i.e.*, the obligation to accrue taxes despite reporting a loss before taxes) was due to the regional tax named Irap (see Note 14 to the Consolidated Financial Statements included in Item 18 of this annual report). This regional tax is generally levied on the gross profits determined as the difference between gross revenue (excluding interest and dividend income) and direct production costs (excluding labor costs, interest expenses and other financial costs). As a consequence, even if an Italian company reports a pre-tax loss, it could still be subject to this regional tax. In 2010, most Italian companies within the Group reported losses but had to pay Irap.

**Table of Contents**

In 2010, the Group's effective income tax rate was negatively affected also by the considerable increase in the deferred tax assets valuation allowance. In fact, in 2010, most of the Italian and foreign subsidiaries realized significant pre-tax losses and were in a cumulative loss position, so management did not consider it reasonably certain that the deferred tax assets of those companies would be realized in the scheduled reversal periods (see Note 14 to the Consolidated Financial Statements included in Item 18 of this annual report).

For some of the Group's foreign subsidiaries (Italsofa Shanghai Ltd, Softaly Shanghai Ltd, Natuzzi China Ltd and Italsofa Romania), the increase in the effective tax rate was mainly due to an improvement in profit before taxes and a reduction or maturity of tax incentives to which they were entitled.

**Net Loss.** The Group reported a net loss of 11.1 million in 2010, as compared to a net loss of 17.1 million in 2009. On a per-Ordinary Share, or per-ADS basis, the Group had net losses of 0.20 in 2010, as compared to net losses of 0.32 in 2009.

As disclosed in Note 26 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. Under U.S. GAAP, the Group would have had net losses of 9.2 million, 25.7 million and 55.7 million in 2010, 2009 and 2008, respectively, compared to net losses of 11.1 million, 17.7 million and 61.9 million in 2010, 2009 and 2008, respectively under Italian GAAP.

**2009 Compared to 2008**

For purposes of reading the following section, please note that in 2008 and 2009, the historical distinction between our product lines was based on a Natuzzi or Italsofa categorization. As previously noted in this annual report, starting in 2010, the Group distinguishes between Natuzzi-branded products and an other category, which includes Natuzzi Editions/Edizioni products, Italsofa products and other unbranded products.

**Net Sales** for 2009, including sales of leather and fabric-upholstered furniture and other sales (principally sales of polyurethane foam and leather sold to third parties as well as of accessories), decreased 22.6% to 515.4 million, as compared to 666.0 million in 2008.

Net sales for 2009 of leather and fabric-upholstered furniture decreased 23.3% to 450.6 million, as compared to 587.8 million in 2008. The 23.3% decrease was due to a combination of factors, principally (i) a 29.3% decrease in the number of seats sold, (ii) a 0.7% increase in sales as reported in euro stemming from the depreciation of the euro against the U.S. dollar, and (iii) a 5.3% increase due to targeted pricing strategies and advertising with respect to certain product models. Net sales of Natuzzi-branded furniture accounted for 56.5% of our total net sales in 2009 (as compared to 56.6% in 2008), and net sales of Italsofa-branded products accounted for 43.5% of our total net sales for 2009 (as compared to 43.4% in 2008).

Net sales for 2009 of leather upholstered furniture decreased 22.7% to 413.7 million, as compared to 535.2 million in 2008, and net sales for 2009 of fabric upholstered furniture decreased 30.0% to 36.8 million, as compared to 52.6 million in 2008.

**Table of Contents**

In the Americas, net sales for 2009 of upholstered furniture decreased by 32.9% to 139.8 million, as compared to 208.6 million in 2008, and seats sold decreased by 38.3% to 785,156, as compared to 1,272,560 in 2008. Net sales of the lower-priced *Italsofa*-branded furniture decreased 30.6% compared to 2008, while net sales of the higher-priced *Natuzzi*-branded furniture decreased 35.0%. In Europe, net sales for 2009 of upholstered furniture decreased 18.5% to 263.7 million, as compared to 323.7 million in 2008, due to the combined effect of a 18.0% decrease in net sales of *Natuzzi*-branded furniture and to a 19.2% decrease in net sales of *Italsofa*-branded furniture. In the Rest of the World, net sales for 2009 of upholstered furniture decreased 15.2% to 47.0 million, as compared to 55.5 million in 2008, due to a 15.2% decrease in net sales of *Natuzzi*-branded furniture and to a 15.2% decrease in net sales of *Italsofa*-branded furniture.

Net sales for 2009 of the *Natuzzi*-branded furniture decreased 23.4% to 254.7 million, as compared to 332.6 million in 2008, with the number of *Natuzzi*-branded seats sold decreasing by 29.9%. During 2009, net sales of the medium/low-priced *Italsofa* furniture decreased 23.2% to 195.9 million, as compared to 255.2 million in 2008, with the number of *Italsofa* seats sold decreasing by 28.9%.

Total net sales of *Divani & Divani by Natuzzi* and *Natuzzi Stores* decreased 18.2% in 2009 to 96.1 million, as compared to 117.1 million in 2008.

In 2009, total seats sold decreased 29.3% to 1,923,220 from 2,722,307 sold in 2008. Negative performance was recorded in the Europe region (down 22.1% to 943,103 seats), in the Americas (down 38.3% to 785,156 seats) and the Rest of the World (down 18.0% to 194,961 seats).

The following provides a more detailed country -by -country examination of the changes in volumes by brand in our principal markets:

**Natuzzi Brand.** In terms of seats sold under the *Natuzzi* brand, the Group recorded negative results in the United States (-41.9%), Canada (-40.2%), France (-30.3%), Italy (-14.1%), Spain (-26.3%), Ireland (-47.3%), Portugal (-49.3%), Denmark (-48.6%) and Belgium (-13.6%). Positive results were reported in Mexico (+13.8%), Korea (+9.2%), and Israel (+8.7%).

**Italsofa Brand.** In terms of seats sold under the *Italsofa* brand, the Group recorded decreases in many countries, including Holland (-23.1%), Germany (-24.1%), France (-26.6%), Ireland (-16.1%), Chile (-36.9%), Sweden (-30.4%) and Norway (-18.8%). Positive results were reported in Korea (+1.4%), Israel (+5.7%), the United Kingdom (+6.2%), Portugal (+ 1.8) and China (+3.6%).

**Other Net Sales** (principally sales of polyurethane foam and leather sold to third parties, as well as of accessories) decreased 17.2% to 64.8 million, as compared to 78.2 million in 2009.

**Cost of Sales** in 2009 decreased in absolute terms by 31.1% to 329.7 million (representing 64.0% of net sales), as compared to 478.8 million (or 71.9% of net sales) in 2008. The improvement in cost of sales, as a percentage of net sales, was due to the decrease in the cost of leather and of other principal raw materials, as well as improvements in material efficiency and plant rationalization.

**Gross Profit.** The Group's gross profit decreased 0.9% in 2009 to 185.6 million, as compared to 187.2 million in 2008 as a result of the factors described above.



**Table of Contents**

**Selling Expenses** decreased 13.2% in 2009 to 149.6 million, as compared to 172.3 million in 2008, and, as a percentage of net sales, increased from 25.9% in 2008 to 29.0% in 2009. This increase was mainly due to lower net sales.

**General and Administrative Expenses.** In 2009, the Group's general and administrative expenses decreased 6.7% to 46.6 million, as compared to 49.9 million in 2008, and, as a percentage of net sales, increased from 7.4% in 2008 to 9.0% in 2009 as a result of the Group's decreased net sales.

**Operating Loss.** The Group had an operating loss of 10.6 million for 2009, as compared to an operating loss of 35.0 million in 2008, as a result of the factors described above.

**Other Income (expenses), net.** The Group registered other income, net, of 3.1 million in 2009 as compared to other expenses, net of 25.8 million in 2008. Net interest expenses, included in other income (expense), net, in 2009 was 1.1 million, as compared to net expenses of 0.2 million in 2008. See Note 23 to the Consolidated Financial Statements included in Item 18 of this annual report.

The Group registered a 6.9 million foreign-exchange net gain in 2009 (included in other income (expense), net), as compared to a net loss of 11.0 million in 2008. The foreign exchange gain in 2009 primarily reflected the following factors:

- a net realized loss of 3.1 million in 2009 (compared to a loss of 1.3 million in 2008) on domestic currency swaps due to the difference between the forward rates of the domestic currency swaps and the spot rates at which the domestic currency swaps were closed (the Group uses the forward rate to hedge its price risks against unfavourable exchange rate variations);

- a net realized gain of 2.1 million in 2009 (compared to a loss of 6.3 million in 2008), from the difference between invoice exchange rates and collection/payment exchange rates;

- a net unrealized gain of 7.9 million in 2009 (compared to an unrealized gain of 1.1 million in 2008) on accounts receivable and payable; and

- a net unrealized loss of 0.06 million in 2009 (compared to an unrealized loss of 4.4 million in 2008), from the mark-to-market of domestic currency swaps.

The Group also recorded other expenses, included in other income (expense), net, in 2009 of 2.6 million, compared to other expenses of 14.5 million reported in 2008. These expenses reflected the following factors:

- a 3.8 million contingent-liabilities provision for estimated losses related to some claims (including tax claims) and legal actions in 2009, while in 2008, the provisions for contingent liabilities amounted to 3.2 million;

- other expenses of 0.6 million deriving from the write-off of fixed assets in 2009, while in 2008, the other expenses deriving from the write off of fixed assets amounted to 1.2 million;

- the Group did not record any expenses due to the impairment of long-lived assets, while in 2008 it recorded 4.7 million for such expense;

**Table of Contents**

the Group did not record any expenses for one-time termination benefits, while in 2008 it recorded 4.6 million for such expenses; and

2.9 million as other income, net in 2009, compared to other expenses, net of 0.8 million in 2008.

The Group does not follow hedge accounting and records all fair value changes of its domestic currency swaps in its statement of operations.

**Income Taxes.** In 2009, the Group suffered a negative effective tax rate of 131.6% on the loss before taxes and non-controlling interests, compared to the Group's effective negative tax rate of 2.2% reported in 2008.

For the Group's Italian companies the negative effective tax rate (*i.e.*, the obligation to accrue taxes despite reporting a loss before taxes) was due to the regional tax named *Irap* (see Note 14 to the Consolidated Financial Statements included in Item 18 of this annual report). This regional tax is generally levied on the gross profits determined as the difference between gross revenue (excluding interest and dividend income) and direct production costs (excluding labor costs, interest expenses and other financial costs). As a consequence, even if an Italian company reports a pre-tax loss, it could still be subject to this regional tax. In 2009, most Italian companies within the Group reported losses but had to pay *Irap*.

In 2009, the Group's effective income tax rate was negatively affected also by the considerable increase in the deferred tax assets valuation allowance. In fact, in 2009, most of the Italian and foreign subsidiaries realized significant pre-tax losses and were in a cumulative loss position, so management did not consider it reasonably certain that the deferred tax assets of those companies would be realized in the scheduled reversal periods (see Note 14 to the Consolidated Financial Statements included in Item 18 of this annual report).

For some of the Group's foreign subsidiaries (Italsofa Shanghai Ltd, Softaly Shanghai Ltd, Natuzzi China Ltd and Italsofa Romania), the increase in the effective tax rate was mainly due to the improvement in profit before taxes and reduction or maturity of tax incentives to which they were entitled.

**Net Loss.** The Group reported a net loss of 17.7 million in 2009, as compared to a net loss of 61.9 million in 2008. On a per-Ordinary Share, or per-ADS basis, the Group had net losses of 0.32 in 2009, as compared to net losses of 1.13 in 2008.

As disclosed in Note 26 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. Under U.S. GAAP, the Group would have had net losses of 25.7 million, 55.7 million and 60 million in 2009, 2008 and 2007, respectively, compared to net losses of 17.7 million, 61.9 million and 62.6 million in 2009, 2008 and 2007, respectively under Italian GAAP.

**Table of Contents****Liquidity and Capital Resources**

The Group's cash and cash equivalents were 61.1 million as of December 31, 2010, as compared to 66.3 million as of December 31, 2009. The most significant changes in the Group's cash flows between 2009 and 2010 are described below.

Cash flow generated by operating activities was 2.4 million in 2010, as compared to cash flow generated in operations of 33.4 million in 2009, or a decrease of 31.0 million from 2009 to 2010. In 2009, cash flow generated by operating activity benefited from the reduction in trade receivables and stock inventory levels caused by volume contraction, while 2010 saw overall similar volumes trends as 2009. As at December 31, 2010, we had a general increase in inventory level of 5.8 million in comparison with December 31, 2009, whereas inventory level decreased by 10.4 million when comparing December 31, 2009 to December 31, 2008. Similarly, trade receivables as of December 31, 2010 decreased by 1.2 million in comparison with December 31, 2009, whereas trade receivables as of December 31, 2009 decreased by 25.7 million in comparison with December 31, 2008. The above effects were partially offset by the improvement in net loss of 6.6 million, thanks primarily to the increased gross profit and reduction in general and administrative overhead.

Net cash used in investment activities in 2010 increased 7.5 million to 15.9 million. The increase in cash used in investment activities in 2010 was due to higher capital expenditures. In both 2009 and 2010, capital expenditures related primarily to the opening of new Natuzzi stores and galleries as well as improvements at existing manufacturing facilities intended to increase productivity (including the purchase of equipment). In 2010, the Group continued to invest in order to continue the implementation of the SAP system for its domestic and foreign companies. See Item 3. Key Information Risk Factors Introduction of a new integrated management system.

Cash generated by financing activities in 2010 totalled 7.8 million, as compared to 5.7 million of cash used by financing activities in 2009. Cash generated by financing activities in 2010 was affected by the increase in long term borrowings, partially offset by the decrease in short term borrowings.

As of December 31, 2010, the Group had available unsecured lines of credit for cash disbursements totalling 44.8 million. The Group uses these lines of credit to manage its short-term liquidity needs. The unused portions of these lines of credit amounted to approximately 44.7 million (see Note 11 to the Consolidated Financial Statements included in Item 18 of this annual report) as of December 31, 2009. Amounts borrowed by the Group under these credit facilities are not subject to any restrictions on their use, but are repayable either on demand (for bank overdrafts) or on a short-term basis (for other bank borrowings under existing credit lines). Given their nature, these lines of credit may be terminated by the banks at any time. The Group's borrowing needs are not subject to seasonal fluctuations.

In light of the downturn of the global economy and the continuing uncertainty about these conditions in the foreseeable future, we are focused on effective cash management, controlling costs, and preserving cash in order to continue to make necessary capital expenditures and acquire of stores. For example, we reviewed all capital projects for 2011 and are committed to execute only those projects that are necessary for business operations.

**Table of Contents**

Management believes that the Group's working capital is sufficient for its present requirements. The Group's principal source of liquidity is its existing cash and cash equivalents, supplemented to the extent needed to meet the Group's short term cash requirements by accessing the Group's existing lines of credit. The Group expects to continue relying on existing cash and cash equivalents as its principal source of liquidity in the future. As of December 31, 2010, the Group's long-term contractual cash obligations amounted to 142.7 million of which 21.1 million comes due in 2011 (17.4 million in 2010). See Item 5. Operating and Financial Review and Prospects Contractual Obligations and Commitments. The Group's long-term debt represented less than 5.0% of shareholders' equity as of December 31, 2010 and 2009 (see Note 16 to the Consolidated Financial Statements included in Item 18 of this annual report). As of December 31, 2010 and 2009 there were no covenants on the above long-term debt. The Group's principal uses of funds are expected to be the payment of operating expenses, working capital requirements, capital expenditures and restructuring of operations. See Item 4. Products for further description of our research and development activities. See Item 4. Incentive Programs and Tax Benefits for further description of certain government programs and policies related to our operations. See Item 4. Capital expenditure for further description of our capital expenditures.

**Contractual Obligations and Commitments**

The Group's current policy is to fund its cash needs, accessing its cash on hand and existing lines of credit, consisting of short-term credit facilities and bank overdrafts, to cover any short-term shortfall. The Group's policy is to procure financing and access credit at the Company level, with the liquidity of Group companies managed through a cash-pooling zero-balancing arrangement with a centralized bank account at the Company level and sub-accounts for each subsidiary. Under this arrangement, cash is transferred to the sub-accounts as needed on a daily basis to cover the subsidiaries' cash requirements, but any balance on the sub-accounts must be transferred back to the top account at the end of each day, thus centralizing coordination of the Group's overall liquidity and optimizing the interest earned on cash held by the Group.

As of December 31, 2010, the Group's long-term debt consisted of 15.4 million (including the current portion of such debt) outstanding under subsidized loans granted by the Italian government (see Item 4. Incentive Programs and Tax Benefits) and its short-term debt consisted of 0.1 million outstanding under its existing lines of credit, comprised entirely of bank overdrafts. This compares to 7.0 million of long-term debt and 0.8 million of short-term debt outstanding as of December 31, 2009.

As of December 31, 2010, all of the Group's long-term debt and short-term debt were denominated in euro. For the maturity profile of the Group's long-term debt, please consult the table labelled Contractual Obligations below. Short-term overdrafts are payable on demand. Other bank borrowings under existing lines of credit have other short-term maturities. The bulk of the group's long-term debt bears interest at a fixed rate of 2.01% per annum, with 22.6% of its long-term debt bearing interest at 0.74% per annum. The Group's short-term debt bears interest at floating rates, with a weighted average interest rate per annum of 1.27% on the Group's overdraft borrowing and 0.0% on other short-term borrowing as of December 31, 2010, compared to 1.18% and 0.0% on the Group's overdraft and other short-term borrowing, respectively, as of December 31, 2009. The Group does not have outstanding any other debt instruments, except that it has entered derivative instruments to reduce its exposure to the risk of short-term declines in the value of its foreign currency denominated revenues and not for speculative or trading purposes. For additional information on these derivative instruments, see Item 11. Quantitative and Qualitative Disclosures About Market Risk Exchange Rate Risks.

The Group maintains cash and cash equivalents in the currencies in which it conducts its operations, principally euro, U.S. dollars, Canadian dollars, Australian dollars and British pounds.

**Table of Contents**

The following table sets forth the material contractual obligations and commercial commitments of the Group (of the type required to be disclosed pursuant to Item 5F of Form 20-F) as of December 31, 2010:

| Contractual Obligations                       | Total   | Payments Due by Period (thousands of euro) |           |           |               |
|-----------------------------------------------|---------|--------------------------------------------|-----------|-----------|---------------|
|                                               |         | Less than 1 year                           | 2-3 years | 4-5 years | After 5 years |
| Long-Term Debt <sup>(1)</sup>                 | 15,414  | 1,831                                      | 6,756     | 5,497     | 1,330         |
| Interest due on Long Term Debt <sup>(2)</sup> | 772     | 251                                        | 366       | 134       | 21            |
| Operating Leases <sup>(3)</sup>               | 135,172 | 19,036                                     | 38,636    | 39,997    | 37,503        |
| Total Contractual Cash Obligations            | 151,358 | 21,118                                     | 45,758    | 45,628    | 38,854        |

(1) Please see Note 16 to the Consolidated Financial Statements included in Item 18 of this annual report for more information on the Group's long-term debt.

(2) Interest due on long-term debt has been calculated using fixed rates contractually agreed with lenders

(3) The leases relate to the leasing of manufacturing facilities and stores by several of the Group's companies. Under Italian law, the Company and its Italian subsidiaries are required to pay a termination indemnity to their employees when these cease their employment with the Company or the relevant subsidiary. Likewise, the Company and its Italian subsidiaries are required to pay an indemnity to their sales agents upon termination of the sales agent's agreement. As of December 31, 2010, the Group had accrued an aggregate employee termination indemnity of 28.4 million. In addition, as of December 31, 2010, the Company had accrued a provision for contingent liabilities of 15.3 million, a sales agent termination indemnity of 1.2 million and a one-time termination indemnity benefit of 2.0 million. The one-time termination benefit includes the amount to be paid on the separation date to certain workers to be terminated on an involuntary basis. See Notes 3(n) and 17 of the Consolidated Financial Statements included in Item 18 of this annual report. These amounts are not reflected in the table above. It is not possible to determine when the amounts that have been accrued will become payable.

The Group is also involved in a number of claims (including tax claims) and legal actions arising in the ordinary course of business. As of December 31, 2010, the Group had accrued provisions relating to these contingent liabilities in the amount of 15.3 million. See Item 8. Financial Information Legal and Governmental Proceedings and Notes 17 and 23 to the Consolidated Financial Statements included in Item 18 of this annual report.

**Trend information**

The difficult market conditions deriving from the international economic and financial crisis are likely to persist in 2011, although with reduced severity. The socio-political events in North Africa and the Middle East, the environmental disaster in Japan and the related worldwide repercussions of such events make it difficult to clearly understand the direction that the Company's markets will take.

With respect to this uncertain situation, the Company is taking all necessary steps to face adverse economic conditions and to tackle the challenges of its sector, in particular by controlling costs, fighting counterfeiting and unfair competition, encouraging innovation, improving quality and, above all, striving to regain competitiveness and profitability.

**Related Party Transactions**

Please see Item 7. Major Shareholders and Related Party Transactions of this annual report.

**Table of Contents****New Accounting Standards under Italian and U.S. GAAP**

**Process of Transition to International Accounting Standards** Following the entry into force of European Regulation No. 1606 of July 2002, EU companies whose securities are traded on regulated markets in the EU have been required, since 2005, to adopt International Financial Reporting Standards ( IFRS ), formerly known as IAS, in the preparation of their consolidated financial statements. Given that the Company's securities are only traded on the NYSE, the Company is not subject to this requirement and continues to report its financial results in accordance with Italian GAAP and to provide the required reconciliation of certain items to U.S. GAAP in the Company's annual reports on Form 20-F.

**Italian GAAP** There are no recently issued accounting standards under Italian GAAP that have not been adopted by the Group.

**U.S. GAAP Recently issued but not yet adopted** U.S. accounting pronouncements relevant for the Company are outlined below:

**Accounting Standards Update ( ASU ) No. 2010-06, Fair Value Measurements and Disclosures:** in January 2010 the FASB issued Accounting Standards Update ( ASU ) No. 2010-06, Fair Value Measurements and Disclosures. The standard amends certain disclosure requirements of Subtopic 820-10. This ASU provides additional disclosures for transfers in and out of Levels I and II and for activity in Level III. This ASU also clarifies certain other existing disclosure requirements including level of desegregation and disclosures around inputs and valuation techniques. The final amendments to the Accounting Standards Codification were effective for annual or interim reporting periods beginning after December 15, 2009, except for the requirement to provide the Level III activity for purchases, sales, issuances, and settlements on a gross basis. That requirement will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. The amendments in the Update do not require disclosures for earlier periods presented for comparative purposes at initial adoption. The Company will make all required disclosures effective from January 1, 2011.

**Accounting Standards Update ( ASU ) No. 2010-13, Compensation Stock Compensation:** in April 2010 the FASB issued Accounting Standards Update ( ASU ) No. 2010-13, Compensation Stock Compensation. The objective of this Update is to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. FASB Accounting Standards Codification<sup>TM</sup> Topic 718, Compensation Stock Compensation, provides guidance on the classification of a share-based payment award as either equity or a liability. A share-based payment award that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. This Update provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update do not expand the recurring disclosures required by Topic 718. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company is currently evaluating the provisions of this standard, but does not expect adoption to have a material impact on its financial position and results of operations.

**Table of Contents**

**Accounting Standards Update ( ASU ) No. 2009-13, Revenue Recognition (Topic 605): Multiple Deliverable Revenue Arrangements:** in October 2009, the FASB issued Accounting Standards Update (ASU) 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements* (EITF Issue No. 08-1, *Revenue Arrangements with Multiple Deliverables* ). ASU 2009-13 amends FASB ASC Subtopic 605-25, *Revenue Recognition Multiple-Element Arrangements*, to eliminate the requirement that all undelivered elements have vendor specific objective evidence of selling price (VSOE) or third party evidence of selling price (TPE) before an entity can recognize the portion of an overall arrangement fee that is attributable to items that already have been delivered. In the absence of VSOE and TPE for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. The overall arrangement fee will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. Application of the residual method of allocating an overall arrangement fee between delivered and undelivered elements will no longer be permitted upon adoption of ASU 2009-13. Additionally, the new guidance will require entities to disclose more information about their multiple-element revenue arrangements. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company expects that the adoption of ASU 2009-13 in 2011 will not have a material impact on its consolidated financial statements.

**Accounting Standards Update ( ASU ) No. 2010-28, Intangibles Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, a consensus of the FASB Emerging Issues Task Force (Issue No. 10-A):** in December 2010, the FASB issued ASU 2010-28, *Intangibles Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, a consensus of the FASB Emerging Issues Task Force (Issue No. 10-A)*. ASU 2010-28 modifies Step 1 of the goodwill impairment test under ASC Topic 350 for reporting units with zero or negative carrying amounts to require an entity to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are adverse qualitative factors, including the examples provided in ASC paragraph 350-20-35-30, in determining whether an interim goodwill impairment test between annual test dates is necessary. The ASU allows an entity to use either the equity or enterprise valuation premise to determine the carrying amount of a reporting unit. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010 for a public company. The Company expects that the adoption of ASU 2010-28 will not have a material impact on its consolidated financial statements.

**Table of Contents****Item 6. Directors, Senior Management and Employees**

The Board of Directors of Natuzzi S.p.A. currently consists of nine members, whose term will expire on the date in which the shareholders meeting will approve the financial statements for fiscal year 2013. The directors and senior executive officers of the Company as of June 24, 2011 were as follows:

| <b>Name</b>                       | <b>Age</b> | <b>Position with the Company</b>                                |
|-----------------------------------|------------|-----------------------------------------------------------------|
| Pasquale Natuzzi *                | 71         | Chairman of the Board of Directors, Chief Executive Officer     |
| Antonia Isabella Perrone *        | 41         | Director                                                        |
| Annamaria Natuzzi *               | 44         | Director                                                        |
| Giuseppe Antonio D Angelo *       | 45         | Outside Director                                                |
| Maurizia Iachino Leto di Priolo * | 61         | Outside Director                                                |
| Giuseppe Desantis*                | 49         | Outside Director                                                |
| Pietro Scott Jovane*              | 42         | Outside Director                                                |
| Giuseppe Marino*                  | 46         | Outside Director                                                |
| Andrea Martinelli*                | 64         | Outside Director                                                |
| Vittorio Notarpietro              | 48         | Chief Financial Officer                                         |
| Fernando Rizzo                    | 46         | Chief Human Resources and Organization Officer                  |
| Clemente Giuseppe                 | 45         | Chief Operation Officer                                         |
| Giuseppe Cacciapaglia             | 43         | Chief Internal Control Systems Officer                          |
| Cosimo Cavallo                    | 51         | Chief Editions & Softaly Division                               |
| Giambattista Massaro              | 48         | Chief Procurement Officer                                       |
| Stefano Sette                     | 42         | Chief Research & Development Officer                            |
| Giacomo Ventolone                 | 43         | Chief Institutional Relations & Corporate Communication Officer |
| Angelo Colacicco                  | 42         | Chief Information Officer                                       |
| Massimiliano Quatraro             | 37         | Chief Legal & Corporate Affairs Officer                         |
| Simon Hughes                      | 51         | Chief Natuzzi & Italsofa Division ( <i>Consultant</i> )         |

\* The above mentioned Members of the Board of Directors were elected at the Company's Annual General Shareholders Meeting held on April 28, 2011.

**Pasquale Natuzzi**, currently Chairman of the Board of Directors and Chief Executive Officer, founded the Company in 1959. Mr. Natuzzi held the title of Sole Director of the Company from its incorporation in 1972 until 1991, when he became the Chairman of the Board of Directors. Mr. Natuzzi has creative skills and is directly involved with brand development and product styling. He takes care of strategic partnerships with existing and new accounts.

**Antonia Isabella Perrone** is a Director and is involved in the main areas of Natuzzi Group management, from the definition of strategies to retail distribution, marketing and brand development, and foreign transactions. In 1998, she was appointed Sole Director of a company in the agricultural-food sector, wholly owned by the Natuzzi family. She became part of the Natuzzi Group in 1994, dealing with marketing and communication for the Italian market under the scope of Retail Development Management until 1997. She has been married to Pasquale Natuzzi since 1997.

**Annamaria Natuzzi** is a Director of the Company and holds 2.6% of the Company's outstanding share capital. She is currently involved in defining Group strategy. She entered the Group in 1980, first working in Production Management (until 1985) and then with Sales Management (until 1995), mainly dealing with the Italian and European markets. She gained significant experience in the Research & Development Management, where she remained until 2004. She is the daughter of Pasquale Natuzzi.

**Giuseppe Antonio D Angelo** is an Outside Director of the Company and is currently Executive Vice President of Anglo-America Regions with Ferrero International SA. Before joining Ferrero in 2009, he acquired significant international experience in general management of multinational companies such as General Mills (from 1997 to 2009), S.C. Johnson & Son (from 1991 to 1997) and Procter & Gamble (from 1989 to 1991). Mr. D Angelo earned his Bachelors of Arts degree in Economics from LUISS University of Rome in 1988. He received certification from



Harvard Business School in the Advanced Management Program in 2004.

**Table of Contents**

**Maurizia Iachino Leto di Priolo** is an Outside Director of the Company. She has gained expertise in the executive search field as a Partner at Spencer Stuart Italy, an executive search consulting firm. Since 2001, she has been advising quoted and private companies on corporate governance. Since 2007, she has been leading the Governance Practice at Key2people. Ms. Iachino was President of Save the Children Italy from 2001 to 2007, she is a board member of *Fondazione Franco Parenti*, member of the scientific committee of NED Community, the Italian Community of Non-Executive Directors, Member of the *De Agostini Executive Committee* for the IV generation, Member of *Consiglio di Reggenza della Banca d Italia* and Member of the Board of Directors of Fondazione AEM/A2A.

**Giuseppe Desantis** is an Outside Director of the Company and is currently General Manager for G.T.S General Transport Service S.p.A, European leader in intermodal transports. From 1984 to 2008, he had covered roles of increasing responsibility within the Natuzzi Group, last but not least, the role of Natuzzi Spa Vice President. From 1994 to 1997 he has been Vice President *Confindustria Bari*. From 2001 to 2011 he has been President of *Sezione Legno Arredo Confindustria Basilicata*. From 2001 to 2005 Mr. Desantis has been member of *Direttivo del Comitato del Distretto del Mobile imbottito Matera* and from 2008 to early 2011 he has been Member of *Direttivo del Comitato del Distretto del legno e Arredo Puglia*. Since 2002, he has been an Outside Director of Banca d Italia Bari.

**Pietro Scott Jovane** is an Outside Director of the Company and currently is CEO of Microsoft Italy. Since 2003, he has carried out roles of increasing responsibility in Microsoft, focusing in the financial and commercial area. Since 2006, he has managed Microsoft's on line Division in Italy, and from 2005 to 2006 he was the Commercial Director for Telecommunications and Media. Mr. Jovane also previously served as Chief Financial Officer for Microsoft Italy. In his professional career, Mr. Jovane also served as CFO North America Versace Group, CFO of Matrix and Controlling Director of the SEAT Group.

**Giuseppe Marino** is an Outside Director of the Company and currently is an associate professor of tax law at the University of Milan. Mr. Marino is admitted to the Milan Bar and to the Supreme Court of Cassation, he is a chartered accountant and an official Auditor and coordinator of the Master in Tax Law program at Bocconi University of Milan. He is a member of important tax law associations, within the role of Member of the Academic Committee of the European Association of Tax Law Professors (EATLP), member of the Committee Rules of Behavior in Tax Law in the Chartered Accountant Association in Milan, and a member of various Editorial Boards of tax law reviews. He is also a Member of the Board of Directors of Alcofinance SA and Alcogroup SA (Belgium), a Member of the Board of Statutory Auditors of SOL S.p.A. (listed on the Milan Stock Exchange) as well as of two other non listed financial companies.

**Andrea Martinelli** is an Outside Director of the Company and currently Chief Operating Officer West Europe/MENA for MCCI and Executive Board Director of METRO Cash & Carry International. From 2004 to 2008, he was a Regional Operation Officer Russia Ukraine Kazakhstan and a Member of the Management Board for MCCI. From 1999 to 2003, he also served as the Managing Director for MCCI Italy. From 1995 to 1998, Mr. Martinelli served as the CEO Personnel Care Division International for FMCG Group Italy, Greece and France, and from 1986 to 1995, he was the Managing Director of Generale Supermercati Italia and a Board Member of Holding SME.

**Table of Contents**

**Vittorio Notarpietro** is the Chief Financial Officer of the Company. He rejoined the Group in September 2009. From 1991 to 1998, he was the Finance Director and Investor Relation Manager in the Group. From 1999 to 2006, he was IT Holding Group Finance Vice President. From 2006 to 2009, he was the CEO of Malo S.p.A., a leading Italian company in the luxury sector.

**Fernando Rizzo** is the Chief Human Resources & Organization Officer of the Company. He joined the Company in October 1991, and served in roles of increasing responsibility in the HR Department. From 1991 to 1993, he was Training and Development HR Manager and Recruiting Manager from 1993 to 1998. From 1999 to 2002, he was Plant HR Manager, and from 2003 to 2007, he took charge of the role of Italy Operations HR and Industrial Relations Manager. From 2007 to 2009, he served as HR Director China in Shanghai. From 2009 to October 2010, Mr. Rizzo was Managing Director of Natco S.p.A.

**Giuseppe Clemente** is the Chief Operations Officer of the Company. Mr. Clemente, who joined the Group more than 16 years ago, has served in roles of increasing responsibility, first as Quality Plant Manager, then as Third Parties Manager and Plant Director. In January 2006, he assumed the position of Logistics Director until his assignment in January 2009 as Manufacturing and Third Parties Italy Director.

**Giuseppe Cacciapaglia** is the Chief Internal Control Systems Officer and he joined the Company in July 1996, primarily focusing on carrying out financial audit activities of the Group. Previously Mr.Cacciapaglia worked with Reconta Ernst & Young within the financial audit services. From 2006 to 2009, he was also member of the Statutory Audit Committee of Santeramo in Colle Municipality.

**Cosimo Cavallo** is the Chief of Editions & Softaly Division. He was the Chief Commercial Officer from December 2009 to February 2011. From September 2008 to December 2009, he was a Regional Manager UK, SAE Europe and Middle East. He joined the Company as a Europe Regional Manager in May 2008. He has also served as Group General Manager in the Sara Lee Corporation for the Champion Sports Wear and Hanes Casual Wear division. He has been a National Sales Manager Italy for Fruit of the Loom, RJ Reynolds Tobacco & Quaker.

**Giambattista Massaro** is the Chief Procurement Officer. He returned to the Company in January 2010 after his service as CEO of Ixina Italy s.r.l. Snaidero Group from 2007 to 2009. From 1993 to 2007, he was General Manager of Purchasing, Logistics and Overseas Operation and a member of the Board of Directors of the Group. From 1992 to 1993, he was Assistant to Mr. Natuzzi, and from 1990 to 1992, he was Pricing and Costs Manager. He joined the Company in 1987 as a buyer. He also previously served as Chairman of Natco S.p.A., Natuzzi Trade Service S.r.l. and Lagene as well as Director of Italsofa Bahia Ltda., Italsofa Romania S.r.l. and Natuzzi Asia Ltd.

**Stefano Sette** is the Chief Research & Development Officer. He was the Chief Marketing and Product Development Officer from December 2009 to February 2011. He has also served as the Natuzzi Brand Group Senior Vice President, Vice President Sales Worldwide and Worldwide Product Manager. He joined the Company in its Export Sales Department in 1990.

**Table of Contents**

**Giacomo Ventolone** is the Chief Institutional Relations & Corporate Communication Officer. He worked in the US market as Brand Manager for Natuzzi Italy from December 2009 to March 2010. From January 2009 to December 2009, he was Regional Vice President for Latin America. He joined the company in 1997 and eventually served as Corporate and Internal Communication Manager from February 2004 to March 2007, and Communications Director from March 2007 to December 2008. Mr. Ventolone began his career as a freelancer with Pryngeps Gallery from 1992 to 1995, where he was responsible for the creation of communication tools for the industry. From 1995 to 1997, he worked in marketing and sales at *De Agostini Diffusione del Libro*.

**Angelo Colacicco** is the Chief Information Officer of the Company, a position he has served in since October 2007. He joined the Company in its HR & Organization department in 1994. In 1996, he served as a software specialist in IT department and from 2000 to 2007, he was the IT manager for all Sales and distribution processes.

**Massimiliano Quatraro** is the Chief Legal & Corporate Affairs Officer. He joined the Company in April 2011. After a degree in Law from the University of Bari and a Ph.D. in Law of Economics, Mr. Quatraro gained experience as an associate of the law firm Allen & Overy, where he occupied positions of increasing responsibility. In 2004, Mr. Quatraro has cooperated with Natuzzi Group as a legal counsel for national and international activities. In 2006, he joined the Shell Group, as Legal and Corporate Affairs Manager Upstream in Shell Italia S.p.A.

**Simon Hughes** is the Chief of Natuzzi & Italsofa Division in his capacity as a Consultant of the Company. He joined the Company in September 2010. Mr. Hughes has developed strong experience in Retail Development in the Asia Pacific region and has assumed an increasing role of responsibility in Levi's as Product Manager New Zealand from 1987 to 1992, Merchandising/Marketing Manager in Korea from 1992 to 1995 and Pan Asia Merchandising Manager from 1995 to 1997. He was Chief Operating Officer at CK Jeans Asia from 1997 to 2006, Managing Director at Warmaco from 2006 to 2008 and CEO at Bendon from 2008 to 2010, which has with a main distribution in Australia and New Zealand.

**Compensation of Directors and Officers**

As a matter of Italian law, the compensation of executive directors is determined by the Board of Directors, while the Company's shareholders generally determine the base compensation for all Board members, including non-executive directors. Compensation of the Company's executive officers is determined by the Chairman of the Board. A list of significant differences between the Group's corporate governance practices and those followed by U.S. companies listed on the New York Stock Exchange may be found at [www.natuzzi.com](http://www.natuzzi.com). See Item 16G. Corporate Governance on the Company Strategy for a description of these significant differences.

Aggregate compensation paid by the Group to the directors and officers was approximately 2.2 million in 2010. The compensation paid in 2010 to the members of the Board of Directors is set forth below individually:

| Name                            | Base<br>Compensation |
|---------------------------------|----------------------|
| Pasquale Natuzzi                | 221,411              |
| Antonia Isabella Perrone        | 35,343               |
| Annamaria Natuzzi               | 35,343               |
| Giuseppe Antonio D'Angelo       | 35,343               |
| Maurizia Iachino Leto di Priolo | 35,343               |
| Francesco Giannaccari           | 33,399               |
| Mario Lugli                     | 35,343               |
| Giacomo Santucci                | 35,343               |

**Table of Contents**

For 2011, the Group has confirmed the launch of a new Incentive System called Management By Process and Objectives ( MBPO ). The new system is the natural consequence of the re-definition of the directions defined by the Board and the re-definition of the 2011 Budget.

The objective of the MBPO is to incentivize an improvement in the business results of the Group by spurring a return to competitiveness and a renewed focus on innovation, customer satisfaction, brand project and social mission. In order to safeguard the interests of the Company's shareholders, the new incentive system is taking advantage of a switch on/off formula that contemplates, as necessary condition in order to activate the liquidation of 2011 MBPO sheets, the attainment of the Company's target Operating income, including the cost of the new incentive system.

**Share Ownership**

Mr. Pasquale Natuzzi, who founded the Company and is currently its Chief Executive Officer and Chairman of the Board of Directors, beneficially owns 29,358,089 Ordinary Shares, representing 53.5% of the Ordinary Shares outstanding (58.7% of the Ordinary Shares outstanding if the 5.2% of the Ordinary Shares owned by members of Mr. Natuzzi's immediate family (the Natuzzi Family) are aggregated). As a result, Mr. Natuzzi controls the Group, 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 wholly-owned by Mr. Natuzzi and having its registered office at Via Gobetti 8, Taranto, Italy. On April 18, 2008, INVEST 2003 S.r.l. purchased 3,293,183 American Depositary Shares, each representing one Ordinary Share, at the price U.S.\$ 3.61 per ADS. For more information, refer to Schedule 13D filed with the U.S. Securities and Exchange Commission ( SEC ) on April 24, 2008. In relation to the Natuzzi Stock Incentive Plan 2004-2009 (see Item 10. Additional Information Authorization of Shares ), the total number of new Natuzzi ordinary shares that were assigned without consideration to the beneficiary employees in 2006, 2007 and 2008 represents 0.3% of the current outstanding shares. For further discussion, see Note 19 to the Consolidated Financial Statements included in Item 18 of this annual report.

**Statutory Auditors**

The following table sets forth the names of the three members of the board of statutory auditors of the Company and the two alternate statutory auditors and their respective positions. The current board of statutory auditors was elected for a three-year term on April 30, 2010.

| <b>Name</b>          | <b>Position</b> |
|----------------------|-----------------|
| Carlo Gatto          | Chairman        |
| Gianvito Giannelli   | Member          |
| Cataldo Sferra       | Member          |
| Costante Leone       | Alternate       |
| Giuseppe Pio Macario | Alternate       |

During 2010, the former statutory auditors of the Group received approximately 206,000 in compensation in the aggregate for their services to the Company and its Italian subsidiaries.

According to Rule 10A-3 of the Securities Exchange Act of 1934, companies must establish an audit committee meeting specific requirements. In particular, all members of this committee must be independent and the committee must adopt a written charter. The committee's prescribed responsibilities include (i) the appointment, compensation, retention and oversight of the external auditors; (ii) establishing procedures for the handling of whistle blower complaints; (iii) discussion of financial reporting and internal control issues and critical accounting policies (including through executive sessions with the external auditors); (iv) the approval of audit and non-audit services performed by the external auditors; and (v) the adoption of an annual performance evaluation. A company must also have an internal audit function, which may be out-sourced, as long as it is not out-sourced to the external auditor.

**Table of Contents**

The Company relies on an exemption from these audit committee requirements provided by Exchange Act Rule 10A-3(c)(3) for foreign private issuers with a board of statutory auditors established in accordance with local law or listing requirements and subject to independence requirements under local law or listing requirements. See Item 16D. Exemption from Listing Standards for Audit Committees for more information.

**External Auditors**

On April 30, 2010, at the annual general shareholders meeting, Reconta Ernst & Young S.p.A., with offices in Bari, Italy, was appointed as the Company's external auditor for the three-year period ending with the approval of 2012 financial statements, replacing KPMG S.p.A.

**Employees**

As of December 31, 2010, the Group had 6,766 employees, (of which 3,311 are located in Italy and 3,455 are located abroad) as compared to 6,935 on December 31, 2009. As of March 31, 2011, the total numbers of employees was 6,734 (of which 3,298 were located in Italy and 3,436 were located abroad).

The following is a breakdown of the Group's employees by qualification for the periods indicated:

| <b>Qualification</b> | <b>2009</b>  | <b>2010</b>  | <b>Change<br/>between<br/>2009 and 2010</b> |
|----------------------|--------------|--------------|---------------------------------------------|
| Top managers         | 61           | 57           | -4                                          |
| Middle managers      | 141          | 121          | -20                                         |
| Employees            | 1.125        | 1.234        | 109                                         |
| Blue collars         | 5.608        | 5.354        | -254                                        |
| <b>Total</b>         | <b>6,935</b> | <b>6,766</b> | <b>-169</b>                                 |

We believe in Corporate Social Responsibility and have enjoyed generally good relations with our employees.

Italian law provides that, upon termination of employment for whatever reason, employees located in Italy are entitled to receive certain severance payments based on the length of the employment. As of December 31, 2010, the Company had 28.4 million reserved for such termination indemnities, with such reserves being equal to the amounts, calculated on a percentage basis, required by Italian law.

As a result of the credit crisis and economic downturn in 2008 that negatively affected order flows and the Group's sales numbers, the Company launched an industrial restructuring program in late 2008 in order to increase productivity while improving product quality. This restructuring program was based on the *Cassa Integrazione Guadagni* (or CIG), an Italian temporary lay-off program, and it involved on average 1,273 workers in the Group's Italian facilities in 2008 and 2009.

**Table of Contents**

Due to persistently difficult business conditions that continued to negatively affect the Group's order flow also in 2009 and during almost the whole 2010, the Company entered into an important agreement with the trade unions on May 17 and 19, 2010, pursuant to which, in addition to renewing the CIG, the Company and the trade unions have agreed on the necessity of improving production efficiency by rationalizing the Group's production in Italy. The extraordinary and temporary lay-off program, which was originally set to expire on June 16, 2010, was extended on June 15, 2010 for a further period of four months by the Ministry of Labor.

As a matter of fact, since general situation did not improve significantly, the Company entered into a further agreement with the trade unions on October 11, 2010, pursuant to which, in addition to renewing the lay-off program (in Italian, *Cassa Integrazione Guadagni Straordinaria* - CIGS) for one year period, the Company and the trade unions have confirmed the need to improve the production efficiency by rationalizing the Group's production in Italy. The average number of positions that is included the CIGS in the Group's Italian facilities for 2010 is 1253.

Further initiatives taken by the HR department in order to let the Group recover its competitiveness, improve its customer service and enhance the relevant product quality. In particular, the HR department:

has launched a new organization, called 6x3 Brand Strategy, with a focus on differentiation by brands, regions and distribution channels. The launch of this new organization has been considered necessary in order to assign clear responsibilities to people in achieving expected results within each macro-division. For the Group, this new organization is supposed to ensure the creation of value for consumers and stakeholders at all levels;

will be launching at a worldwide level an integrated ERP system for human resources management through a structured management and computerization of HR processes. The construction of a staff list database at a worldwide level will help to create a Business Intelligence and Reporting Integrated System and support Company decision-making on strategic issues; and

has confirmed the initiatives of retraining and re-qualification for workers participating in CIGS, in order to facilitate a more effective reintegration of such workers in the workplace through structured paths in the fields of IT and workplace safety.

The compensation policy, which considers organizational impacts and cost control measures, continues to be motivated by the values of meritocracy and selectivity. The compensation policy is compliant with labour market standards, attentive to internal equilibriums, successful in preserving the Group's human resources while also making the Company attractive to potential valuable employees.

The Group also maintains a company intranet and, as a major employer in the Bari/Santeramo in Colle area, is an important participant in community life.

**Table of Contents****Item 7. Major Shareholders and Related Party Transactions****Major Shareholders**

Mr. Pasquale Natuzzi, who founded the Company and is currently Chief Executive Officer and Chairman of the Board of Directors, beneficially owns 29,358,089 Ordinary Shares, representing 53.5% of the Ordinary Shares outstanding (58.7% of the Ordinary Shares outstanding if the Ordinary Shares owned by the Natuzzi Family are aggregated). 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 wholly-owned by Mr. Natuzzi and having its registered office at Via Gobetti 8, Taranto, Italy.

The following table sets forth information, as reflected in the records of the Company as of April 30, 2011, with respect to each person who owns 5% or more of the Company's Ordinary Shares or ADSs:

|                                                                  | <b>Number of<br/>Shares Owned</b> | <b>Percent<br/>Owned</b> |
|------------------------------------------------------------------|-----------------------------------|--------------------------|
| Pasquale Natuzzi <sup>(1)</sup>                                  | 29,358,089                        | 53.5%                    |
| Schroder Investment Management North America Ltd. <sup>(2)</sup> | 3,904,681                         | 7.1%                     |
| Quaeroq CVBA <sup>(3)</sup>                                      | 2,760,400                         | 5.0%                     |

<sup>(1)</sup> Includes ADSs purchased on April 18, 2008. If Mr. Natuzzi's Ordinary Shares are aggregated with those held by members of the Natuzzi Family, the amount owned would be 32,158,091 and the percentage ownership of Ordinary Shares would be 58.7%.

<sup>(2)</sup> According to the Schedule 13G filed with the SEC by Schroder Investment Management North America on February 23, 2011.

<sup>(3)</sup> According to the Schedule 13G filed with the SEC by Quaeroq CVBA on November 18, 2008.

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 Mellon, as Depositary under the Deposit Agreement, 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. None of the shares held by the above shareholders have any special voting rights.

As of March 31, 2011, 54,853,045 Ordinary Shares were outstanding. As of the same date, there were 22,663,325 ADSs (equivalent to 22,663,325 Ordinary Shares) outstanding. The ADSs represented 41.3% of the total number of Natuzzi Ordinary Shares issued and outstanding.

Since certain ordinary shares and ADSs are held by brokers or other nominees, the number of direct record holders in the United States may not be fully indicative of the number of direct beneficial owners in the United States or of where the direct beneficial owners of such shares are resident.

**Related Party Transactions**

Transactions with related parties amounted to 7.9 million in 2010 sales and 2.5 million as at December 31, 2010 in trade receivables and were conducted at arm's length, as noted in our 2010 financial statements. Other than the foregoing transactions, neither the Company nor any of its subsidiaries was a party to a transaction with a related party that was material to the Company or the related party, or any transaction that was unusual in its nature or conditions, involving goods, services, or tangible or intangible assets, nor is any such transaction presently proposed. During the same period, neither the Company nor any of its subsidiaries made any loans to or for the benefit of any related party. For purposes of the foregoing, related party has the meaning ascribed to it in Item 7.B of Form 20-F.



**Table of Contents**

**Item 8. Financial Information**

**Consolidated Financial Statements**

Please refer to Item 18. Financial Statements of this annual report.

**Export Sales**

Export sales from Italy totaled approximately 140.4 million in 2010 down 29.2% from 2009. That figure represents 44.1% of the Group's 2009 net leather and fabric-upholstered furniture sales.

**Legal and Governmental Proceedings**

The Group is involved in legal proceedings, arising in the ordinary course of business with suppliers and employees. As already reported in previous Financial Statements, Natuzzi S.p.A has been requested to pay social security contributions related to prior years. The Company benefited from a national exemption in connection with personnel employed under Training and Work experience contracts for the years 1995-2001. In 2004, the European Court of Justice disregarded such exemptions and the European Commission ordered the Italian Government to collect all of the relevant unpaid contributions. The National Institute for Social Security (INPS) then issued a bill of payment of about 18 million, but the Company appealed to the Labor Courts of Bari and Matera, referencing its compliance with the law in force at the time and invoking the statute of limitations with respect to periods prior to February 2000. In 2009, the Bari Labor Court cancelled all of the contributions claimed, with the exception of 0.67 million, which had already been paid. The Matera Labor Court has not decided yet, but the Company considers it likely that it will obtain the same decision it did from the Bari Labor Court, and has therefore estimated the relevant probable risk to be approximately 0.89 million, which has also already been paid. The total amount paid for the two claims was 1.56 million, of which 0.48 million was accrued in the 2008 income statement and fully utilized in 2009, while the remaining 1.08 million was recognized in the 2009 Statement of Operations.

The Company intends to request a refund since management and its advisors maintain that such formal assessments were issued in error by the competent authorities. See Note 20 to the Consolidated Financial Statements included in Item 18 of this annual report.

During 2008, the Company charged to other income (expense), net the amount of 2.2 million for the probable tax contingent liabilities related to income taxes and other taxes of some foreign subsidiaries. This represents the probable amount that could be claimed back by the tax authorities in case of tax audit. See Note 23 to the Consolidated Financial Statements included in Item 18 of this Annual Report.

**Table of Contents**

Furthermore, in 2008, the Company set up a provision of 1.0 million for contingent liabilities related to several minor claims and legal actions arising in the ordinary course of business. See Note 23 to the Consolidated Financial Statements included in Item 18 of this annual report.

During 2009, the Company charged to other income (expense), net the amount of 2.6 million for the probable tax contingent liabilities related to income taxes and other taxes of some foreign subsidiaries. This represents the probable amount that could be claimed back by the tax authorities in case of tax audit. See Note 23 to the Consolidated Financial Statements included in Item 18 of this Annual Report.

Furthermore, in 2009, the Company set up a provision of 1.2 million for contingent liabilities related to several minor claims and legal actions arising in the ordinary course of business. See Note 23 to the Consolidated Financial Statements included in Item 18 of this annual report.

During 2010 the Group has charged to other income (expense), net the amount of 1,033 for the probable tax contingent liabilities related to income taxes and other taxes of some foreign subsidiaries. This amount represents the probable amount that could be claimed back by the tax authorities in case of tax audit. See Note 23 to the Consolidated Financial Statements included in Item 18 of this annual report.

For 2010, the Group also set up provisions of 2.8 million for contingent liabilities related to several minor claims and legal actions arising in the ordinary course of business. See Note 23 to the Consolidated Financial Statements included in Item 18 of this annual report.

In addition, the Group is involved in several minor claims and legal actions arising out of the ordinary course of business.

Apart from the proceedings described above, neither the Company nor any of its subsidiaries is a party to any legal or governmental proceeding that is pending or, to the Company's knowledge, threatened or contemplated against the Company or any such subsidiary that, if determined adversely to the Company or any such subsidiary, would have a materially adverse effect, either individually or in the aggregate, on the business, financial condition or results of the Group's operations.

**Dividends**

Considering that the Group reported a negative net result in 2010 and the capital requirements necessary to implement the restructuring of the operations and its planned retail and marketing activities, the Group decided not to distribute dividends in respect of the year ended on December 31, 2010. The Group has also not paid dividends in each of the prior three fiscal years.

The payment of future dividends will depend upon the Company's earnings and financial condition, capital requirements, governmental regulations and policies and other factors. Accordingly, there can be no assurance that dividends in future years will be paid at a rate similar to dividends paid in past years or at all.

Dividends paid to owners of ADSs or Ordinary Shares who are United States residents qualifying under the Income Tax Convention will generally be subject to Italian withholding tax at a maximum rate of 15%, provided that certain certifications are given timely. Such withholding tax will be treated as a foreign income tax which U.S. owners may elect to deduct in computing their taxable income, or, subject to the limitations on foreign tax credits generally, credit against their United States federal income tax liability. See Item 10. Additional Information Taxation Taxation of Dividends.

**Table of Contents**

**Significant Changes**

The Chinese plant owned by the Group was subject to an expropriation process by local Chinese authorities since the plant is located on land that is intended for public utilities.

Negotiations involving the expropriation process began in 2009 and have now been concluded. The agreement setting forth the payment of compensation for the expropriated plant was signed with Chinese authorities on January 26, 2011. As compensation for this expropriation, the parties agreed upon a total indemnity of Chinese Yuan 420 million, which is equivalent to approximately 46 million based on the Yuan-euro exchange rate as of June 24, 2011. The Company has collected the full amount of the indemnity payment from the local Chinese authorities.

The Group has identified another area that would compensate for the production capacity reduction caused by the expropriation. The new production plant of 88,000 square meters was made ready in January 2011. The relocation process began in February 2011 and was completed, as planned, by the end of May 2011, after moving equipment and machinery to the new plant. The relocation has produced an approximately 20% manpower turn-over because of the distance of the new plant compared to the old one (around 35 kilometers). Management has already reabsorbed the turn-over effect by hiring new manpower by the end of April 2011. Furthermore, in order to minimize the imbalances on production capacity caused by the relocation, a new plant of 15,000 square meters was leased, starting in July 2010. This smaller plant is located 1 kilometer from the new production plant of 88,000 square meters and focuses on sofa sewing and assembly processes.

**Item 9. The Offer and Listing**

**Trading Markets and Share Prices**

Natuzzi's Ordinary Shares are listed on the New York Stock Exchange ( NYSE ) in the form of ADSs under the symbol NTZ. Neither the Company's Ordinary Shares nor its ADSs are listed on a securities exchange outside the United States. The Bank of New York Mellon is the Company's Depository for purposes of issuing the American Depositary Receipts ( ADRs ) evidencing ADSs.

**Table of Contents**

Trading in the ADSs on the NYSE commenced on May 15, 1993. The following table sets forth, for the periods indicated, the high and low closing prices per ADS as reported by the NYSE.

**New York Stock Exchange**

|                             | Price per ADS (in US dollars) |            |
|-----------------------------|-------------------------------|------------|
|                             | High                          | Low        |
| <b>2006</b>                 | 8.65                          | 6.32       |
| <b>2007</b>                 | 9.60                          | 4.36       |
| <b>2008</b>                 | 4.63                          | 1.63       |
| <b>2009</b>                 | 3.51                          | 1.00       |
| <b>2010</b>                 | 5.76                          | 2.78       |
| <b>2008</b>                 | <b>High</b>                   | <b>Low</b> |
| First quarter               | 4.63                          | 3.20       |
| Second quarter              | 4.10                          | 3.16       |
| Third quarter               | 4.04                          | 2.61       |
| Fourth quarter              | 3.43                          | 1.63       |
| <b>2009</b>                 | <b>High</b>                   | <b>Low</b> |
| First quarter               | 1.96                          | 1.00       |
| Second quarter              | 2.30                          | 1.00       |
| Third quarter               | 2.79                          | 1.75       |
| Fourth quarter              | 3.51                          | 2.60       |
| <b>2010</b>                 | <b>High</b>                   | <b>Low</b> |
| First quarter               | 5.76                          | 3.258      |
| Second quarter              | 4.987                         | 2.95       |
| Third quarter               | 3.71                          | 2.78       |
| Fourth quarter              | 3.80                          | 3.04       |
| <b>Monthly data</b>         | <b>High</b>                   | <b>Low</b> |
| December 2010               | 3.31                          | 3.07       |
| January 2011                | 3.79                          | 3.12       |
| February 2011               | 4.72                          | 3.75       |
| March 2011                  | 4.65                          | 4.00       |
| April 2011                  | 4.75                          | 4.20       |
| May 2011                    | 4.56                          | 3.64       |
| June 2011 (through June 24) | 3.71                          | 3.42       |

**Item 10. Additional Information****By-laws**

The following is a summary of certain information concerning the Company's shares and By-laws (*Statuto*) and of Italian law applicable to Italian stock corporations whose shares are not listed on a regulated market in the European Union, as in effect at the date of this annual report. The summary contains all the information that the Company considers to be material regarding the shares, but does not purport to be complete and is qualified in its entirety by reference to the By-laws or Italian law, as the case may be.

**Table of Contents**

Italian issuers of shares that are not listed on a regulated market of the European Community are governed by the rules of the Italian civil code as modified by the corporate law reform which took effect on January 1, 2004 (the Civil Code ).

On July 23, 2004, the Company's shareholders approved a number of amendments to the Company's By-laws dictated or made possible by the so-called corporate law reform. The following summary takes into account the corporate law reform and the consequent amendments to the Company's By-laws.

**General** The issued share capital of the Company consists of 54,853,045 Ordinary Shares, with a par value of 1.00 per share. All the issued shares are fully paid, non-assessable and in registered form.

The Company is registered with the Companies' Registry of Bari at No. 19551, with its registered office in Santeramo in Colle (Bari), Italy.

As set forth in Article 3 of the By-laws, the Company's corporate purpose is the production, marketing and sale of sofas, armchairs, furniture in general and raw materials used for their production. The Company is generally authorized to take any actions necessary or useful to achieve its corporate purpose.

**Authorization of Shares** At the extraordinary meeting of the Company's shareholders on July 23, 2004, shareholders authorized the Company's Board of Directors to carry out a free capital increase of up to 500,000, and a capital increase against payment of up to 3.0 million to be issued, in connection with the grant of stock options to employees of the Company. On January 24, 2006 the Company's Board of Directors, in accordance with the Regulations of the Natuzzi Stock Incentive Plan 2004-2009 (which was approved by the Board of Directors in a meeting held on July 23, 2004), decided to issue without consideration 56,910 new Ordinary Shares in favor of the beneficiary employees. Consequently, the number of Ordinary Shares increased on the same date from 54,681,628 to 54,738,538. On January 23, 2007, the Company's Board of Directors, in accordance with the Regulations of the Natuzzi Stock Incentive Plan 2004-2009, decided to issue without consideration 85,689 new Ordinary Shares in favor of beneficiary employees. Consequently, the number of Ordinary Shares increased on the same date from 54,738,538 to 54,824,227. On January 24, 2008 the Company's Board of Directors, in accordance with the Regulations of the Natuzzi Stock Incentive Plan 2004-2009, decided to issue without consideration 28,818 new Ordinary Shares in favor of the beneficiary employees. Consequently, the number of Ordinary Shares increased on the same date from 54,824,227 to 54,853,045.

**Form and Transfer of Shares** The Company's Ordinary Shares are in certificated form and are freely transferable by endorsement of the share certificate by or on behalf of the registered holder, with such endorsement either authenticated by a notary in Italy or elsewhere or by a broker-dealer or a bank in Italy. The transferee must request that the Company enter his name in the register of shareholders in order to establish his rights as a shareholder of the Company.

**Dividend Rights** Payment by the Company of any annual dividend is proposed by the Board of Directors and is subject to the approval of the shareholders at the annual shareholders' meeting. Before dividends may be paid out of the Company's unconsolidated net income in any year, an amount at least equal to 5% of such net income must be allocated to the Company's legal reserve until such reserve is at least equal to one-fifth of the par value of the Company's issued share capital. If the Company's capital is reduced as a result of accumulated losses, dividends may not be paid until the capital is reconstituted or reduced by the amount of such losses. The Company may pay dividends out of available retained earnings from prior years, provided that, after such payment, the Company will have a legal reserve at least equal to the legally required minimum. No interim dividends may be approved or paid.

**Table of Contents**

Dividends will be paid in the manner and on the date specified in the shareholders' resolution approving their payment (usually within 30 days of the annual general meeting). Dividends that are not collected within five years of the date on which they become payable are forfeited to the benefit of the Company. Holders of ADSs will be entitled to receive payments in respect of dividends on the underlying shares through The Bank of New York Mellon, as ADR depositary, in accordance with the deposit agreement relating to the ADRs.

**Voting Rights** Registered holders of the Company's Ordinary Shares are entitled to one vote per Ordinary Share. As a registered shareholder, the Depositary (or its nominee) will be entitled to vote the Ordinary Shares underlying the ADSs. The Deposit Agreement requires the Depositary (or its nominee) to accept voting instructions from holders of ADSs and to execute such instructions to the extent permitted by law. Neither Italian law nor the Company's By-laws limit the right of non-resident or foreign owners to hold or vote shares of the Company.

**Board of Directors** Under Italian law and pursuant to the Company's By-laws, the Company may be run by a sole director or by a board of directors, consisting of seven to eleven individuals. The Company is currently run by a board of directors composed of eight individuals (see Item 6. Directors, Senior Management and Employees). The Board of Directors is elected by the Assembly of Shareholders at a shareholders' meeting, for the period established at the time of election but in no case for longer than three fiscal years. A director, who may but is not required to be a shareholder of the Company, may be reappointed for successive terms. The Board of Directors has the full power of ordinary and extraordinary management of the Company and in particular may perform all acts it deems advisable for the achievement of the Company's corporate purposes, except for the actions reserved by applicable law or the By-laws to a vote of the shareholders at an ordinary or extraordinary shareholders' meeting. See also Item 10. Additional Information Meetings of Shareholders.

The Board of Directors must appoint a chairman (*presidente*) and may appoint a vice-chairman. The chairman of the Board of Directors is the legal representative of the Company. The Board of Directors may delegate certain powers to one or more managing directors (*amministratori delegati*), determine the nature and scope of the delegated powers of each director and revoke such delegation at any time. The managing directors must report to the Board of Directors and board of statutory auditors at least every 180 days on the Company's business and the main transactions carried out by the Company or by its subsidiaries.

The Board of Directors may not delegate certain responsibilities, including the preparation and approval of the draft financial statements, the approval of merger and de-merger plans to be presented to shareholders' meetings, increases in the amount of the Company's share capital or the issuance of convertible debentures (if any such power has been delegated to the Board of Directors by vote of the extraordinary shareholders' meeting) and the fulfilment of the formalities required when the Company's capital has to be reduced as a result of accumulated losses that reduce the Company's stated capital by more than one-third. See also Item 10. Additional Information Meetings of Shareholders.

**Table of Contents**

The Board of Directors may also appoint a general manager (*direttore generale*), who reports directly to the Board of Directors and confer powers for single acts or categories of acts to employees of the Company or persons unaffiliated with the Company.

Meetings of the Board of Directors are called no less than five days in advance by registered letter, fax, telegram or e-mail by the chairman on his own initiative and must be called upon the request of any director or statutory auditor. Meetings may be held in person, or by video-conference or tele-conference, in the location indicated in the notice convening the meeting, or in any other destination, each time that the chairman may consider necessary. The quorum for meetings of the Board of Directors is a majority of the directors in office. Resolutions are adopted by the vote of a majority of the directors present at the meeting. In case of a tie, the chairman has the deciding vote.

Directors having any interest in a proposed transaction must disclose their interest to the board and to the statutory auditors, even if such interest is not in conflict with the interest of the Company in the same transaction. The interested director is not required to abstain from voting on the resolution approving the transaction, but the resolution must state explicitly the reasons for, and the benefit to the Company of, the approved transaction. In the event that these provisions are not complied with, or that the transaction would not have been approved without the vote of the interested director, the resolution may be challenged by a director or by the board of statutory auditors if the approved transaction may be prejudicial to the Company. A managing director must solicit prior board approval of any proposed transaction in which he has any interest and that is within the scope of his powers. The interested director may be held liable for damages to the Company resulting from a resolution adopted in breach of the above rules. Finally, directors may be held liable for damages to the Company if they illicitly profit from insider information or corporate opportunities.

The Board of Directors may transfer the Company's registered office within Italy or make other amendments to the Company's By-laws when these amendments are required by law, set up and eliminate secondary offices, approve mergers by absorption into the Company of any subsidiary in which the Company holds at least 90% of the issued share capital and reductions of the Company's share capital in case of withdrawal of a shareholder. The Board of Directors may also approve the issuance of shares or convertible debentures, if so authorized by the shareholders meeting.

Under Italian law, directors may be removed from office at any time by the vote of shareholders at an ordinary shareholders meeting. However, if removed in circumstances where there was no just cause, such directors may have a claim for damages against the Company. Directors may resign at any time by written notice to the Board of Directors and to the chairman of the board of statutory auditors. The Board of Directors must appoint substitute directors to fill vacancies arising from removals or resignations, subject to the approval of the board of statutory auditors, to serve until the next ordinary shareholders meeting. If at any time more than half of the members of the Board of Directors appointed by the Assembly of Shareholders resign, such resignation is ineffective until the majority of the new Board of Directors has been appointed. In such a case, the remaining members of the Board of Directors (or the board of statutory auditors if all the members of the Board of Directors have resigned or ceased to be directors) must promptly call an ordinary shareholders meeting to appoint the new directors.

**Table of Contents**

Shareholders determine the remuneration of the directors at ordinary shareholders meetings at which they are appointed. The Board of Directors, after consultation with the board of statutory auditors, may determine the remuneration of directors that perform management or other special services for the Company, such as the managing director, within a maximum amount established by the shareholders. Directors are entitled to reimbursement for expenses reasonably incurred in connection with their functions.

**Statutory Auditors** In addition to electing the Board of Directors, the Assembly of Shareholders, at ordinary shareholders meetings of the Company, elects a board of statutory auditors (*collegio sindacale*), appoint its chairman and set the compensation of its members. The statutory auditors are elected for a term of three fiscal years, may be re-elected for successive terms and may be removed only for cause and with the approval of a competent court. Expiration of their office will have no effect until a new board is appointed. Membership of the board of statutory auditors is subject to certain good standing, independence and professional requirements, and shareholders must be informed as to the offices the proposed candidates hold in other companies prior to or at the time of their election. In particular, at least one member must be a certified auditor.

The Company's By-laws provide that the board of statutory auditors shall consist of three statutory auditors and two alternate statutory auditors (who are automatically substituted for a statutory auditor who resigns or is otherwise unable to serve).

The Company's board of statutory auditors is required, among other things, to verify that the Company (i) complies with applicable laws and its By-laws, (ii) respects principles of good governance, and (iii) maintains adequate organizational structure and administrative and accounting systems. The Company's board of statutory auditors is required to meet at least once every ninety days. The board of statutory auditors reports to the annual shareholders meeting on the results of its activity and the results of the Company's operations. In addition, the statutory auditors of the Company must be present at meetings of the Company's Board of Directors and shareholders meetings.

The statutory auditors may decide to call a meeting of the shareholders or the Board of Directors, ask the directors information about the management of the Company, carry out inspections and verifications at the Company and exchange information with the Company's external auditors. Additionally, the statutory auditors have the power to initiate a liability action against one or more directors after adopting a resolution with an affirmative vote by two thirds of the auditors in office. Any shareholder may submit a complaint to the board of statutory auditors regarding facts that such shareholder believes should be subject to scrutiny by the board of statutory auditors, which must take any complaint into account in its report to the shareholders meeting. If shareholders collectively representing 5% of the Company's share capital submit such a complaint, the board of statutory auditors must promptly undertake an investigation and present its findings and any recommendations to a shareholders meeting (which must be convened immediately if the complaint appears to have a reasonable basis and there is an urgent need to take action). The board of statutory auditors may report to a competent court serious breaches of directors' duties.

**External Auditor** The auditing of the Company's accounts is entrusted, as per current legislation, to an independent audit firm whose appointment falls under the competency of the Shareholders Meeting, upon the Board of Statutory Auditors opinion. In addition to the obligations set forth in national auditing regulations, Natuzzi's listing on the New York Stock Exchange requires that the Audit firm issues a report on the Annual Report on Form 20-F, in compliance with the auditing principles generally accepted in the USA. Moreover, the Audit firm is required to issue an opinion on the efficacy of the internal control system applied to financial reporting.



**Table of Contents**

The external auditor or the firm of external auditors is appointed for a three-year term and its compensation is determined by a vote at an ordinary shareholders' meeting, having heard the board of statutory auditors, and may be removed only for just cause by a vote of the shareholders' meeting and with the approval of a competent court.

On April 30, 2010, the Company's shareholders appointed Reconta Ernst & Young S.p.A., with registered offices at Via Po, 32, Rome, Italy, as its external auditor for three-year term.

For the entire duration of their office the external auditors or the firm of external auditors must meet certain requirements provided for by law.

**Meetings of Shareholders** Shareholders are entitled to attend and vote at ordinary and extraordinary shareholders' meetings. Votes may be cast personally or by proxy. Shareholder meetings may be called by the Company's Board of Directors (or the board of statutory auditors) and must be called if requested by holders of at least 10% of the issued shares. If a shareholders' meeting is not called despite the request by shareholders and such refusal is unjustified, a competent court may call the meeting. Shareholders are not entitled to request that a meeting of shareholders be convened to vote on matters which, as a matter of law, shall be resolved on the basis of a proposal, plan or report by the Company's Board of Directors.

The Company may hold general meetings of shareholders at its registered office in Santeramo, or elsewhere within Italy or at locations outside Italy, following publication of notice of the meeting in any of the following Italian newspapers: *Il Sole 24 Ore*, *Corriere della Sera* or *La Repubblica* at least 15 days before the date fixed for the meeting.

The Assembly of Shareholders must be convened at least once a year. The Company's annual stand-alone financial statements are prepared by the Board of Directors and submitted for approval to the ordinary shareholders' meeting, which must be convened within 120 days after the end of the fiscal year to which such financial statements relate. This term may be extended to up to 180 days after the end of the fiscal year, as long as the Company continues to be bound by law to draw up consolidated financial statements or if particular circumstances concerning its structure or its purposes so require. At ordinary shareholders' meetings, shareholders also appoint the external auditors, approve the distribution of dividends, appoint the Board of Directors and statutory auditors, determine their remuneration and vote on any matter the resolution or authorization of which is entrusted to them by law.

Extraordinary shareholders' meetings may be called to vote on proposed amendments to the By-laws, issuance of convertible debentures, mergers and de-mergers, capital increases and reductions, when such resolutions may not be taken by the Board of Directors. Liquidation of the Company must be resolved by an extraordinary shareholders' meeting.

The notice of a shareholders' meeting may specify up to two meeting dates for an ordinary or extraordinary shareholders' meeting; such meeting dates are generally referred to as *calls*.

The quorum for an ordinary meeting of shareholders is 50% of the Ordinary Shares, and resolutions are carried by the majority of Ordinary Shares present or represented. At an adjourned ordinary meeting, no quorum is required, and the resolutions are carried by the majority of Ordinary Shares present or represented. Certain matters, such as amendments to the By-laws, the issuance of shares, the issuance of convertible debentures and mergers and de-mergers may only be effected at an extraordinary meeting, at which special voting rules apply. Resolutions at an extraordinary meeting of the Company are carried, on first call, by a majority of the Ordinary Shares. An adjourned extraordinary meeting is validly held with a quorum of one-third of the issued shares and its resolutions are carried by a majority of at least two-thirds of the holders of shares present or represented at such meeting. In addition, certain matters (such as a change in purpose or corporate form of the company, the transfer of its registered office outside Italy, its liquidation prior to the term set forth in its By-laws, the extension of the term and the issuance of preferred shares) must be carried by the holders of more than one-third of the issued shares and more than two-thirds of the shares present and represented at such meeting.

**Table of Contents**

According to the By-laws, in order to attend any shareholders' meeting, shareholders, at least five days prior to the date fixed for the meeting, must deposit their share certificates at the offices of the Company or with such banks as may be specified in the notice of meeting, in exchange for an admission ticket. Owners of ADRs may make special arrangements with the Depositary for the beneficial owners of such ADRs to attend shareholders' meetings, but not to vote at or formally address such meetings. The procedures for making such arrangements will be specified in the notice of such meeting to be mailed by the Depositary to the owners of ADRs.

Shareholders may appoint proxies by delivering in writing an appropriate power of attorney to the Company. Directors, auditors and employees of the Company or of any of its subsidiaries may not be proxies and any one proxy cannot represent more than 20 shareholders.

**Preemptive Rights** Pursuant to Italian law, holders of Ordinary Shares or of debentures convertible into shares, if any exist, are entitled to subscribe for the issuance of shares, debentures convertible into shares and rights to subscribe for shares, in proportion to their holdings, unless such issues are for non-cash consideration or preemptive rights are waived or limited by an extraordinary resolution adopted by the affirmative vote of holders of more than 50% of the Ordinary Shares (whether at an extraordinary or adjourned extraordinary meeting) and such waiver or limitation is required in the interest of the Company. There can be no assurance that the holders of ADSs may be able to exercise fully any preemptive rights pertaining to Ordinary Shares.

**Preference Shares. Other Securities** The Company's By-laws allow the Company to issue preference shares with limited voting rights, to issue other classes of equity securities with different economic and voting rights, to issue so-called participation certificates with limited voting rights, as well as so-called tracking stock. The power to issue such financial instruments is attributed to the extraordinary meeting of shareholders.

The Company, by resolution of the Board of Directors, may issue debt securities non-convertible into shares, while it may issue debt securities convertible into shares through a resolution of the extraordinary shareholders' meeting.

**Segregation of Assets and Proceeds** The Company, by means of an extraordinary shareholders' meeting resolution, may approve the segregation of certain assets into one or more separate pools. Such pools of assets may have an aggregate value not exceeding 10% of the shareholders' equity of the company. Each pool of assets must be used exclusively for the carrying out of a specific business and may not be attached by the general creditors of the Company. Similarly, creditors with respect to such specific business may only attach those assets of the Company that are included in the corresponding pool. Tort creditors, on the other hand, may always attach any assets of the Company. The Company may issue securities carrying economic and administrative rights relating to a pool. In addition, financing agreements relating to the funding of a specific business may provide that the proceeds of such business be used exclusively to repay the financing. Such proceeds may be attached only by the financing party and such financing party would have no recourse against other assets of the Company.

**Table of Contents**

The Company has no present intention to enter into any such transaction and none is currently in effect.

**Liquidation Rights** Pursuant to Italian law and subject to the satisfaction of the claims of all other creditors, shareholders are entitled to a distribution in liquidation that is equal to the nominal value of their shares (to the extent available out of the net assets of the Company). Holders of preferred shares, if any such shares are issued in the future by the Company, may be entitled to a priority right to any such distribution from liquidation up to their par value. Thereafter, all shareholders would rank equally in their claims to the distribution or surplus assets, if any. Ordinary Shares rank *pari passu* among themselves in liquidation.

**Purchase of Shares by the Company** The Company is permitted to purchase shares, subject to certain conditions and limitations provided for by Italian law. Shares may only be purchased out of profits available for dividends or out of distributable reserves, in each case as appearing on the latest shareholder-approved stand-alone financial statements. Further, the Company may only repurchase fully paid-in shares. Such purchases must be authorized by the Assembly of Shareholders at an ordinary shareholders' meeting. The number of shares to be acquired, together with any shares previously acquired by the Company or any of its subsidiaries, may not (except in limited circumstances) exceed in the aggregate 10% of the total number of shares then issued and the aggregate purchase price of such shares may not exceed the earnings reserve specifically approved by shareholders. Shares held in excess of such 10% limit must be sold within one year of the date of purchase. Similar limitations apply with respect to purchases of the Company's shares by its subsidiaries.

A corresponding reserve equal to the purchase price of such shares must be created in the balance sheet, and such reserve is not available for distribution, unless such shares are sold or cancelled. Shares purchased and held by the Company may be resold only pursuant to a resolution adopted at an ordinary shareholders' meeting. The voting rights attaching to the shares held by the Company or its subsidiaries cannot be exercised, but the shares can be counted for quorum purposes in shareholders' meetings. Dividends attaching to such shares will accrue to the benefit of other shareholders; pre-emptive rights attaching to such shares will accrue to the benefit of other shareholders, unless the shareholders' meeting authorizes the Company to exercise, in whole or in part, the pre-emptive rights thereof.

In May 2009, the ordinary shareholders' meeting of the Company approved a share buyback program as proposed by the Board of Directors. As of the date hereof, the share buyback program has not implemented and, in accordance with its terms, the Company is no longer able to purchase its shares as part of the aforementioned share buyback program.

The Company does not own any of its ordinary shares.

**Notification of the Acquisition of Shares** In accordance with Italian antitrust laws, the Italian Antitrust Authority is required to prohibit the acquisition of control in a company which would thereby create or strengthen a dominant position in the domestic market or a significant part thereof and which would result in the elimination or substantial reduction, on a lasting basis, of competition, provided that certain turnover thresholds are exceeded. However, if the turnover of the acquiring party and the company to be acquired exceed certain other monetary thresholds, the antitrust review of the acquisition falls within the exclusive jurisdiction of the European Commission.

**Table of Contents**

**Minority Shareholders Rights. Withdrawal Rights** Shareholders' resolutions which are not adopted in conformity with applicable law or the Company's By-laws may be challenged (with certain limitations and exceptions) within ninety days by absent, dissenting or abstaining shareholders representing individually or in the aggregate at least 5% of Company's share capital (as well as by the Board of Directors or the board of statutory auditors). Shareholders not reaching this threshold or shareholders not entitled to vote at Company's meetings may only claim damages deriving from the resolution.

Dissenting or absent shareholders may require the Company to buy back their shares as a result of shareholders' resolutions approving, among others things, material modifications of the Company's corporate purpose or of the voting rights of its shares, the transformation of the Company from a stock corporation into a different legal entity, or the transfer of the Company's registered office outside Italy. According to the reform, the buy-back would occur at a price established by the Board of Directors, upon consultation with the board of statutory auditors and the Company's external auditor, having regard to the net assets value of the Company, its prospective earnings and the market value of its shares, if any. The Company's By-laws may set forth different criteria to determine the consideration to be paid to dissenting shareholders in such buy-backs.

Each shareholder may bring to the attention of the board of statutory auditors facts or actions which are deemed wrongful. If such shareholders represent more than 5% of the share capital of the Company, the board of statutory auditors must investigate without delay and report its findings and recommendations to the shareholders' meeting. Shareholders representing more than 10% of the Company's share capital have the right to report to a competent court serious breaches of the duties of the directors, which may be prejudicial to the Company or to its subsidiaries. In addition, shareholders representing at least 20% of the Company's share capital may commence derivative suits before a competent court against its directors, statutory auditors and general managers.

The Company may waive or settle the suit unless shareholders holding at least 20% of the shares vote against such waiver or settlement. The Company will reimburse the legal costs of such action in the event that the claim of such shareholders is successful and the court does not award such costs against the relevant directors, statutory auditors or general managers.

Any dispute arising out of or in connection with the By-Laws that may arise between the Company and its shareholders, directors, or liquidators shall fall under the exclusive jurisdiction of the Tribunal of Bari (Italy).

**Liability for Mismanagement of Subsidiaries** Under Italian law, companies and other legal entities that, acting in their own interest or the interest of third parties, mismanage a company subject to their direction and coordination powers are liable to such company's shareholders and creditors for ensuing damages suffered by such shareholders. This liability is excluded if (i) the ensuing damage is fully eliminated, including through subsequent transactions, or (ii) the damage is effectively offset by the global benefits deriving in general to the company from the continuing exercise of such direction and coordination powers. Direction and coordination powers are presumed to exist, among other things, with respect to consolidated subsidiaries.

The Company is subject to the direction and coordination of INVEST 2003 S.r.l.

**Table of Contents**

**Certain Contracts**

As of June 2010, the Group has ceased all relationships with local contractors who were previously entrusted with approximately 7.8% of Natuzzi needs, primarily relating to the assembly of raw materials and finished parts into finished products. This termination led the Group to internalize the contractors' production into its own Italian plants of Jesce and Ginosa.

**Exchange Controls**

There are currently no exchange controls, as such, in Italy restricting rights deriving from the ownership of shares. Residents and non-residents of Italy may hold foreign currency and foreign securities of any kind, within and outside Italy. Non-residents may invest in Italian securities without restriction and may transfer to and from Italy cash, instruments of credit and securities, in both foreign currency and Euro, representing interest, dividends, other asset distributions and the proceeds of any dispositions.

Certain procedural requirements, however, are imposed by law. Regulations on the use of cash and securities are contained in the legislative decree N.231 of November 21, 2007, which implemented the anti-laundering directives n.2005/60 and 2006/70 of the European Union. Such legislation requires that transfers into or out of Italy of cash or securities in excess of 12,500 be reported in writing to the Bank of Italy by residents or non-residents that effect such transfers directly, or by credit institutions and other intermediaries that effect such transactions on their behalf. Credit institutions and other intermediaries effecting such transactions on behalf of residents or non-residents of Italy are required to maintain records of such transactions for ten years, which may be inspected at any time by Italian tax and judicial authorities. Non-compliance with the reporting and record-keeping requirements may result in administrative fines or, in the case of false reporting and in certain cases of incomplete reporting, criminal penalties. The Bank of Italy is required to maintain reports for ten years and may use them, directly or through other government offices, to police money laundering, tax evasion and any other unlawful activity.

Individuals, non-profit entities and partnerships that are residents of Italy must disclose on their annual tax returns all investments and financial assets held outside Italy, as well as the total amount of transfers to, from, within and between countries other than Italy relating to such foreign investments or financial assets, even if at the end of the taxable period foreign investments or financial assets are no longer owned. Generally, no such tax disclosure is required if the total value of the foreign investments or financial assets at the end of the taxable period or the total amount of the transfers effected during the fiscal year does not exceed 10,000. In addition, no such tax disclosure is required in respect of securities deposited for management with qualified Italian financial intermediaries and in respect of contracts entered into through their intervention, provided that the items of income derived from such foreign financial assets are collected through the intervention of the same intermediaries. Corporate residents of Italy are exempt from these tax disclosure requirements with respect to their annual tax returns because this information is required to be discussed in their financial statements.

There can be no assurance that the current regulatory environment in or outside Italy will persist or that particular policies presently in effect will be maintained, although Italy is required to maintain certain regulations and policies by virtue of its membership of the EU and other international organizations and its adherence to various bilateral and multilateral international agreements.

**Table of Contents****Taxation**

The following is a summary of certain U.S. federal and Italian tax matters. The summary contains a description of the principal United States federal and Italian tax consequences of the purchase, ownership and disposition of Ordinary Shares or ADSs by a holder who is a citizen or resident of the United States or a U.S. corporation or who otherwise will be subject to United States federal income tax on a net income basis in respect of the Ordinary Shares or ADSs. The summary is not a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase or hold Ordinary Shares or ADSs. In particular, the summary deals only with beneficial owners who will hold Ordinary Shares or ADSs as capital assets and does not address the tax treatment of a beneficial owner who owns 10% or more of the voting shares of the Company or who may be subject to special tax rules, such as banks, tax-exempt entities, insurance companies or dealers in securities or currencies, or persons that will hold Ordinary Shares or ADSs as a position in a straddle for tax purposes or as part of a constructive sale or a conversion transaction or other integrated investment comprised of Ordinary Shares or ADSs and one or more other investments. The summary does not discuss the treatment of Ordinary Shares or ADSs that are held in connection with a permanent establishment through which a non-resident beneficial owner carries on business or performs personal services in Italy.

The summary is based upon tax laws and practice of the United States and Italy in effect on the date of this annual report, which are subject to change.

Investors and prospective investors in Ordinary Shares or ADSs should consult their own advisors as to the U.S., Italian or other tax consequences of the purchase, beneficial ownership and disposition of Ordinary Shares or ADSs, including, in particular, the effect of any state or local tax laws.

For purposes of the summary, beneficial owners of Ordinary Shares or ADSs who are considered residents of the United States for purposes of the current income tax convention between the United States and Italy (the Income Tax Convention), and are not subject to an anti-treaty shopping provision that applies in limited circumstances, are referred to as U.S. owners. Beneficial owners who are citizens or residents of the United States, corporations organized under U.S. law, and U.S. partnerships, estates or trusts (to the extent their income is subject to U.S. tax either directly or in the hands of partners or beneficiaries) generally will be considered to be residents of the United States under the Income Tax Convention. Special rules apply to U.S. owners who are also residents of Italy, according to the new tax treaty signed on August 25, 1999, and applicable as of January 1, 2010.

For the purpose of the Income Tax Convention and the United States Internal Revenue Code of 1986, beneficial owners of ADRs evidencing ADSs will be treated as the beneficial owners of the Ordinary Shares represented by those ADSs.

**Italian Tax Considerations** As a general rule, Italian laws provide for the withholding of income tax at a 27% rate on dividends paid by Italian companies to shareholders who are not residents of Italy for tax purposes. Italian laws provide a mechanism under which non-resident shareholders can claim a refund of up to four-ninths of Italian withholding taxes on dividend income (i.e. 12%) by establishing to the Italian tax authorities that the dividend income was subject to income tax in another jurisdiction in an amount at least equal to the total refund claimed. U.S. owners should consult their own tax advisers concerning the possible availability of this refund, which traditionally has been payable only after extensive delays. Alternatively, reduced rates (normally 15%) may apply to non-resident shareholders who are entitled to, and comply with procedures for claiming, benefits under an income tax convention.

**Table of Contents**

Under the Income Tax Convention, dividends derived and beneficially owned by U.S. owners are subject to an Italian withholding tax at a reduced rate of 15%.

However, the amount initially made available to the Depositary for payment to U.S. owners will reflect withholding at the 27% rate. U.S. owners who comply with the certification procedures described below may then claim an additional payment of 12% of the dividend (representing the difference between the 27% rate and the 15% rate, and referred to herein as a "treaty refund"). The certification procedure will require U.S. owners (i) to obtain from the U.S. Internal Revenue Service ("IRS") a form of certification required by the Italian tax authorities with respect to each dividend payment (Form 6166), unless a previously filed certification will be effective on the dividend payment date (such certificates are effective until March 31 of the year following submission), (ii) to produce a statement whereby the U.S. owner represents to be a U.S. owner individual or corporation and does not maintain a permanent establishment in Italy, and (iii) to set forth other required information. IRS Form 6166 may be obtained by filing a request for certification on IRS Form 8802. (Additional information, including IRS Form 8802, can be obtained from the IRS website at [www.irs.gov](http://www.irs.gov). Information appearing on the IRS website is not incorporated by reference into this document.) The time for processing requests for certification by the IRS normally is six to eight weeks. Accordingly, in order to be eligible for the procedure described below, U.S. owners should begin the process of obtaining certificates as soon as possible after receiving instructions from the Depositary on how to claim a treaty refund.

The Depositary's instructions will specify certain deadlines for delivering to the Depositary the documentation required to obtain a treaty refund, including the certification that the U.S. owners must obtain from the IRS. In the case of ADSs held by U.S. owners through a broker or other financial intermediary, the required documentation should be delivered to such financial intermediary for transmission to the Depositary. In all other cases, the U.S. owners should deliver the required documentation directly to the Depositary. The Company and the Depositary have agreed that if the required documentation is received by the Depositary on or within 30 days after the dividend payment date and, in the reasonable judgment of the Company, such documentation satisfies the requirements for a refund by the Company of Italian withholding tax under the Convention and applicable law, the Company will within 45 days thereafter pay the treaty refund to the Depositary for the benefit of the U.S. owners entitled thereto.

If the Depositary does not receive a U.S. owner's required documentation within 30 days after the dividend payment date, such U.S. owner may for a short grace period (specified in the Depositary's instructions) continue to claim a treaty refund by delivering the required documentation (either through the U.S. owner's financial intermediary or directly, as the case may be) to the Depositary. However, after this grace period, the treaty refund must be claimed directly from the Italian tax authorities rather than through the Depositary. Expenses and extensive delays have been encountered by U.S. owners seeking refunds from the Italian tax authorities.

Distributions of profits in kind will be subject to withholding tax. In that case, prior to receiving the distribution, the holder will be required to provide the Company with the funds to pay the relevant withholding tax.

**Table of Contents**

**United States Tax Considerations** The gross amount of any dividends (that is, the amount before reduction for Italian withholding tax) paid to a U.S. owner generally will be subject to U.S. federal income taxation as foreign source dividend income and will not be eligible for the dividends-received deduction allowed to domestic corporations. Dividends paid in euro will be included in the income of such U.S. owners in a dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the Depositary or its agent. If the euro are converted into dollars on the day the Depositary or its agent receives them, U.S. owners generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. owners who receive a treaty refund may be required to recognize foreign currency gain or loss to the extent the amount of the treaty refund (in dollars) received by the U.S. owner differs from the U.S. dollar equivalent of the euro amount of the treaty refund on the date the dividends were received by the Depositary or its agent. Italian withholding tax at the 15% rate will be treated as a foreign income tax which U.S. owners may elect to deduct in computing their taxable income or, subject to the limitations on foreign tax credits generally, credit against their U.S. federal income tax liability. Dividends will generally constitute foreign-source passive category income for U.S. tax purposes.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2011 with respect to the Company's shares or ADSs will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (i) the Company is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules and (ii) the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company (PFIC). The Income Tax Convention has been approved for the purposes of the qualified dividend rules. Based on the Company's audited financial statements and relevant market and shareholder data, the Company believes that it was not treated as a PFIC for U.S. federal income tax purposes with respect to its 2010 taxable year. In addition, based on the Company's audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, the Company does not anticipate becoming a PFIC for its 2011 taxable year.

The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs or common stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to treat dividends as qualified for tax reporting purposes. Because such procedures have not yet been issued, it is not clear whether the Company will be able to comply with the procedures. Holders of the Company's shares and ADSs should consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of the considerations discussed above and their own particular circumstances.

Foreign tax credits may not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which a U.S. owner's expected economic profit is insubstantial. U.S. owners should consult their own advisers concerning the implications of these rules in light of their particular circumstances.

Distributions of additional shares to U.S. owners with respect to their ADSs that are made as part of a pro rata distribution to all shareholders of the Company generally will not be subject to U.S. federal income tax.

A beneficial owner of Ordinary Shares or ADSs who is, with respect to the United States, a foreign corporation or a nonresident alien individual, generally will not be subject to U.S. federal income tax on dividends received on Ordinary Shares or ADSs, unless such income is effectively connected with the conduct by the beneficial owner of a trade or business in the United States.



**Table of Contents****Taxation of Capital Gains**

**i) Italian Tax Considerations** Under Italian law, capital gains tax ( CGT ) is levied on capital gains realized by non-residents from the disposal of shares in companies resident in Italy for tax purposes even if those shares are held outside of Italy. Capital gains realized by non-resident holders on the sale of non-qualified shareholdings (as defined below) in companies listed on a stock exchange and resident in Italy for tax purposes (as is the Company's case) are not subject to CGT. In order to benefit from this exemption, such non-Italian-resident holders may need to file a certificate evidencing their residence outside of Italy for tax purposes.

A qualified shareholding consists of securities that entitle the holder to exercise more than 2% of the voting rights of a company with shares listed on a stock exchange in the ordinary meeting of the shareholders or represent more than 5% of the share capital of a company with shares listed on a stock exchange. A non-qualified shareholding is any shareholding that does not exceed either of these thresholds. The relevant percentage is calculated taking into account the shareholdings sold during the prior 12-month period.

Capital gains realized upon disposal of a qualified shareholding are partially included in the shareholders' taxable income, for an amount equal to 49.72% with respect to capital gains realized as of January 1, 2009. If a taxpayer realizes taxable capital gains in excess of 49.72% of capital losses of a similar nature incurred in the same tax year, such excess amount is included in his total taxable income. If 49.72% of such taxpayer's capital losses exceeds its taxable capital gains, then the excess amount can be carried forward and deducted from the taxable amount of similar capital gains realized by such person in the following tax years, up to the fourth, provided that it is reported in the tax report in the year of disposal.

The above is subject to any provisions of an income tax treaty entered into by the Republic of Italy, if the income tax treaty provisions are more favorable. The majority of double tax treaties entered into by Italy, including the Income Tax Convention, in accordance with the OECD Model tax convention, provide that capital gains realized from the disposition of Italian securities are subject to CGT only in the country of residence of the seller.

The Income Tax Convention between Italy and the U.S. provides that a U.S. resident is not subject to the Italian CGT on the disposal of shares, provided that the shares are not held through part of a permanent establishment of the U.S. holder in Italy.

**ii) United States Tax Considerations** Gain or loss realized by a U.S. owner on the sale or other disposition of Ordinary Shares or ADSs will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the U.S. owner's basis in the Ordinary Shares or the ADSs and the amount realized on the disposition (or its dollar equivalent, determined at the spot rate on the date of disposition, if the amount realized is denominated in a foreign currency). Such gain or loss will generally be long-term capital gain or loss if the U.S. owner holds the Ordinary Shares or ADSs for more than one year. The net amount of long-term capital gain recognized by a U.S. owner that is an individual holder before January 1, 2013 generally is subject to taxation at a maximum rate of 15%. Deposits and withdrawals of Ordinary Shares by U.S. owners in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

**Table of Contents**

A beneficial owner of Ordinary Shares or ADSs who is, with respect to the United States, a foreign corporation or a nonresident alien individual will not be subject to U.S. federal income tax on gain realized on the sale of Ordinary Shares or ADSs, unless (i) such gain is effectively connected with the conduct by the beneficial owner of a trade or business in the United States or (ii), in the case of gain realized by an individual beneficial owner, the beneficial owner is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

**Taxation of Distributions from Capital Reserves**

**Italian Tax Considerations** Special rules apply to the distribution of certain capital reserves. Under certain circumstances, such a distribution may be considered as taxable income in the hands of the recipient depending on the existence of current profits or outstanding reserves at the time of distribution and the actual nature of the reserves distributed. The application of such rules may also have an impact on the tax basis in the Ordinary Shares or ADSs held and/or the characterization of any taxable income received and the tax regime applicable to it. Non-resident shareholders may be subject to withholding tax and CGT as a result of such rules. You should consult your tax advisor in connection with any distribution of capital reserves.

**Other Italian Taxes**

**Estate and Inheritance Tax** A transfer of Ordinary Shares or ADSs by reason of death or gift is subject to an inheritance and gift tax levied on the value of the inheritance or gift, as follows:

Transfers to a spouse or direct descendants or ancestors up to Euro 1,000,000 to each beneficiary are exempt from inheritance and gift tax. Transfers in excess of such threshold will be taxed at a 4% rate on the value of the Ordinary Shares or ADSs exceeding such threshold;

Transfers between relatives within the fourth degree other than siblings, and direct or indirect relatives-in-law within the third degree are taxed at a rate of 6% on the value of the Ordinary Shares or ADSs (where transfers between siblings up to a maximum value of Euro 100,000 for each beneficiary are exempt from inheritance and gift tax); and

Transfers by reason of gift or death of Ordinary Shares or ADSs to persons other than those described above will be taxed at a rate of 8% on the value of the Ordinary Shares or ADSs.

If the beneficiary of any such transfer is a disabled individual, whose handicap is recognized pursuant to Law No. 104 of February 5, 1992, the tax is applied only on the value of the assets received in excess of Euro 1,500,000 at the rates illustrated above, depending on the type of relationship existing between the deceased or donor and the beneficiary.

The tax regime described above will not prevent the application, if more favorable to the taxpayer, of any different provisions of a bilateral tax treaty, including the convention between Italy and the United States against double taxation with respect to taxes on estates and inheritances, pursuant to which non-Italian resident shareholders are generally entitled to a tax credit for any estate and inheritance taxes possibly applied in Italy.

**Table of Contents****Documents on Display**

The Company is subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), applicable to foreign private issuers. In accordance therewith, the Company is required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. These materials, including this annual report on Form 20-F, are available for inspection and copying at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information on the public reference room. As a foreign private issuer, we have been required to make filings with the SEC by electronic means since November 4, 2002. Any filings we make electronically will be available to the public over the Internet at the SEC's website at <http://www.sec.gov>. The Form 20-F and reports and other information filed by the Company with the Commission will also be available for inspection by ADS holders at the Corporate Trust Office of The Bank of New York Mellon at 101 Barclay Street, New York, New York 10286.

**Item 11. Quantitative and Qualitative Disclosures About Market Risk**

The following discussion of the Group's risk management activities include forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those projected in the forward looking statements. See Item 3. Key Information Forward Looking Information. A significant portion of the Group's net sales and its costs, are denominated in currencies other than the euro, in particular the U.S. dollar.

The Group is exposed to market risks principally from fluctuations in the exchange rates between the euro and other currencies, including in particular the U.S. dollar, and to a significantly lesser extent, from variations in interest rates.

**Exchange Rate Risks**

The Group's foreign exchange rate risks in 2010 arose principally in connection with U.S. dollars, Canadian dollars, British pounds, Australian dollars, Japanese yen, Swiss francs, Norwegian kroner, Swedish kroner and Danish kroner. As of December 31, 2010 and 2009, the Group had outstanding trade receivables denominated in foreign currencies totaling 52.6 million and 50.9 million, respectively, of which 56.6% and 53.8%, respectively, were denominated in U.S. dollars. On those same dates, the Group had 18.0 million and 14.6 million, respectively, of trade payables denominated in foreign currencies, principally U.S. dollars. See Notes 6 and 12 to the Consolidated Financial Statements included in Item 18 of this annual report.

As of December 31, 2010, the Company was a party to a number of forward exchange contracts (known in Italy as domestic currency swaps) as well as two option contracts (namely, zero-cost collar options), all of which are designed to hedge future sales denominated in U.S. dollars and other currencies. The Group does not use such foreign exchange contracts (both forward exchange and option-based contracts) for speculative trading purposes.

As of the same date, the notional amounts of all the outstanding foreign exchange derivatives totaled 80.1 million, of which 77.2 million represented by forward exchange contracts, and 2.9 million represented by two zero-cost collar options (prudentially evaluated at the upper strike-price of each zero-cost collar). As of December 31, 2009, the euro equivalent of the notional amount of foreign exchange contracts (represented by forward contracts only) totaled 42.6 million. At the end of 2010, such foreign exchange derivatives consisted mainly of forward exchange contracts with notional amounts of U.S.\$ 41.0 million, 11.9 million, Canadian dollar 16.6 million, British pound 7.5 million, Australian dollar 10.2 million, Japanese yen 255.0 million, Swiss franc 2.1 million, Norwegian kroner 8.8 million, Swedish kroner 8.5 million, Danish kroner 3.7 million. All of these forward contracts had various maturities extending through August 2011. In addition, there were two outstanding zero-cost collar option contracts whose overall notional amount totaled U.S.\$ 4.0 million and which had delivery dates in January and February 2011. See Note 24 to the Consolidated Financial Statements included in Item 18 of this annual report.

**Table of Contents**

The table below summarizes (in thousands of euro equivalent) the contractual amounts of foreign exchange derivatives (both forward contracts and zero-cost options) intended to hedge future cash flows from accounts receivable and sales orders as of December 31, 2010 and 2009:

| <b>Euro equivalent of contractual amounts of<br/>forward exchange contracts as of</b> | <b>December 31,</b> |               |
|---------------------------------------------------------------------------------------|---------------------|---------------|
|                                                                                       | <b>2010</b>         | <b>2009</b>   |
| U.S. dollars                                                                          | 30,604              | 15,323        |
| Euro                                                                                  | 12,200              | 10,714        |
| Canadian dollars                                                                      | 12,081              | 1,915         |
| British pounds                                                                        | 8,838               | 6,652         |
| Australian dollars                                                                    | 7,149               | 5,164         |
| Japanese yen                                                                          | 2,310               | 311           |
| Swiss francs                                                                          | 1,584               | 795           |
| Norwegian kroner                                                                      | 1,091               | 718           |
| Swedish kroner                                                                        | 919                 | 587           |
| Danish kroner                                                                         | 497                 | 470           |
| <b>Total</b>                                                                          | <b>77,273</b>       | <b>42,649</b> |
| <br>                                                                                  |                     |               |
| <b>Euro equivalent* of contractual amounts of<br/>zero-costs collar options as of</b> | <b>December 31,</b> |               |
|                                                                                       | <b>2010</b>         | <b>2009</b>   |
| U.S. dollars                                                                          | 2,847               | 8,095         |
| <b>Total</b>                                                                          | <b>2,847</b>        | <b>8,095</b>  |

\* The euro equivalent is prudentially evaluated at the upper strike-price of each zero-cost collar. Depending on the market price of the EURUSD exchange rate at every single maturity, the euro equivalent (in thousands) coming from the exercise of the options would range from 2,847 to 3,012.

As of December 31, 2010, these foreign exchange derivatives (including both forward contracts and zero-cost collar options) had a net unrealized loss of 0.9 million, compared to a net unrealized loss of 0.1 million as of December 31, 2009. The Group recorded this amount in other income (expense), net in its Consolidated Financial Statements. See Note 23 to the Consolidated Financial Statements included in Item 18 of this annual report.

**Table of Contents**

The following table presents information regarding the contract amount (including both forward and option contracts) in thousands of euro equivalent and the estimated fair value of all of the Group's foreign exchange derivatives. Derivative contracts with unrealized gains are presented as assets and derivative contracts with unrealized losses are presented as liabilities.

|                    | December 31, 2010  |                              | December 31, 2009  |                                 |
|--------------------|--------------------|------------------------------|--------------------|---------------------------------|
|                    | Contract<br>Amount | Unrealized<br>gains (losses) | Contract<br>Amount | Unrealized<br>gains<br>(losses) |
| <b>Assets</b>      | 40,981             | 171                          | 13,281             | 318                             |
| <b>Liabilities</b> | 39,139             | (1,059)                      | 37,463             | (380)                           |
| <b>Total</b>       | <b>80,120</b>      | <b>(888)</b>                 | <b>50,744</b>      | <b>(62)</b>                     |

The Group's foreign exchange derivative contracts (including both forward and zero-cost collar options) as of December 31, 2010 had maturities of a maximum of eight months. The potential loss in fair value of all the Group's foreign exchange contracts (including both forward and option contracts) as of December 31, 2010 that would have resulted from a hypothetical, instantaneous and unfavorable 10% change in currency exchange rates would have been approximately 9.5 million. This sensitivity analysis assumes an instantaneous and unfavorable 10% fluctuation in exchange rates affecting the foreign currencies of all the Group's hedging contracts.

For the accounting of transactions entered into in an effort to reduce the Group's exchange rate risks, see Notes 3, 23 and 24 to the Consolidated Financial Statements included in Item 18 of this annual report.

**Interest Rate Risks**

To a significantly lesser extent, the Group is also exposed to interest rate risk. As of December 31, 2010, the Group had 15.5 million (equivalent to 3.1% of the Group's total assets as of the same date) in debt outstanding (short-term borrowings and long-term debt, including the current portion of such debt), which is for the most part subject to floating interest rates. See Notes 11 and 16 to the Consolidated Financial Statements included in Item 18 of this annual report.

In the normal course of business, the Group also faces risks that are either non-financial or non-quantifiable. Such risks principally include country risk, credit risk and legal risk.

**Item 12. Description of Securities Other than Equity Securities**

Not applicable.

**Table of Contents**

**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

**Item 15. Controls and Procedures**

**(a) Disclosure Controls and Procedures** The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2010. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based on the Company's evaluation of its disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2010 to provide reasonable assurance that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's applicable rules and forms, and that it is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**(b) Management's Annual Report on Internal Control Over Financial Reporting** The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Even when determined to be effective, they can provide only reasonable assurance regarding the reliability of financial reporting and the preparation and presentation of financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

**Table of Contents**

To assess the effectiveness of the Company's internal control over financial reporting, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, used the criteria described in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company's management assessed the effectiveness of its internal control over financial reporting as of December 31, 2010. Based on such assessment, the Company's management has concluded that as of December 31, 2010, the Company's internal control over financial reporting was effective and that there were no material weaknesses in the Company's internal control over financial reporting.

The effectiveness of internal control over financial reporting as of December 31, 2010 has been audited by Reconta Ernst & Young S.p.A., an independent registered public accounting firm, as stated in their report on the Company's internal control over financial reporting, which follows below.

**Table of Contents**

**(c ) Attestation Report of the Registered Public Accounting Firm  
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Natuzzi S.p.A. and Subsidiaries

We have audited Natuzzi S.p.A. and Subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Natuzzi S.p.A. and Subsidiaries management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Natuzzi S.p.A. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Natuzzi S.p.A. and Subsidiaries as of December 31, 2010 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended and our report dated June 28, 2011 expressed an unqualified opinion thereon.

/s/ Reconta Ernst & Young S.p.A.

Bari, Italy.

June 28, 2011



**Table of Contents****Item 16. [Reserved]****Item 16A. Audit Committee Financial Expert**

The Company has determined that, because of the existence and nature of its board of statutory auditors, it qualifies for an exemption provided by Exchange Act Rule 10A-3(c)(3) from many of the Rule 10A-3(c)(3) audit committee requirements. The board of statutory auditors has determined that each of its members is an audit committee financial expert as defined in Item 16A of Form 20-F. For the names of the members of the board of statutory auditors and information regarding the independence of the board of statutory auditors, see Item 6. Directors, Senior Management and Employees Statutory Auditors.

**Item 16B. Code of Ethics**

The Company has adopted a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act. This code of ethics applies, among others, to the Company's Chief Executive Officer and Chief Financial Officer. The Company's code of ethics is downloadable from its website at [www.natuzzi.com/codeofethics/](http://www.natuzzi.com/codeofethics/) or can be requested in hard copy at no charge by e-mail at [investor\\_relations@natuzzi.com](mailto:investor_relations@natuzzi.com). If the Company amends the provisions of its code of ethics that apply to the Company's Chief Executive Officer and Chief Financial Officer, or if the Company grants any waiver of such provisions, it will disclose such amendment or waiver on its website at the same address.

**Item 16C. Principal Accountant Fees and Services**

Reconta Ernst & Young S.p.A. (Ernst & Young, hereafter) has served as Natuzzi S.p.A.'s principal independent public auditor for fiscal year 2010 for which audited Consolidated Financial Statements appear in this Annual Report on Form 20-F.

KPMG S.p.A. (KPMG, hereafter) has served as Natuzzi S.p.A.'s principal independent public auditor for fiscal years 2008 and 2009, for which audited Consolidated Financial Statements appear in this Annual Report on Form 20-F.

The following table sets forth the aggregate fees billed and billable to the Company by its independent auditors, Ernst & Young in Italy and abroad during the fiscal years ended December 31, 2010 and KPMG for the fiscal year ended December 31 2009, for audit fees, audit related fees, tax fees and all other fees for audit ICOFR (SOX 404).

|                    | <b>2010</b>                       | <b>2009</b>  |
|--------------------|-----------------------------------|--------------|
|                    | (Expressed in thousands of euros) |              |
| Audit fees         | 821                               | 1,056        |
| Audit-related fees |                                   |              |
| Tax fees           | 86                                |              |
| Other fees         |                                   |              |
| <b>Total fees</b>  | <b>907</b>                        | <b>1,056</b> |

Audit fees in the above table are the aggregate fees billed and billable in connection with the audit of the Company's annual financial statements.

Tax fees consist of fees billed and billable in connection with the professional services rendered for tax compliance.

**Table of Contents**

The Company's audit committee has not established pre-approval policies and procedures for the engagement of our independent external auditors for services. The Company's audit committee expressly pre-approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or to us.

The previous Board of Statutory Auditors approved the fees of the previous independent external auditor, KPMG. The previous Board of Statutory Auditors also approved the fees of the new independent external auditor, Reconta Ernst & Young, which were appointed by the shareholders' meeting held on April 30, 2010.

**Item 16D. Exemptions from the Listing Standards for Audit Committees.**

The Company is relying on the exemption from listing standards for audit committees provided by Exchange Act Rule 10A-3(c)(3). The basis for this reliance is that the Company's board of statutory auditors meets the following requirements set forth in Exchange Act Rule 10A-3(c)(3):

- 1) the board of statutory auditors is established and selected pursuant to Italian law expressly permitting such a board;
- 2) the board of statutory auditors is required under Italian law to be separate from the Company's Board of Directors;
- 3) the board of statutory auditors is not elected by management of the Company and no executive officer of the Company is a member of the board of statutory auditors;
- 4) Italian law provides for standards for the independence of the board of statutory auditors from the Company and its management;
- 5) the board of statutory auditors, in accordance with applicable Italian law and the Company's governing documents, is responsible, to the extent permitted by Italian law, for the appointment, retention and oversight of the work (including, to the extent permitted by law, the resolution of disagreements between management and the auditor regarding financial reporting) of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, and
- 6) to the extent permitted by Italian law, the audit committee requirements of paragraphs (b)(3), (b)(4) and (b)(5) of Rule 10A-3 apply to the Board of Statutory Auditors.

The Company's reliance on Rule 10A-3(c)(3) does not, in its opinion, materially adversely affect the ability of its Board of Statutory Auditors to act independently and to satisfy the other requirements of Rule 10A-3.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

From January 1, 2010 to December 31, 2010, no purchases were made by or on behalf of the Company or any affiliated purchaser of the Company's Ordinary Shares or ADSs.

**Item 16F. Change in Registrant's Certifying Accountant**

None

**Table of Contents****Item 16G. Corporate Governance**

Under NYSE rules, we are permitted, as a listed foreign private issuer, to adhere to the corporate governance rules of our home country in lieu of certain NYSE corporate governance rules.

Corporate governance rules for Italian stock corporations (*società per azioni*) like the Company, whose shares are not listed on a regulated market in the European Union, are set forth in the Civil Code. As described in more detail below, the Italian corporate governance rules set forth in the Civil Code differ in a number of ways from those applicable to U.S. domestic companies under NYSE listing standards, as set forth in the NYSE Listed Company Manual.

As a general rule, our company's main corporate bodies are governed by the Civil Code and are assigned specific powers and duties that are legally binding and cannot be derogated from. The Company follows the traditional Italian corporate governance system, with a board of directors (*consiglio di amministrazione*) and a separate board of statutory auditors (*collegio sindacale*) with supervisory functions. The two boards are separate and no individual may be a member of both boards. Both the members of the Board of Directors and the members of the board of statutory auditors owe duties of loyalty and care to the Company. As required by Italian law, an external auditor (*revisore contabile*) is in charge of auditing its financial statements. The members of the Company's Board of Directors and board of statutory auditors, as well as the external auditor, are directly and separately appointed by shareholder resolution at the general shareholders' meetings. This system differs from with the unitary system envisaged for U.S. domestic companies by the NYSE listing standards, which contemplate the Board of Directors serving as the sole governing body.

Below is a summary of the significant differences between Italian corporate governance rules and practices, as the Company has implemented them, and those applicable to U.S. issuers under NYSE listing standards, as set forth in the NYSE Listed Company Manual.

**Independent Directors**

*NYSE Domestic Company Standards* The NYSE listing standards applicable to U.S. companies provide that independent directors must comprise a majority of the board. In order for a director to be considered independent, the board of directors must affirmatively determine that the director has no material direct or indirect relationship with the company. These relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationship (among others).

More specifically, a director is not independent if such director or his/her immediate family members has certain specified relationships with the company, its parent, its consolidated subsidiaries, their internal or external auditors, or companies that have significant business relationships with the company, its parent or its consolidated subsidiaries. Ownership of a significant amount of stock is not a per se bar to independence. In addition, a three-year cooling off period following the termination of any relationship that compromised a director's independence must lapse before that director can again be considered independent.

*Our Practice* The presence of a prescribed number of independent directors on the Company's board is neither mandatory by any Italian law applicable to the Company nor required by the Company's By-laws.

**Table of Contents**

However, Italian law sets forth certain independence requirements applicable to the Company's statutory auditors. Statutory auditors' independence is assessed on the basis of the following rules: a person who (i) is a director, or the spouse or a close relative of a director, of the Company or any of its affiliates, or (ii) has an employment or a regular consulting or similar relationship with the Company or any of its affiliates, or (iii) has an economic relationship with the Company or any of its affiliates which might compromise his/her independence, cannot be appointed to the Company's board of statutory auditors. Although the Civil Code does not specifically provide for a cooling-off period, any member of the board of statutory auditors who is a chartered public accountant (*inscritto nel registro dei revisori contabili*) and has had a regular or material consulting relationship with the Company or its affiliates within two years prior to appointment, or has been employed by, or served as director of, the Company or its affiliates, within three years prior to appointment, may be suspended or cancelled from the register of chartered public accountants. The Civil Code mandates that at least one member of the board of statutory auditors be a chartered public accountant. Each of the current members of the board of statutory auditors is a chartered public accountant.

**Executive Sessions**

*NYSE Domestic Company Standards* Non-executive directors of U.S. companies listed on the NYSE must meet regularly in executive sessions, and independent directors should meet alone in an executive session at least once a year.

*Our Practice* Under the laws of Italy, neither non-executive directors nor independent directors are required to meet in executive sessions. The members of the Company's board of statutory auditors are required to meet at least every 90 days.

**Audit Committee and Internal Audit Function**

*NYSE Domestic Company Standards* U.S. companies listed on the NYSE are required to establish an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act and certain additional requirements set by the NYSE. In particular, all members of this committee must be independent and the committee must adopt a written charter. The committee's prescribed responsibilities include (i) the appointment, compensation, retention and oversight of the external auditors; (ii) establishing procedures for the handling of whistle blower complaints; (iii) discussion of financial reporting and internal control issues and critical accounting policies (including through executive sessions with the external auditors); (iv) the approval of audit and non-audit services performed by the external auditors and (v) the adoption of an annual performance evaluation. A company must also have an internal audit function, which may be out-sourced, except to the independent auditor.

*Our Practice* Rule 10A-3 under the Exchange Act provides that foreign private issuers with a board of statutory auditors established in accordance with local law or listing requirements and meeting specified requirements with regard to independence and responsibilities (including the performance of most of the specific tasks assigned to audit committees by Rule 10A-3, to the extent permitted by local law) (the Statutory Auditor Requirements) are exempt from the audit committee requirements established by the rule. The Company is relying on this exemption on the basis of its separate board of statutory auditors, which is permitted by the Civil Code and which satisfies the Statutory Auditor Requirements. Notwithstanding that, our Board of Statutory Auditors, consisting of independent and highly professional experts, comply with the requirements indicated at points (i), (iii) and (iv) of the preceding paragraph. The Company also has an internal audit function, which it has not outsourced.

**Table of Contents**

**Compensation Committee**

*NYSE Domestic Company Standards* Under NYSE standards, the compensation of the CEO of U.S. domestic companies must be approved by a compensation committee (or equivalent) comprised solely of independent directors. The compensation committee must also make recommendations to the board of directors with regard to the compensation of other officers, incentive compensation plans and equity-based plans. Disclosure of individual management compensation information for these companies is mandated by the Exchange Act's proxy rules, from which foreign private issuers are generally exempt.

*Our Practice* Under Italian law, the compensation of executive directors is determined by the Board of Directors, while the Company's shareholders determine the base compensation of all the Board members, including non-executive directors. Compensation of the Company's executive officers is determined by the Chairman. The Company does not produce a compensation report. However, the Company discloses aggregate compensation of all of its directors in its annual financial statements prepared in accordance with Italian GAAP and in Item 6 of its annual report on Form 20F.

**Nominating Committee**

*NYSE Domestic Company Standards* Under NYSE standards, a domestic company must have a nominating committee (or equivalent) comprised solely of independent directors, which is responsible for nominating directors.

*Our Practice* As allowed by Italian laws, the Company has not established a nominating committee (or equivalent) responsible for nominating its directors. Directors may be nominated by any of the Company's shareholders or the Company's Board of Directors. Mr. Natuzzi, by virtue of owning a majority of the outstanding shares of the Company, controls the Company, including its management and the selection of its Board of Directors.

**Corporate Governance and Code of Ethics**

*NYSE Domestic Company Standards* Under NYSE standards, a company must adopt governance guidelines and a code of business conduct and ethics for directors, officers and employees. A company must also publish these items on its website and provide printed copies on request. Section 406 of the Sarbanes-Oxley Act requires a company to disclose whether it has adopted a code of ethics for its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, and if not, the reasons why it has not done so. The NYSE listing standards applicable to U.S. companies provide that codes of conduct and ethics should address, at a minimum, conflicts of interest; corporate opportunities; confidentiality; fair dealing; protection and use of company assets; legal compliance; and reporting of illegal and unethical behavior. Corporate governance guidelines must address, at a minimum, directors' qualifications, responsibilities and compensation; access to management and independent advisers; management succession; director orientation and continuing education; and annual performance evaluation of the board.

*Our Practice* In January 2011, the Company's Board of Directors approved the adoption of a compliance program to prevent certain criminal offenses, according to the Italian Decree 231/2001. The Company will implement this program over the next months. The Company has adopted a code of ethics that applies to all employees of the Company, including the Company's Chief Executive Officer, Chief Financial Officer, and principal accounting officer. The Company believes that its code of ethics and the conduct and procedures adopted by the Company address the relevant issues contemplated by the NYSE standards applicable to U.S. companies noted above.

**Table of Contents**

**Certifications as to Violations of NYSE Standards**

*NYSE Domestic Company Standards* Under NYSE listing standards, the CEO of a U.S. company listed on the NYSE must certify annually to the NYSE that he or she is not aware of any violation by the company of the NYSE corporate governance standards. The company must disclose this certification, as well as that the CEO/CFO certification required under Section 302 of the Sarbanes-Oxley Act of 2002, has been made in the company's annual report to shareholders (or, if no annual report to shareholders is prepared, its annual report on Form 20-F). Each listed company on the NYSE, both domestic and foreign issuers, must submit an annual written affirmation to the NYSE regarding compliance with applicable NYSE corporate governance standards. In addition, each listed company on the NYSE, both domestic and foreign issuers, must submit interim affirmations to the NYSE upon the occurrence of specified events. A domestic issuer must file such an interim affirmation whenever the independent status of a director changes, a director is added or leaves the board, a change occurs to the composition of the audit, nominating/corporate governance, or compensation committee, or there is a change in the company's classification as a controlled company. The CEO of both domestic and foreign issuers listed on the NYSE must promptly notify the NYSE in writing if any executive officer becomes aware of any material non-compliance with the NYSE corporate governance standards.

*Our Practice* Under the NYSE rules, the Company's CEO is not required to certify annually to the NYSE whether he is aware of any violation by the Company of the NYSE corporate governance standards. However, the Company is required to submit an annual affirmation of compliance with applicable NYSE corporate governance standards to the NYSE within 30 days of the filing of its annual report on Form 20-F with the U.S. Securities and Exchange Commission. The Company is also required to submit to the NYSE an interim written affirmation any time it is no longer eligible to rely on, or chooses to no longer rely on, a previously applicable exemption provided by Rule 10A-3, or if a member of its audit committee ceases to be deemed independent or an audit committee member had been added.

Under NYSE rules, the Company's CEO must notify the NYSE in writing if any executive officer becomes aware of any material non-compliance by the Company with NYSE corporate governance standards.

**Shareholder Approval of Adoption and Modification of Equity Compensation Plans**

*NYSE Domestic Company Standards* Shareholders of a U.S. company listed on the NYSE must approve the adoption of and any material revision to the company's equity compensation plans, with certain exceptions.

*Our Practice* Although the Company's shareholders must authorize (i) the issuance of shares in connection with capital increases, and (ii) the buy-back of its own shares, the adoption of equity compensation plans does not per se require prior approval of the shareholders.

**Table of Contents****PART III****Item 17. Financial Statements**

Our financial statements have been prepared in accordance with Item 18 hereof.

**Item 18. Financial Statements**

Our audited consolidated financial statements are included in this annual report beginning at page F-1.

|                                                                                                                                                                                                                                                                                                                                                          | <b>Page</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| <b>Index to Consolidated Financial Statements</b>                                                                                                                                                                                                                                                                                                        |             |
| <u>Report of Independent Registered Public Accounting Firm</u>                                                                                                                                                                                                                                                                                           | F-1         |
| <u>Consolidated Balance Sheets as of December 31, 2010 and 2009</u>                                                                                                                                                                                                                                                                                      | F-3         |
| <u>Consolidated Statements of Operations for the Years Ended December 31, 2010, 2009 and 2008</u>                                                                                                                                                                                                                                                        | F-4         |
| <u>Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2010, 2009 and 2008</u>                                                                                                                                                                                                                                   | F-5         |
| <u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009 and 2008</u>                                                                                                                                                                                                                                                        | F-6         |
| <u>Notes to the Consolidated Financial Statements</u>                                                                                                                                                                                                                                                                                                    | F-7         |
| <b>Item 19. Exhibits</b>                                                                                                                                                                                                                                                                                                                                 |             |
| 1.1 English translation of the by-laws ( <i>Statuto</i> ) of the Company, as amended and restated as of January 24, 2008 (incorporated by reference to the Form 20-F filed by Natuzzi S.p.A. with the Securities Exchange Commission on June 30, 2008, file number 1-11854).                                                                             |             |
| 2.1 Deposit Agreement dated as of May 15, 1993, as amended and restated as of December 31, 2001, among the Company, The Bank of New York, as Depositary, and owners and beneficial owners of ADRs (incorporated by reference to the Form 20-F filed by Natuzzi S.p.A. with the Securities and Exchange Commission on July 1, 2002, file number 1-11854). |             |
| 8.1 List of Significant Subsidiaries.                                                                                                                                                                                                                                                                                                                    |             |
| 12.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                             |             |
| 12.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                             |             |
| 13.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                           |             |

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Natuzzi S.p.A. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Natuzzi S.p.A. and Subsidiaries as of December 31, 2010 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Natuzzi S.p.A. and Subsidiaries at December 31, 2010, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with established accounting principles in the Republic of Italy.

Established accounting principles in the Republic of Italy vary in certain significant respects from generally accepted accounting principles in the United States of America. Information relating to the nature and effect of such differences is presented in note 26 to the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Natuzzi S.p.A. and Subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 28, 2011 expressed an unqualified opinion thereon.

/s/ Reconta Ernst & Young S.p.A.

Bari, Italy

June 28, 2011

F-1

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**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders of Natuzzi S.p.A.

We have audited the accompanying consolidated balance sheet of Natuzzi S.p.A. and subsidiaries (the Natuzzi Group ) as of December 31, 2009, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the management of Natuzzi S.p.A.. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Natuzzi Group as of December 31, 2009, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2009, in conformity with established accounting principles in the Republic of Italy.

Established accounting principles in the Republic of Italy vary in certain significant respects from generally accepted accounting principles in the United States of America. Information relating to the nature and effect of such differences is presented in note 26 to the consolidated financial statements.

KPMG S.p.A.

Bari, Italy

June 24, 2010

**Table of Contents**

**Natuzzi S.p.A. and Subsidiaries**  
**Consolidated Balance Sheets**  
**as of December 31, 2010 and 2009**  
(Expressed in thousands of euros)

|                                                   | Dec. 31, 2010  | Dec. 31, 2009  |
|---------------------------------------------------|----------------|----------------|
| <b>ASSETS</b>                                     |                |                |
| <b>Current assets:</b>                            |                |                |
| Cash and cash equivalents (note 4)                | 61,094         | 66,330         |
| Marketable securities (note 5)                    | 4              | 4              |
| Trade receivables, net (note 6)                   | 95,815         | 97,045         |
| Other receivables (note 7)                        | 51,709         | 54,538         |
| Inventories (note 8)                              | 87,355         | 81,565         |
| Unrealized foreign exchange gain (note 24)        | 171            | 318            |
| Prepaid expenses and accrued income               | 1,334          | 1,415          |
| Deferred income taxes (note 14)                   | 1,078          | 702            |
| <b>Total current assets</b>                       | <b>298,560</b> | <b>301,917</b> |
| <b>Non current assets:</b>                        |                |                |
| Property plant and equipment (note 9)             | 422,025        | 405,276        |
| Less (accumulated depreciation)                   | (226,074)      | (211,442)      |
| Net property, plant and equipment (note 21)       | 195,951        | 193,834        |
| Other assets (note 10)                            | 9,345          | 12,813         |
| Deferred income taxes (note 14)                   |                |                |
| <b>Total assets</b>                               | <b>503,856</b> | <b>508,564</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>        |                |                |
| <b>Current liabilities:</b>                       |                |                |
| Bank Overdrafts (note 11)                         | 83             | 760            |
| Current portion of long-term debt (note 16)       | 1,831          | 1,124          |
| Accounts payable-trade (note 12)                  | 64,317         | 66,499         |
| Accounts payable-other (note 13)                  | 27,617         | 29,266         |
| Unrealized foreign exchange losses (note 24)      | 1,059          | 380            |
| Income taxes (note 14)                            | 2,952          | 3,708          |
| Salaries, wages and related liabilities (note 15) | 9,909          | 15,054         |
| <b>Total current liabilities</b>                  | <b>107,768</b> | <b>116,791</b> |
| <b>Long-term liabilities:</b>                     |                |                |
| Employees leaving entitlement (note 3 (n) )       | 28,412         | 29,565         |
| Long-term debt (note 16)                          | 13,583         | 5,857          |
| Deferred income taxes (note 14)                   |                | 47             |

|                                                              |                |                |
|--------------------------------------------------------------|----------------|----------------|
| Deferred income for capital grants (note 3(m))               | 10,358         | 11,208         |
| Other liabilities (note 17)                                  | 18,504         | 18,209         |
| <b>Shareholders' equity (note 18):</b>                       |                |                |
| Share capital                                                | 54,853         | 54,853         |
| Reserves                                                     | 42,780         | 42,780         |
| Additional paid-in capital                                   | 8,282          | 8,282          |
| Retained earnings                                            | 217,204        | 219,112        |
| Total equity attributable to Natuzzi S.p.A. and Subsidiaries | 323,119        | 325,027        |
| Non-controlling interest (note 18)                           | 2,112          | 1,860          |
| Total Shareholders' equity                                   | 325,231        | 326,887        |
| Commitments and contingent liabilities (notes 20 and 23)     |                |                |
| <b>Total liabilities and Shareholders' equity</b>            | <b>503,856</b> | <b>508,564</b> |

See accompanying notes to the consolidated financial statements

**Table of Contents**

**Natuzzi S.p.A. and Subsidiaries**  
**Consolidated Statements of Operations**  
**Years ended December 31, 2010, 2009 and 2008**  
(Expressed in thousands of euros except per share data)

|                                                                        | 2010            | 2009            | 2008            |
|------------------------------------------------------------------------|-----------------|-----------------|-----------------|
| Net sales (note 21)                                                    | 518,634         | 515,352         | 666,026         |
| Cost of sales (note 22)                                                | (321,501)       | (329,742)       | (478,770)       |
| Gross profit                                                           | 197,133         | 185,610         | 187,256         |
| Selling expenses                                                       | (154,267)       | (149,596)       | (172,338)       |
| General and administrative expenses                                    | (42,468)        | (46,585)        | (49,914)        |
| Operating income/(loss)                                                | 398             | (10,571)        | (34,996)        |
| Other income/(expense), net (note 23)                                  | (4,427)         | 3,121           | (25,818)        |
| Earning/(loss) before taxes and non-controlling interest               | (4,029)         | (7,450)         | (60,814)        |
| Income taxes (note 14)                                                 | (6,952)         | (9,802)         | (1,556)         |
| <b>Net income/(loss)</b>                                               | <b>(10,981)</b> | <b>(17,252)</b> | <b>(62,370)</b> |
| Net (Income)/loss attributable to Non-controlling interest             | (97)            | (434)           | 432             |
| Net Income/(loss) attributable to Natuzzi S.p.A. and Subsidiaries      | (11,078)        | (17,686)        | (61,938)        |
| <i>Basic loss per share (note 3 (y))</i>                               | <i>(0.20)</i>   | <i>(0.32)</i>   | <i>(1.13)</i>   |
| <i>Diluted loss per share (note 3 (y))</i>                             | <i>(0.20)</i>   | <i>(0.32)</i>   | <i>(1.13)</i>   |
| <b>See accompanying notes to the consolidated financial statements</b> |                 |                 |                 |

**Table of Contents**

**Natuzzi S.p.A. and Subsidiaries**  
**Consolidated Statements of Changes in Shareholders Equity**  
**Years ended December 31, 2010, 2009 and 2008**  
(Expressed in thousands of euros except number of ordinary shares)

|                                                                        | Number of<br>ordinary<br>shares | Share<br>Capital<br>Amount | Reserves      | Additio<br>nal<br>paid<br>in<br>capital | Retained<br>earnings | Equity<br>attributable<br>to Natuzzi<br>S.p.A. | Non-<br>controlling<br>interest | Total<br>Share<br>holders<br>equity |
|------------------------------------------------------------------------|---------------------------------|----------------------------|---------------|-----------------------------------------|----------------------|------------------------------------------------|---------------------------------|-------------------------------------|
| <b>Balances at<br/>December 31, 2007</b>                               | <b>54,824,227</b>               | <b>54,824</b>              | <b>42,292</b> | <b>8,282</b>                            | <b>306,199</b>       | <b>411,597</b>                                 | <b>146</b>                      | <b>411,743</b>                      |
| Majority Shareholder<br>contribution                                   |                                 |                            | 488           |                                         |                      | 488                                            |                                 | 488                                 |
| Increase in share<br>capital                                           | 28,818                          | 29                         |               |                                         | (29)                 |                                                |                                 |                                     |
| Exchange difference<br>on translation of<br>financial statement        |                                 |                            |               |                                         | (4,929)              | (4,929)                                        | (1,081)                         | (3,848)                             |
| Net loss                                                               |                                 |                            |               |                                         | (61,938)             | (61,938)                                       | (432)                           | (62,370)                            |
| <b>Balances at<br/>December 31, 2008</b>                               | <b>54,853,045</b>               | <b>54,853</b>              | <b>42,780</b> | <b>8,282</b>                            | <b>239,303</b>       | <b>345,218</b>                                 | <b>795</b>                      | <b>346,013</b>                      |
| Exchange difference<br>on translation of<br>financial statement        |                                 |                            |               |                                         | (2,505)              | (2,505)                                        | (45)                            | (2,550)                             |
| Purchase<br>non-controlling<br>Interest                                |                                 |                            |               |                                         |                      |                                                | (23)                            | (23)                                |
| Increase for capital<br>contribution of<br>non-controlling<br>interest |                                 |                            |               |                                         |                      |                                                | 699                             | 699                                 |
| Net Income (loss)                                                      |                                 |                            |               |                                         | (17,686)             | (17,686)                                       | 434                             | (17,252)                            |
| <b>Balances at<br/>December 31, 2009</b>                               | <b>54,853,045</b>               | <b>54,853</b>              | <b>42,780</b> | <b>8,282</b>                            | <b>219,112</b>       | <b>325,027</b>                                 | <b>1,860</b>                    | <b>326,887</b>                      |

|                                                                 |                   |               |               |              |                |                |              |                |
|-----------------------------------------------------------------|-------------------|---------------|---------------|--------------|----------------|----------------|--------------|----------------|
| Exchange difference<br>on translation of<br>financial statement |                   |               |               |              | 9,170          | 9,170          | 155          | 9,325          |
| Net Income (loss)                                               |                   |               |               |              | (11,078)       | (11,078)       | 97           | (10,981)       |
| <b>Balances at</b>                                              |                   |               |               |              |                |                |              |                |
| <b>December 31, 2010</b>                                        | <i>54,853,045</i> | <i>54,853</i> | <i>42,780</i> | <i>8,282</i> | <i>217,204</i> | <i>323,119</i> | <i>2,112</i> | <i>325,231</i> |

See accompanying notes to the consolidated financial statements

**Table of Contents**

**Natuzzi S.p.A. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years ended December 31, 2010, 2009 and 2008**

(Expressed in thousands of euros)

|                                                                                                  | 2010            | 2009           | 2008            |
|--------------------------------------------------------------------------------------------------|-----------------|----------------|-----------------|
| <b>Cash flows from operating activities:</b>                                                     |                 |                |                 |
| Net income/(loss) attributable to Natuzzi S.p.A. and Subsidiaries                                | (11,078)        | (17,686)       | (61,938)        |
| Adjustment to reconcile net income/(loss) to net cash provided by/(used in) operating activities |                 |                |                 |
| Non-controlling interest                                                                         | 97              | 434            | (432)           |
| Depreciation and amortization                                                                    | 23,419          | 26,565         | 31,086          |
| Write off of Fixed Assets                                                                        |                 | 595            | 1,189           |
| Impairment of long lived Assets                                                                  |                 |                | 4,703           |
| Employees leaving entitlement                                                                    | 6,521           | 6,525          | 7,026           |
| Deferred income taxes                                                                            | (313)           | 3,743          | (3,107)         |
| Loss on disposal of assets                                                                       | 496             | 492            | 284             |
| Unrealized foreign exchange (gain)/losses                                                        | 1,038           | (4,409)        | 5,417           |
| Deferred income for capital grants                                                               | (748)           | (850)          | (1,274)         |
| Change in assets and liabilities:                                                                |                 |                |                 |
| Receivables, net                                                                                 | 1,232           | 16,903         | (3,462)         |
| Inventories                                                                                      | (5,791)         | 10,842         | 14,916          |
| Prepaid expenses and accrued income                                                              | 78              | (157)          | 588             |
| Accounts payable                                                                                 | 2,600           | (4,766)        | (21,372)        |
| Income taxes                                                                                     | (504)           | 1,910          | 213             |
| Salaries, wages and related liabilities                                                          | (5,235)         | (1,832)        | (720)           |
| Other liabilities                                                                                | (1,778)         | 3,795          | 3,576           |
| Employees leaving entitlement                                                                    | (7,674)         | (8,637)        | (8,692)         |
| Total adjustments                                                                                | 13,438          | 51,153         | 29,939          |
| Net cash provided by/(used in) operating activities                                              | <b>2,360</b>    | <b>33,467</b>  | <b>(31,999)</b> |
| <b>Cash flows from investing activities:</b>                                                     |                 |                |                 |
| Property, plant and equipment:                                                                   |                 |                |                 |
| Additions                                                                                        | (14,006)        | (4,191)        | (11,884)        |
| Disposals                                                                                        | 1,122           | 1,137          | 174             |
| Other assets                                                                                     | (3,046)         | (4,382)        | (4,097)         |
| (Purchase)/Disposal of business, net of cash acquired                                            |                 | (1,040)        | 2,262           |
| Net cash used in investing activities                                                            | <b>(15,930)</b> | <b>(8,476)</b> | <b>(13,545)</b> |
| <b>Cash flows from financing activities:</b>                                                     |                 |                |                 |
| Long-term debt:                                                                                  |                 |                |                 |
| Proceeds                                                                                         | 9,557           | 3,900          | 2,038           |
| Repayments                                                                                       | (1,124)         | (699)          | (691)           |
| Short-term borrowings                                                                            | (678)           | (8,941)        | 2,125           |
| Majority Shareholder Capital Contribution                                                        |                 |                | 488             |
| Net cash provided by/(used in) financing activities                                              | <b>7,755</b>    | <b>(5,740)</b> | <b>3,960</b>    |

|                                                          |              |              |              |
|----------------------------------------------------------|--------------|--------------|--------------|
| Effect of translation adjustments on cash                | 579          | (228)        | 1,432        |
| Increase/(decrease) in cash and cash equivalents         | (5,236)      | 19,023       | (40,152)     |
| Cash and cash equivalents, beginning of the year         | 66,330       | 47,307       | 87,459       |
| Cash and cash equivalents, end of the year               | 61,094       | 66,330       | 47,307       |
| <b>Supplemental disclosure of cash flow information:</b> |              |              |              |
| <i>Cash paid during the year for interest</i>            | <i>155</i>   | <i>130</i>   | <i>327</i>   |
| <i>Cash paid during the year for income taxes</i>        | <i>9,146</i> | <i>5,258</i> | <i>1,399</i> |



**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**1. Description of business and Group composition**

The consolidated financial statements include the accounts of Natuzzi S.p.A. ( Natuzzi or the Company ) and of its subsidiaries (together with the Company, the Group ). The Group s primary activity is the design, manufacture and marketing of contemporary and traditional leather and fabric upholstered furniture. The subsidiaries included in the consolidation at December 31, 2010, together with the related percentages of ownership, are as follows:

| Name                           | Percent of ownership | Registered office         | Activity |
|--------------------------------|----------------------|---------------------------|----------|
| Italsofa Nordeste S.A.         | 100.00               | Salvador, Brazil          | (1)      |
| Italsofa Shanghai Ltd          | 96.50                | Shanghai, China           | (1)      |
| Softaly Shanghai Ltd           | 100.00               | Shanghai, China           | (1)      |
| Natuzzi China Ltd.             | 100.00               | Shanghai, China           | (1)      |
| Italsofa Romania               | 100.00               | Baia Mare, Romania        | (1)      |
| Natco S.p.A.                   | 99.99                | Bari, Italy               | (2)      |
| I.M.P.E. S.p.A.                | 90.84                | Qualiano, Italy           | (3)      |
| Nacon S.p.A.                   | 100.00               | Bari, Italy               | (4)      |
| Lagene S.r.l.                  | 100.00               | Bari, Italy               | (4)      |
| Natuzzi Americas Inc.          | 100.00               | High Point, NC, USA       | (4)      |
| Natuzzi Iberica S.A.           | 100.00               | Madrid, Spain             | (4)      |
| Natuzzi Switzerland AG         | 100.00               | Kaltbrunn,<br>Switzerland | (4)      |
| Natuzzi Nordic                 | 100.00               | Copenaghen,<br>Denmark    | (4)      |
| Natuzzi Benelux S.A.           | 100.00               | Geel, Belgium             | (4)      |
| Natuzzi Germany Gmbh           | 100.00               | Dusseldorf, Germany       | (4)      |
| Natuzzi Sweden AB              | 100.00               | Stockholm, Sweden         | (4)      |
| Natuzzi Japan KK               | 100.00               | Tokyo, Japan              | (4)      |
| Natuzzi Services Limited       | 100.00               | London, UK                | (4)      |
| Natuzzi Trading Shanghai Ltd   | 100.00               | Shanghai, China           | (4)      |
| Natuzzi Oceania Ltd            | 100.00               | Sidney, Australia         | (4)      |
| Natuzzi Russia OOO             | 100.00               | Moscow, Russia            | (4)      |
| Italholding S.r.l.             | 100.00               | Bari, Italy               | (5)      |
| Natuzzi Netherlands Holding    | 100.00               | Amsterdam, Holland        | (5)      |
| Natuzzi Trade Service S.r.l.   | 100.00               | Bari, Italy               | (6)      |
| Natuzzi United Kingdom Limited | 100.00               | London, UK                | (7)      |
| Kingdom of Leather Limited     | 100.00               | London, UK                | (7)      |
| La Galleria Limited            | 100.00               | London, UK                | (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) Dormant

F-7

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**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

In March 2010 the Company incorporated a new subsidiary, Natuzzi Russia OOO, which owns a store and provides sales support for the Group in that country.

During October 2009, in an effort to maximize the efficiency of the Group's organizational structure, Italsofa Bahia Ltd (97.99% owned by the Company) has been merged into the other Brazilian subsidiary Minuano Nordeste S.A. (wholly owned by the Company) whose name, further, was changed in Italsofa Nordeste S.A.. Subsequent to the merger, the Company acquired the remaining non-controlling interest for a consideration of 23. The acquisition did not result in any goodwill.

In 2009 the Company incorporated two new subsidiaries, Natuzzi Trading Shanghai Ltd and Natuzzi Oceania Ltd, which provide sales support for the Group in the respective country.

In July 2009 the Company acquired 100% of a business composed by a store located in Florence. The cash consideration paid by the Company for this acquisition was 125. This business was operating as a Natuzzi franchisee. At the date of the acquisition the franchisee agreement between Natuzzi and the original business had not expired. The primary reason for this acquisition was the opportunity to maintain the market presence in Florence. The main factor that contributed to the determination of the purchase price was the presence of the stores in a key location. The acquisition was accounted for using the acquisition method and it resulted in a goodwill of 85, which represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at date of acquisition.

|                |     |
|----------------|-----|
| Goodwill       | 85  |
| Current assets | 40  |
| Purchase price | 125 |

The results of the acquired business have been included in the consolidated statement of operations from the date of acquisition.

In November 2009 the Company acquired 100% of a business composed by three Divani & Divani by Natuzzi stores, located in Bologna, Cesena and Rimini, for a consideration of 892. This business was operating as a Natuzzi franchisee. At the date of the acquisition the franchisee agreement between Natuzzi and the original business had not expired. The primary reason for this acquisition was the opportunity to maintain the market presence in Emilia Romagna region. The main factor that contributed to the determination of the purchase price was the presence of the stores in key locations. The acquisition was accounted for using the acquisition method and it resulted in a goodwill of 566, which represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at date of acquisition.

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries  
**Notes to consolidated financial statements**  
 (Expressed in thousands of euros except as otherwise indicated)

|                     |      |
|---------------------|------|
| Goodwill            | 566  |
| Fixed assets        | 42   |
| Current assets      | 358  |
| Current liabilities | (74) |
| <br>                |      |
| Purchase price      | 892  |

The results of the acquired business have been included in the consolidated statement of operations from the date of the acquisition.

During July 2008 the Company sold six retail stores to a third party for a consideration of 912. The stores disposed of are located in the central part of Italy. Leather and fabric upholstered furniture sold by these stores to final consumers were bought from Natuzzi.

**2. Basis of preparation**

The financial statements utilized for the consolidation are the financial statements of each Group company at December 31, 2010, 2009 and 2008. The 2010, 2009 and 2008 financial statements have been approved by the respective shareholders of the relevant companies.

The financial statements of subsidiaries are adjusted, where necessary, to conform to Natuzzi's accounting principles and policies, which are consistent with Italian legal requirements governing financial statements considered in conjunction with established accounting principles promulgated by the Italian Accounting Profession (OIC).

Established accounting principles in the Republic of Italy vary in certain significant respects from generally accepted accounting principles in the United States of America. Information relating to the nature and effect of such differences is presented in note 26 to the consolidated financial statements.

**3. Summary of significant accounting policies**

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

**a) Principles of consolidation**

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

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

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

**b) Foreign currency transactions**

Foreign currency transactions are recorded at the exchange rates applicable at the transaction dates. Assets and liabilities denominated in foreign currency are remeasured at year-end exchange rates. Foreign exchange gains and losses resulting from the remeasurement of these assets and liabilities are included in other income (expense), net, in the consolidated statements of operations.

**c) Forward and collars exchange contracts**

The Group enters into forward exchange contracts (known in Italian financial markets as domestic currency swaps) and, for a limited number of contracts, into so called "zero cost collars" exchange rate derivative instruments to manage its exposure to foreign currency risks. The Group does not enter into these contracts on a speculative basis, nor is hedge effectiveness constantly monitored. As a consequence of this, forward and collar exchange contracts are not used to hedge any on or off-balance sheet items. Therefore, at December 31, 2010, 2009 and 2008 all unrealized gains or losses on such contracts are recorded in other income (expense), net, in the consolidated statements of operations.

**d) Financial statements of foreign operations**

The financial statements of the foreign subsidiaries expressed in the foreign currency are translated directly into euro as follows: (i) year-end exchange rate for assets, liabilities, and shareholders' equity, (ii) historical exchange rates for share capital and retained earnings, and (iii) average exchange rates during the year for revenues and expenses. The resulting exchange differences on translation are recorded as a direct adjustment to shareholders' equity.

**e) Cash and cash equivalents**

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

**f) Marketable debt securities**

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

Gains and losses realized on the sale of marketable debt securities were computed based on a weighted-average cost of the specific securities being sold.

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Realized gains and losses are charged to other income (expense), net.

**g) Accounts receivable and payable**

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

The Group records revenues net of returns and discounts. The Group estimates sales returns 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 and discounts may differ significantly from these estimates if factors such as economic conditions, customer preferences or changes in product quality differ from the ones used by the Group in making these estimates.

The Group makes estimates and judgments in relation 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 creditworthiness of its customers and general economic conditions. Changes to assumptions relating to these estimates could affect actual results. Actual results may differ significantly from the Group's estimates if factors such as general economic conditions and the creditworthiness of its customers are different from the Group's assumptions.

**h) Inventories**

Raw materials are stated at the lower of cost (determined under the specific cost method for leather hides and under the weighted-average method for other raw materials) and replacement cost.

Goods in process and finished goods are valued at the lower of production cost and net realizable value. Production cost includes direct production costs and production overhead costs. The production overhead costs are allocated to inventory based on the manufacturing facility's normal capacity.

The provision for slow moving and obsolete raw materials and finished goods is based on the estimated realizable value net of the costs of disposal.

**i) Property, plant and equipment**

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

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**j) Other assets**

Other assets primarily include software, trademarks and patents, goodwill and certain deferred costs. These assets are stated at the lower of amortized cost or recoverable amount. The carrying amounts of other assets are reviewed to determine if they are in excess of their recoverable amount, based on discounted cash flows, at the consolidated balance sheet date. If the carrying amount exceeds the recoverable amount, the asset is written down to the recoverable amount.

Software, trademarks, patents and goodwill are amortized on a straight-line basis over a period of five years.

**k) Impairment of long-lived assets and long-lived assets to be disposed of**

The Company reviews long-lived assets, including intangible assets with estimable useful lives, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset with its recoverable value, which is the higher of a) future discounted cash flows expected to be generated by the asset or b) estimated fair value less costs to sell. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the recoverable value of the assets. Assets to be disposed of are reported at the lower of their carrying amount and their fair value less costs to sell. Estimated fair value is generally determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

**l) Income taxes**

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

**m) Government grants**

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

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

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

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

In addition when capital grants are received after the year in which the related assets are acquired, the depreciation of the capital grants is recognized as income as follows: (a) the depreciation of the grants related to the amortization of the assets recorded in statements of operations in the years prior to the date in which the grants are received, is recorded in other income (expense), net; (b) the depreciation of the grants related to the amortization of the assets recorded in statements of operations of the year, is recorded in net sales.

At December 31, 2010 and 2009 the deferred income for capital grants shown in the consolidated balance sheet amounts to 10,358 and 11,208, respectively.

The amortization of these grants recorded in net sales of the consolidated statement of operations for the years ended December 31, 2010, 2009 and 2008, amounts to 748, 953 and 990, respectively.

Cost reimbursement grants relating to research, training and other personnel costs are credited to income when there is a reasonable assurance of receipt from government agencies.

**n) Employees' leaving entitlement**

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

Under such Italian labour laws, upon termination of an employment relationship, the former employee has the right to receive termination benefits for each year of service equal to the employee's gross annual salary, divided by 13.5. The entitlement is increased each year by an amount corresponding to 75% of the rise in the cost of living index plus 1.5 points.

The expense recorded for the leaving entitlement for the years ended December 31, 2010, 2009 and 2008 was 6,793, 6,525 and 7,026, respectively.

The number of workers employed by the Group totalled 6,766 and 6,935 at December 31, 2010 and 2009, respectively.

**o) Net sales**

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



**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

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

**p) Cost of sales, selling expenses, general and administrative expenses**

Cost of sales consist of the following expenses: the change in opening and closing inventories, purchases of raw materials, labor costs, third party manufacturing costs, depreciation and amortization expense of property, plant and equipment used in the production of finished goods, energy and water expenses (for instance light and power expenses), expenses for maintenance and repairs of production facilities, distribution network costs (including inbound freight charges, warehousing costs, internal transfer costs and other logistic costs involved in the production cycle), rentals and security costs for production facilities, small-tools replacement costs, insurance costs, and other minor expenses.

Selling expenses consist of the following expenses: shipping and handling costs incurred for transporting finished products to customers, advertising costs, labor costs for sales personnel, rental expense for stores, commissions to sales representatives and related costs, depreciation and amortization expense of property, plant and equipment and intangible assets that, based on their usage, are allocated to selling expense, sales catalogue and related expenses, warranty costs, exhibition and trade-fair costs, advisory fees for sales and marketing of finished products, expenses for maintenance and repair of stores and other trade buildings, bad debt expense, insurance costs for trade receivables and other related costs, and other miscellaneous expenses.

General and administrative expenses consist of the following expenses: labor costs for administrative personnel, advisory fees for accounting and information-technology services, traveling expenses for management and other personnel, depreciation and amortization expenses related to property, plant and equipment and intangible assets that, based on their usage, are allocated to general and administrative expense, postage and telephone costs, stationery and other office-supplies costs, expenses for maintenance and repair of administrative facilities, statutory auditors and external auditors fees, and other miscellaneous expenses.

As noted above, the costs of Group's distributions network, which include inbound freight charges, warehousing costs, internal transfer costs and other logistic costs involved in the production cycle, are classified under the cost of sales line item.

**q) Shipping and handling costs**

Shipping and handling costs sustained to transport products to customers are expensed in the periods incurred and are included in selling expenses. Shipping and handling expenses recorded for the years ended December 31, 2010, 2009 and 2008 were 43,844, 37,249 and 52,658, respectively.

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**r) Advertising costs**

Advertising costs are expensed in the periods incurred and are included in selling expenses. Advertising expenses recorded for the years ended December 31, 2010, 2009 and 2008 were 28,072, 31,938 and 28,007, respectively.

**s) Commission expense**

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

**t) Warranties**

Warranties are estimated and provided for in the year of sales. Such allowances are made based on historical trends. The Company has the ability to make a reasonable estimate of such allowances due to large volumes of homogeneous transactions and historical trends.

**u) Research and development costs**

Research and development costs are expensed in the period incurred. Research and development expenses were 7.0 million in 2010.

**v) Contingencies**

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

**w) Use of estimates**

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

**x) Leases**

The Company has evaluated its existing lease contracts and concluded that all of its contracts are operating in nature. As such, lease expenses are recognized when incurred over the term of the lease.

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**y) Earnings (losses) per share**

Basic earnings (losses) per share is calculated by dividing net earnings (losses) attributable to ordinary shareholders by the weighted-average number of ordinary shares outstanding during the period. Diluted earnings (losses) per share include the effects of the possible issuance of ordinary shares under share grants and option plans in the determination of the weighted average number of ordinary shares outstanding during the period. In 2008 share grants and options of 761,594, were excluded as their effect was anti dilutive. The following table provides the amounts used in the calculation of earnings (losses) per share:

|                                                                                             | 2010       | 2009       | 2008       |
|---------------------------------------------------------------------------------------------|------------|------------|------------|
| Net earnings (loss) attributable to ordinary shareholders                                   | (11,078)   | (17,686)   | (61,938)   |
| Weighted-average number of ordinary shares outstanding during the year                      | 54,853,045 | 54,853,045 | 54,850,643 |
| Increase resulting from assumed conversion of share grants and options                      |            |            |            |
| Weighted-average number of ordinary shares and potential shares outstanding during the year | 54,853,045 | 54,853,045 | 54,850,643 |

**4. Cash and cash equivalents**

Cash and cash equivalents are analyzed as follows:

|                                     | 2010   | 2009   |
|-------------------------------------|--------|--------|
| Cash on hand                        | 248    | 176    |
| Bank accounts in Euro               | 42,668 | 22,974 |
| Bank accounts in foreign currencies | 18,178 | 43,180 |
| Total                               | 61,094 | 66,330 |

The Company anticipates that its existing cash and cash equivalents resources, including availability under its credit facilities (see note 11) and cash flows from operations, will be adequate to satisfy its liquidity requirements through calendar year 2011. If available liquidity is not sufficient to meet the Company's operating and debt service obligations as they come due, management's plans include pursuing alternative financing arrangements or reducing expenditures as necessary to meet the Company's cash requirements throughout 2011.

**5. Marketable debt securities**

Details regarding marketable debt securities are as follows:

|                         | 2010 | 2009 |
|-------------------------|------|------|
| Foreign corporate bonds | 4    | 4    |
| Total                   | 4    | 4    |

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

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

| 2010                    | Cost | Gross unrealized |        | Fair value |
|-------------------------|------|------------------|--------|------------|
|                         |      | Gains            | Losses |            |
| Foreign corporate bonds | 4    |                  |        | 4          |
| Total                   | 4    |                  |        | 4          |

  

| 2009                    | Cost | Gross unrealized |        | Fair value |
|-------------------------|------|------------------|--------|------------|
|                         |      | Gains            | Losses |            |
| Foreign corporate bonds | 4    |                  |        | 4          |
| Total                   | 4    |                  |        | 4          |

The contractual maturity of the Group's marketable debt securities at December 31, 2010 is between 1 to 5 years.

**6. Trade receivables, net**

Trade receivables are analyzed as follows:

|                                 | 2010    | 2009    |
|---------------------------------|---------|---------|
| North American customers        | 35,930  | 33,778  |
| Other foreign customers         | 43,766  | 46,951  |
| Domestic customers              | 25,486  | 21,731  |
| Trade bills receivable          | 6       | 3,915   |
| Total                           | 105,188 | 106,375 |
| Allowance for doubtful accounts | (9,373) | (9,330) |
| Total trade receivables, net    | 95,815  | 97,045  |

Trade receivables are due primarily from major retailers who sell directly to their customers. Trade receivables due from related parties amounted to 2,597 as at December 31, 2010. Sales to related parties amounted to 7,939 in 2010. Transactions with related parties were conducted at arm's length.

As of December 31, 2010, 2009 and 2008 and for each of the years in the three-year period ended December 31, 2010, the Company had customers who exceeded 5% of trade receivables and/or net sales as follows:

|                   | N° of customers | % on trade receivables |
|-------------------|-----------------|------------------------|
| Trade receivables |                 |                        |
| 2010              | 2               | 16%                    |
| 2009              | 2               | 14%                    |
| 2008              | 2               | 16%                    |

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries  
**Notes to consolidated financial statements**  
 (Expressed in thousands of euros except as otherwise indicated)

| Net sales | N° of<br>customers | % net sales |
|-----------|--------------------|-------------|
| 2010      | 2                  | 20%         |
| 2009      | 2                  | 17%         |
| 2008      | 2                  | 22%         |

In 2010, 2009 and 2008 one customer accounted for approximately 15%, 11% and 15% of the total net sales of the Group, respectively. This customer operates many furniture stores throughout the world.

The Company insures with a third party its collection risk in respect of a significant portion of accounts receivable outstanding balances, and estimates an allowance for doubtful accounts based on the insurance in place, the credit worthiness of its customers, as well as general economic conditions.

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

|                                                | 2010  | 2009    | 2008  |
|------------------------------------------------|-------|---------|-------|
| Balance, beginning of year                     | 9,330 | 8,615   | 5,699 |
| Charges-bad debt expense                       | 430   | 1,859   | 3,550 |
| Reductions-write off of uncollectible accounts | (387) | (1,144) | (634) |
| Balance, end of year                           | 9,373 | 9,330   | 8,615 |

Trade receivables denominated in foreign currencies at December 31, 2010 and 2009 totaled 52,606 and 50,875, respectively. These receivables consist of the following:

|                    | 2010   | 2009   |
|--------------------|--------|--------|
| U.S. dollars       | 29,799 | 27,354 |
| Canadian dollars   | 7,357  | 9,517  |
| British pounds     | 5,397  | 5,417  |
| Australian dollars | 4,384  | 4,883  |
| Other currencies   | 5,669  | 3,704  |
| Total              | 52,606 | 50,875 |

**7. Other receivables**

Other receivables are analyzed as follows:

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries  
**Notes to consolidated financial statements**  
 (Expressed in thousands of euros except as otherwise indicated)

|                                                        | 2010          | 2009          |
|--------------------------------------------------------|---------------|---------------|
| Receivable from National Institute for Social Security | 16,057        | 19,626        |
| Government capital grants                              | 7,518         | 10,213        |
| VAT                                                    | 8,703         | 7,246         |
| Receivable from tax authorities                        | 5,069         | 7,024         |
| Advances to suppliers                                  | 5,118         | 2,608         |
| Other                                                  | 9,244         | 7,821         |
| <b>Total</b>                                           | <b>51,709</b> | <b>54,538</b> |

The receivable from National Institute for Social Security represents the amounts anticipated by the Company on behalf of such governmental institute related to salaries for those employees subject to temporary work force reduction.

The receivable for capital grants represents amounts due from government agencies related to capital expenditures that have been incurred.

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

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

The Other caption primarily includes deposits and certain receivables related to employees.

**8. Inventories**

Inventories are analyzed as follows:

|                                 | 2010          | 2009          |
|---------------------------------|---------------|---------------|
| Leather and other raw materials | 47,760        | 42,802        |
| Goods in process                | 11,323        | 12,254        |
| Finished products               | 28,272        | 26,509        |
| <b>Total</b>                    | <b>87,355</b> | <b>81,565</b> |

As of December 31, 2010 and 2009 the provision for slow moving and obsolete raw materials and finished products included in inventories amounts to 8,093 and 8,201, respectively.

**9. Property, plant and equipment and accumulated depreciation**

Fixed assets are listed below together with accumulated depreciation.

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

|                                      | Cost or<br>valuation | Accumulated<br>depreciation | Annual rate of<br>depreciation |     |
|--------------------------------------|----------------------|-----------------------------|--------------------------------|-----|
| 2010                                 |                      |                             |                                |     |
| Land and industrial buildings        | 197,812              | (58,861)                    | 0                              | 10% |
| Machinery and equipment              | 117,452              | (97,922)                    | 10                             | 25% |
| Airplane                             | 24,075               | (9,389)                     |                                | 3%  |
| Office furniture and equipment       | 24,053               | (22,394)                    | 10                             | 20% |
| Retail gallery and store furnishings | 32,258               | (27,324)                    | 25                             | 35% |
| Transportation equipment             | 5,411                | (4,695)                     | 20                             | 25% |
| Leasehold improvements               | 9,381                | (5,489)                     | 10                             | 20% |
| Construction in progress             | 11,583               |                             |                                |     |
| Total                                | 422,025              | (226,074)                   |                                |     |

|                                      | Cost or<br>valuation | Accumulated<br>depreciation | Annual rate of<br>depreciation |     |
|--------------------------------------|----------------------|-----------------------------|--------------------------------|-----|
| 2009                                 |                      |                             |                                |     |
| Land and industrial buildings        | 193,700              | (54,590)                    | 0                              | 10% |
| Machinery and equipment              | 118,122              | (93,245)                    | 10                             | 25% |
| Airplane                             | 24,075               | (8,667)                     |                                | 3%  |
| Office furniture and equipment       | 23,420               | (21,120)                    | 10                             | 20% |
| Retail gallery and store furnishings | 31,058               | (24,217)                    | 25                             | 35% |
| Transportation equipment             | 5,821                | (4,941)                     | 20                             | 25% |
| Leasehold improvements               | 8,508                | (4,662)                     | 10                             | 20% |
| Construction in progress             | 572                  |                             |                                |     |
| Total                                | 405,276              | (211,442)                   |                                |     |

The increase of construction in progress is mainly due to the construction of photovoltaic plant by the parent company. In 2009 the Company, based on a third party independent appraisal, has modified the service life of the airplane. The 2009 effect on loss from continuing operations and net loss is 722 and 489, respectively.

The Company in October 2008, in order to improve its manufacturing efficiency, decided to close and sell a manufacturing facility located in Brazil in the State of Bahia. As a result of this decision the Company performed an impairment analysis in accordance with its accounting policy (an impairment test has to be carried out whenever the events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable) and determined that the carrying value of the manufacturing facility as of December 31, 2008 was more than the fair value less costs to sell. Therefore, as of December 31, 2008 the carrying value of the manufacturing facility was reduced to its fair value less costs to sell. This resulted in an impairment loss of 2,911, that was recorded under the line other income (expense), net of the consolidated statement of operations for the year ended December 31, 2008 (see note 23). Company's management estimated the fair value of the manufacturing facility based on third-party independent appraisals.

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

As of December, 31 2009 the Company performed an impairment analysis and determined that the carrying value of the manufacturing facility as of December, 31 2009, net of impairment loss recorded in 2008, was less than the fair value less cost to sell. Company's management estimated the fair value based on a third-party independent appraisal. Further, as of December 31, 2009 the carrying value net of the 2008 impairment loss of this manufacturing facility is analyzed as follows: 7,083 for the industrial building and 1,053 for machinery and equipment.

During 2010, the Company formally confirmed the decision to sell this manufacturing facility. The Company performed a new impairment analysis and determined that its carrying value as of December, 31 2010 was less than the fair value less cost to sell. The estimated fair value was based on a third-party independent appraisal. Further, as of December 31, 2010 the carrying value net of the 2008 impairment loss of this manufacturing facility is analyzed as follows: 8,020 for the industrial building and 1,193 for machinery and equipment. The changes from the 2009 carrying value are primarily due to the foreign exchange translation effect.

In addition, the Company in October 2008, in order to improve its manufacturing efficiency, decided to close and sell six industrial buildings utilized mainly as warehouses and located in the cities of Altamura and Matera nearby the Group's headquarters in Italy. As a result of this decision the Company performed an impairment analysis in accordance with its accounting policy (that states that an impairment test has to be performed whenever the events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable) and determined that the carrying values of two of the six industrial buildings as of December 31, 2008 exceeded their respective fair value less costs to sell. Therefore, as of December 31, 2008 the carrying values of these two industrial buildings were reduced to their respective fair value less costs to sell. This resulted in an impairment loss of 1,792 recognized under the line other income (expense), net of the consolidated statement of operations for the year ended December 31, 2008 (see note 23). Company's management estimated the fair value of these industrial buildings based on observable market transactions involving sales of comparable buildings and third party independent appraisals.

During 2009 the Company sold one of the four industrial buildings not impaired, for a cash consideration of 950, close to its carrying value.

As of December, 31 2009, the Company performed an impairment analysis on the remaining five buildings and determined that their carrying values as of December, 31 2009, net of impairment loss recorded in 2008, were less than the fair value less costs to sell. Company's management estimated the fair value of these industrial buildings based on observable market transactions involving sales of comparable buildings and third party independent appraisals. Further, as of December 31, 2009 the carrying value net of the impairment loss of the five remaining industrial buildings was 9,944.

During 2010 none of the remaining mentioned buildings were sold by the Company and one of them was reactivated as consequence of demands for production made in Italy.



**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

As of December, 31 2010, the Company, for the remaining four buildings, performed a new impairment analysis and determined that their carrying values as of December 31, 2010 were less than the respective fair value less costs to sell. Company's management estimated the fair value of these industrial buildings based on observable market transactions involving sales of comparable buildings and third party independent appraisals. Further, as of December 31, 2010 the carrying value, net of the 2008 impairment loss, of the four remaining industrial buildings is 6,261.

As of December 31, 2009 and 2010 the Company, in accordance with its accounting policy, has classified the manufacturing facility of Brazil and the industrial buildings located in Italy under the line property, plant and equipment held and used of the consolidated balance sheet as there is a current expectation that it is more-likely-than-not that these assets will be sold in the medium long-term period (more than one year from the consolidated balance sheet date).

**10. Other assets**

Other assets consist of the following:

|                                 | 2010     | 2009     |
|---------------------------------|----------|----------|
| Software and other              | 32,698   | 28,952   |
| Goodwill                        | 9,136    | 9,136    |
| Equity in affiliated enterprise | 1,429    | 1,429    |
| Total, gross                    | 43,263   | 39,517   |
| Less accumulated amortization   | (33,918) | (26,704) |
| Total, net                      | 9,345    | 12,813   |

The line software and other primarily includes software, trademarks and patents. At December 31, 2010 and 2009 the net book value of these assets may be analyzed as follows:

|                               | Gross carrying amount | Accumulated depreciation | Net book value |
|-------------------------------|-----------------------|--------------------------|----------------|
| 2010                          |                       |                          |                |
| Software                      | 19,884                | (14,345)                 | 5,539          |
| Trademarks, patents and other | 12,814                | (11,148)                 | 1,666          |
| Total                         | 32,698                | (25,493)                 | 7,205          |
| 2009                          |                       |                          |                |
| Software                      | 21,276                | (13,746)                 | 7,530          |
| Trademarks, patents and other | 7,676                 | (6,048)                  | 1,628          |
| Total                         | 28,952                | (19,794)                 | 9,158          |

Amortization expense recorded for these assets was 3,850, 4,319 and 3,530 for the years ended December 31, 2010, 2009 and 2008, respectively. Estimated amortization expense for the next five years is 3,846 in 2011, 3,695 in 2012, 1,378 in 2013, 33 in 2014 and 4 in 2015.

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

At December 31, 2010 and 2009 the net book value of goodwill may be analyzed as follows:

|                               | 2010    | 2009    |
|-------------------------------|---------|---------|
| Gross carrying amount         | 9,136   | 9,136   |
| Less accumulated depreciation | (8,425) | (6,910) |
| Net book value                | 711     | 2,226   |

The changes in the carrying amount of goodwill for the year ended December 31, 2010, 2009 and 2008 are as follows:

|                                   |  |         |
|-----------------------------------|--|---------|
| Balance as of December 31, 2008   |  | 3,403   |
| Acquisition of four retail stores |  | 651     |
| Amortization                      |  | (1,828) |
| Balance as of December 31, 2009   |  | 2,226   |
| Amortization                      |  | (1,515) |
| Balance as of December 31, 2010   |  | 711     |

At December 31, 2010 and 2009, investment in affiliated enterprise is accounted for under the equity method. This affiliated enterprise is Salena S.r.l., in which the Company owns 49%. Salena S.r.l. is engaged in the building construction sector. The Company has a significant influence on this entity.

During 2008 the Company sold all its investment (20% interest) in the affiliated enterprise Alfa Omega S.r.l., for a cash consideration of 1,350. The gain realized by the Company on this disposal was 133.

**11. Bank overdrafts**

Bank overdrafts consist of the following:

|                 | 2010 | 2009 |
|-----------------|------|------|
| Bank overdrafts | 83   | 760  |

While bank overdrafts are payable on demand, bank borrowings consist of unsecured credit line agreements with banks and have various short maturities.

The weighted average interest rates on the above-listed short-term borrowings at December 31, 2010, 2009 and 2008 are as follows:

|                 | 2010  | 2009  | 2008  |
|-----------------|-------|-------|-------|
| Bank borrowings |       |       | 6.22% |
| Bank overdrafts | 1.27% | 1.18% | 3.31% |

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Credit facilities available to the Group amounted to 44,777 and 45,850 at December 31, 2010 and 2009, respectively. The unused portion of these facilities, for which no commitment fees are due, amounted to 44,694 and 45,090 at December 31, 2010 and 2009, respectively.

**12. Accounts payable-trade**

Accounts payable-trade totaling 64,317 and 66,499 at December 31, 2010 and 2009, respectively, represent principally amounts payable for purchases of goods and services in Italy and abroad, and include 17,951 and 14,649 at December 31, 2010 and 2009, respectively, denominated in foreign currencies.

**13. Accounts payable-other**

Accounts payable-other are analyzed as follows:

|                                               | 2010   | 2009   |
|-----------------------------------------------|--------|--------|
| Provision for warranties                      | 8,661  | 8,706  |
| Advances from customers                       | 7,221  | 6,820  |
| Cooperative advertising and quantity discount | 4,381  | 4,376  |
| Withholding taxes on payroll and on others    | 2,636  | 2,571  |
| Other                                         | 4,718  | 6,793  |
| Total                                         | 27,617 | 29,266 |

The following table provides the movements in the provision for warranties:

|                            | 2010    | 2009    | 2008    |
|----------------------------|---------|---------|---------|
| Balance, beginning of year | 8,706   | 10,717  | 8,627   |
| Charges to profit and loss | 2,112   | 227     | 4,735   |
| Reductions for utilization | (2,157) | (2,238) | (2,645) |
| Balance, end of year       | 8,661   | 8,706   | 10,717  |

**14. Taxes on income**

Italian companies are subject to two enacted income taxes at the following rates:

|                     | 2010   | 2009   | 2008   |
|---------------------|--------|--------|--------|
| IRES (state tax)    | 27.50% | 27.50% | 27.50% |
| IRAP (regional tax) | 3.90%  | 3.90%  | 3.90%  |

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

On December 12, 2003, the Italian Government approved the legislative decree n. 344 which enacted certain changes in the fiscal legislation for fiscal years beginning on or after January 1, 2004. The principal change made was the introduction of the new state income tax IRES which replaced IRPEG, with the simultaneous elimination of the dual income tax system. IRES is a state tax and is calculated on the taxable income determined on the income before taxes modified to reflect all temporary and permanent differences regulated by the tax law.

Such tax law did not modify the existing IRAP regime. IRAP is a regional tax and each Italian region has the power to increase the current rate by a maximum of 1.00%. In general, the taxable base of IRAP is a form of gross profit determined as the difference between gross revenues (excluding interest and dividend income) and direct production costs (excluding labour costs, interest expense and other financial costs).

In addition, on December 24, 2007 the Italian Parliament definitively approved the budget law (law n. 244) which enacted the changes to IRES and IRAP tax rate as from January 1, 2008 as follows: IRES tax rate passed from 33% to 27.50%; IRAP passed from 4,25% to 3,9%.

Therefore, the enacted IRES tax rate for 2010, 2009 and 2008 is 27.50% of taxable income. The enacted IRAP tax rate for 2010, 2009 and 2008 is 3.90%. Additional 1% IRAP tax rate is due in Puglia region.

Certain foreign subsidiaries enjoy significant tax benefits, such as corporate income tax exemptions or reductions of the corporate income tax rates effectively applicable, the most significant of which will expire in 2012. The tax reconciliation table reported below shows the effect of such tax exempt income on the Group's 2010, 2009 and 2008 income tax charge.

Consolidated loss before taxes and non-controlling interest during 2010, 2009 and 2008, is analyzed as follows:

|          | 2010     | 2009     | 2008     |
|----------|----------|----------|----------|
| Domestic | (11,414) | (36,319) | (30,986) |
| Foreign  | 7,385    | 28,869   | (29,828) |
| Total    | (4,029)  | (7,450)  | (60,814) |

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The effective income tax rates for the years ended December 31, 2010, 2009 and 2008 were 172.5%, 131.6% and 2.6%, respectively. The actual income tax expense differs from the expected income tax expense (computed by applying the state tax, which is 27.5% for 2010, 2009 and 2008, to income before income taxes and non-controlling interest) as follows:

|                                                                                       | 2010    | 2009    | 2008     |
|---------------------------------------------------------------------------------------|---------|---------|----------|
| Expected income tax (benefit) expense charge at full tax rates                        | (1,108) | (2,049) | (16,724) |
| Effects of:                                                                           |         |         |          |
| - Tax exempt income                                                                   | (1,376) | (2,570) | (2,489)  |
| - Aggregate effect of different tax rates in foreign jurisdictions                    | (2,183) | (2,855) | (3,258)  |
| - Italian regional tax                                                                | 1,951   | 1,304   | 2,057    |
| - Expiration and write off tax loss carry-forwards                                    | 1,080   |         |          |
| - Non-deductible expenses                                                             | 2,987   | 2,194   | 3,384    |
| - Provisions for contingent liabilities                                               |         | 380     | 373      |
| - Depreciation and impairment of goodwill                                             | 5       | 5       | 228      |
| - Effect of net change in valuation allowance established against deferred tax assets | 5,229   | 13,121  | 18,799   |
| - Tax effect of unremitted earnings                                                   | 366     | 271     | (814)    |
| Actual tax charge                                                                     | 6,952   | 9,802   | 1,556    |

The write off of tax loss carry-forwards is mainly due to the merger of two Brazilian subsidiaries that took place in 2009 for which, in 2010, the Group concluded that part of the tax loss carry-forwards of the entities merged would be disallowed. The tax loss carry-forwards written off were fully reserved and therefore have no net impact on the tax rate.

Total income taxes for the years ended December 31, 2010, 2009 and 2008 relate to earnings from operations.

Total income taxes for the years ended December 31, 2010, 2009 and 2008 are allocated as follows:

|               | 2010  | 2009  | 2008    |
|---------------|-------|-------|---------|
| Current:      |       |       |         |
| Italian       | 1,980 | 1,684 | 2,057   |
| Foreign       | 5,285 | 4,375 | 2,606   |
| Total (a)     | 7,265 | 6,059 | 4,663   |
| Deferred:     |       |       |         |
| Italian       |       |       |         |
| Foreign       | (313) | 3,743 | (3,107) |
| Total (b)     | (313) | 3,743 | (3,107) |
| Total (a + b) | 6,952 | 9,802 | 1,556   |

The tax years from January 1, 2006 for the majority of the Italian and Foreign companies are open to assessment for additional taxes.

F-26

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**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities at December 31, 2010 and 2009 are presented below:

|                                                                 | 2010     | 2009     |
|-----------------------------------------------------------------|----------|----------|
| <b>Deferred tax assets:</b>                                     |          |          |
| - Tax loss carry-forwards                                       | 58,424   | 62,240   |
| - Provision for warranties                                      | 2,649    | 2,501    |
| - Allowance for doubtful accounts                               | 3,394    | 2,663    |
| - Unrealized net losses on foreign exchange                     | 1,013    | 833      |
| Impairment loss of long-lived assets and others on fixed assets | 2,177    | 1,959    |
| - One-time termination benefits and others on personnel         | 666      | 562      |
| - Inventory obsolescence                                        | 1,585    | 1,439    |
| - Goodwill                                                      | 1,768    | 1,384    |
| - Intercompany profit on inventory                              | 770      | 1,041    |
| - Provision for contingent liabilities                          | 1,049    | 1,163    |
| - Provision for sales representatives                           | 386      | 392      |
| - Other temporary differences                                   | 707      | 1,092    |
| Total gross deferred tax assets                                 | 74,588   | 77,269   |
| - Less valuation allowance                                      | (71,552) | (74,626) |
| Net deferred tax assets (a)                                     | 3,036    | 2,643    |
| <b>Deferred tax liabilities:</b>                                |          |          |
| - Unrealized net gains on foreign exchange                      |          | (562)    |
| - Unremitted earnings of subsidiaries                           | (1,222)  | (856)    |
| - Government grants                                             | (570)    | (570)    |
| - Other temporary differences                                   | (166)    |          |
| Total deferred tax liabilities (b)                              | (1,958)  | (1,988)  |
| Net deferred tax assets (a + b)                                 | 1,078    | 655      |

A valuation allowance has been established for most of the deductible tax temporary differences and tax loss carry-forwards.

The valuation allowance for deferred tax assets as of December 31, 2010 and 2009 was 71,552 and 74,626, respectively. The net change in the total valuation allowance for the years ended December 31, 2010 and 2009 was a decrease of 3,074 and an increase of 12,174, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and the tax loss carry-forwards are utilized.

Given the cumulative loss position of the Company and of most of the Italian and foreign subsidiaries as of December 31, 2010 and 2009, management considered the scheduled reversal of deferred tax liabilities and tax planning strategies, in making this assessment. However, management after a reasonable effort as of December 31,



2010 and 2009 has not identified any relevant tax planning strategies prudent and feasible available to reduce the need for a valuation allowance. Therefore, at December 31, 2010 and 2009 the realization of the deferred tax assets is primarily based on the scheduled reversal of deferred tax liabilities.

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Based upon this analysis, management believes it is more likely than not that Natuzzi Group will realize the benefits of these deductible differences and net operating loss carry-forwards, net of the existing valuation allowance at December 31, 2010 and 2009.

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

| 2010                      | Current  | Non current | Total    |
|---------------------------|----------|-------------|----------|
| Gross deferred tax assets | 11,930   | 62,658      | 74,538   |
| Valuation allowance       | (10,705) | (60,848)    | (71,501) |
| Net deferred tax assets   | 1,225    | 1,811       | 3,036    |
| Deferred tax liabilities  | (147)    | (1,811)     | (1,958)  |
| Net deferred tax assets   | 1,078    |             | 1,078    |

| 2009                      | Current  | Non current | Total    |
|---------------------------|----------|-------------|----------|
| Gross deferred tax assets | 11,860   | 65,409      | 77,269   |
| Valuation allowance       | (10,643) | (63,983)    | (74,626) |
| Net deferred tax assets   | 1,217    | 1,426       | 2,643    |
| Deferred tax liabilities  | (515)    | (1,473)     | (1,988)  |
| Net deferred tax assets   | 702      | (47)        | 655      |

As of December 31, 2010 the tax loss carry-forwards of the Group total 205,939 and expire as follows:

|            |         |
|------------|---------|
| 2011       | 3,130   |
| 2012       | 42,695  |
| 2013       | 19,951  |
| 2014       | 35,735  |
| 2015       | 6,563   |
| Thereafter | 97,865  |
| Total      | 205,939 |

As of December 31, 2010, taxes that are due on the distribution of the portion of shareholders' equity equal to unremitted earnings of most of the subsidiaries is 1,222 (856 at December 31, 2009). The Group has provided for such taxes as the likelihood of distribution is probable.

The Group has not provided for such taxes, amounting to 47 (114 at December 31, 2009), for some subsidiaries for which the likelihood of distribution is remote and earnings are deemed to be permanently reinvested.

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**15. Salaries, wages and related liabilities**

Salaries, wages and related liabilities are analyzed as follows:

|                               | 2010  | 2009   |
|-------------------------------|-------|--------|
| Salaries and wages            | 2,028 | 4,939  |
| Social security contributions | 4,488 | 6,987  |
| Vacation accrual              | 3,393 | 3,128  |
| Total                         | 9,909 | 15,054 |

**16. Long-term debt**

Long-term debt at December 31, 2010 and 2009 consists of the following:

|                                                                                                                             | 2010    | 2009    |
|-----------------------------------------------------------------------------------------------------------------------------|---------|---------|
| 2.25% long-term debt payable in annual equal instalments with final payment due May 30, 2015                                | 1,437   | 1,702   |
| 0.25% long-term debt payable in semi-annual instalments with final payment due July 2013                                    | 1,497   | 1,305   |
| 3-month Euribor (360) plus a 1,0% spread long-term debt payable in quarterly instalments with final payment due August 2015 | 9,000   |         |
| 0.96% long-term debt payable in annual instalments with final payment due September 2010                                    |         | 74      |
| 0.74% long-term debt payable in annual instalments with final payment due April 2018                                        | 3,480   | 3,900   |
| Total long-term debt                                                                                                        | 15,414  | 6,981   |
| Less current instalments                                                                                                    | (1,831) | (1,124) |
| Long-term debt, excluding current instalments                                                                               | 13,583  | 5,857   |

In 2010 the Company obtained, in connection with investments in photovoltaics (see note 9), a new long term floating-rate loan whose total nominal amount is 10,000 with instalments payable on a quarterly basis and with final payments due August 2015. This long term loan provides variable instalments depending on the 3-month Euribor (360) plus a 1,0% spread. Out of the total amount, the Company received 9,000 in 2010 and the remaining part is supposed to be received by August 2011.

In 2009 the Company obtained a new long term debt whose amount, at December, 31 2009 and 2010 was 3,900 and 3,480, respectively.



**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Loan maturities after 2011 are summarized below:

|            |        |
|------------|--------|
| 2012       | 3,501  |
| 2013       | 3,255  |
| 2014       | 3,011  |
| 2015       | 2,486  |
| Thereafter | 1,330  |
| Total      | 13,583 |

At December 31, 2010 and 2009 there are no covenants on the above long-term debt. In addition, at December 31, 2010 and 2009 there are no long-term debt denominated in foreign currencies.

Interest expense related to long-term debt for the years ended December 31, 2010, 2009 and 2008 was 116, 83 and 49 respectively. Interest expense is paid with the related instalment (quarterly, semi-annual or annual).

**17. Other liabilities**

Other liabilities consist of:

|                                          | 2010   | 2009   |
|------------------------------------------|--------|--------|
| Provision for contingent liabilities     | 15,268 | 14,952 |
| One-time termination benefits            | 2,046  | 2,046  |
| Termination indemnities for sales agents | 1,190  | 1,211  |
| Total                                    | 18,504 | 18,209 |

The Group is involved in a number of certain and probable claims (including tax claims) and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters, after the provision accrued (at December 31, 2010 and 2009 amounts to 15,268 and 14,952, respectively), will not have a material adverse effect on the Group's consolidated financial position or results of operations.

The one-time termination benefits include the amounts to be paid on the separation date to certain workers (No 386) to be terminated on an involuntary basis.

The one-time termination benefits have been determined by the Company based on the current applicable Italian law and regulations for involuntarily termination of employees (see note 23).

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**18. Shareholders equity**

The share capital is owned as follows:

|                         | 2010  | 2009  |
|-------------------------|-------|-------|
| Mr. Pasquale Natuzzi    | 53.5% | 53.5% |
| Mrs. Anna Maria Natuzzi | 2.6%  | 2.6%  |
| Mrs. Annunziata Natuzzi | 2.5%  | 2.5%  |
| Public investors        | 41.4% | 41.4% |
|                         | 100%  | 100%  |

An analysis of the reserves is as follows:

|                                           | 2010   | 2009   |
|-------------------------------------------|--------|--------|
| Legal reserve                             | 11,199 | 11,199 |
| Monetary revaluation reserve              | 1,344  | 1,344  |
| Government capital grants reserve         | 29,749 | 29,749 |
| Majority shareholder capital contribution | 488    | 488    |
| Total                                     | 42,780 | 42,780 |

The number of ordinary shares issued at December 31, 2010 and 2009 is 54,853,045. The par value of one ordinary share is euro 1.

Italian law requires that 5% of net income of the parent company and each of its consolidated Italian subsidiaries be retained as a legal reserve, until this reserve is equal to 20% of the issued share capital of each respective company. The legal reserve may be utilized to cover losses; any portion which exceeds 20% of the issued share capital is distributable as dividends. The combined legal reserves totaled 11,668 and 11,592 at December 31, 2010 and 2009, respectively.

During 2008 the majority shareholder made a contribution of 488 recorded by the Company under shareholders equity in the line item reserves. This contribution was made based on the rules which regulate the cost reimbursement grants related to research and development costs.

No taxes would be payable on the distribution of the monetary revaluation reserve and government capital grants reserve.

The cumulative translation adjustment included in retained earnings of shareholders equity related to translation of the Group's foreign assets and liabilities at December 31, 2010 was a debit of 5,840 (debit of 15,010 at December 31, 2009).

**Non-controlling interest** Non-controlling interest shown in the accompanying consolidated balance sheet at December 31, 2010 is 2,112 (1,860 at December 31, 2009).

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**19. Share grants and options**

In order to provide incentives to certain personnel, the shareholders of the Company on July, 23 2004 approved in its Shareholders Ordinary and Extraordinary Meeting the guidelines of a share incentive plan in favor of Natuzzi Group managers subject to assignment of Natuzzi S.p.A. shares. The 2004 plan covered the period 2005-2009. During this period the Company assigned performance share grants and performance share options related to the achievement of pre-determined levels of individual, enterprise and share price targets related to the years 2004 and 2005. The maximum number of shares to be issued in connection with the plan was 3,000,000, each with a nominal value of 1.00, of which 500,000 is in the form of restricted stock units and the remaining from the conversion of stock options. The Shareholders Meeting has delegated to the Board of Directors the regulation and management of the 2004 plan, and the responsibility for the issuance of the options and grants under the 2004 plan.

Under the 2004 plan an employee was entitled to grants of restricted stock units and options if certain performance targets were met. In particular, the Plan provided for: (a) grants of restricted stock units for achievement of pre-determined objectives (management by objectives or MBOs) in 2004 and 2005, which vested and settled if the applicable performance targets were achieved, with respect to the 2004 MBOs, in 2006 and 2007, and, with respect to 2005 MBOs, in 2007 and 2008; (b) grants of options that only became exercisable if MBOs in 2004 and 2005 were achieved; and (c) the opportunity for participants to receive additional 50% options for combined achievement of 2004 and 2005 MBOs and the targeted price of the Company's shares (during a reference period) on the New York Stock Exchange.

In order for an employee to obtain the additional 50% options based on 2004 MBOs, the following conditions had to be met (first tranche): (a) achievement of 2004 MBOs, and the arithmetic mean of the Company's American Depositary Shares (ADS) during the period from October 1, 2005 and December 31, 2005 equal or greater than U.S. dollars 15. Similarly, in order for an employee to obtain the additional 50% options based on 2005 MBOs, the following conditions had to be met (second tranche): achievement of 2005 MBOs, and the arithmetic mean of the Company's American Depositary Shares (ADS) during the period from October 1, 2007 and December 31, 2007 equal or greater than U.S. dollars 24.

The share grants issued for the achievement of 2004 MBOs have been issued in two equal installments during January 2006 and 2007. Similarly for the achievement of 2005 MBOs the share grants have been issued in two equal installments during January 2007 and 2008. The vesting period for these grants was considered to be reference year (2004 or 2005), as continuation of employment after that date was not a condition for the said share grants.

The share options had an exercise price of euro 8.51 (U.S. dollars 11.84 at December 31, 2008 exchange rate), calculated in accordance with the fiscal law in force. An employee was entitled to share options and additional options on the following dates: 50% of 2004 MBOs and 50% of first tranche in January 2006; remaining 50% of 2004 MBOs, 50% of the first tranche and 50% of 2005 MBOs in January 2007; remaining 50% of 2005 MBOs and 50% of the second tranche in January 2008; remaining 50% of second tranche in January 2009. If the employee was not in employment on the above dates, he or she was not entitled to the remaining options. Therefore vesting dates for the options are determined to be the above dates.

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

During 2010, 2009 and 2008 the Company did not grant any shares, options or additional options.

The total intrinsic value of shares exercised during the years ended December 31, 2008 was 50. During 2009 and 2008 there were no options and additional options exercised as the intrinsic value was negative (the exercise price as of January 2009, December 2008 exceeded the market value). The grant date fair value of shares vested during the year ended December 31, 2008 was 226.

On the basis of the plan the exercise price for the share grants was zero, while for the options and additional options it was euro 8.51 (U.S. dollars 11.84 at December 31, 2008 exchange rate). At December 31, 2008 the market price of Natuzzi's shares was euro 1.72 (U.S. dollars 2.40 at December 31, 2008 exchange rate).

Under Italian GAAP the Company does not record in the consolidated statements of operations the compensation expense related to share based compensation plans.

At the beginning of 2009, the Company established an equity based incentive program as part of the Group's overall Incentive and Retention Plan for the period 2009-2011. The Program, extended to certain top managers of the Group, provided for the payment of a bonus calculated on the basis of the objectives indicated in the 2009-2011 Business Plan.

In December 2009 the Board of Directors, because of the continuing global economic crisis, withdrew the 2009-2011 Business Plan and the related Group Incentive and Retention Plan for the period 2009-2011 (since it was considered not probable that it would have vested). The Company did not pay any form of consideration for the cancellation of the award.

The bonus granted for 2009, included in salaries, wages and related liabilities (see note 15) was 1,054 which has been fully paid in cash, while the cash and share grant bonus incentives for 2010 and 2011 were withdrawn.

**20. Commitments and contingent liabilities**

Several companies of the Group lease manufacturing facilities and stores under non-cancellable lease agreements with expiry dates through 2023. Rental expense recorded for the years ended December 31, 2010, 2009 and 2008 was 15,284, 15,418 and 17,061, respectively. As of December 31, 2010, the minimum annual rental commitments are as follows:

|            |         |
|------------|---------|
| 2011       | 19,036  |
| 2012       | 19,154  |
| 2013       | 19,482  |
| 2014       | 19,823  |
| 2015       | 20,174  |
| Thereafter | 37,503  |
| Total      | 135,172 |



**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Certain banks have provided guarantees at December 31, 2010 to secure payments to third parties amounting to 4,686 (5,798 at December 31, 2009). These guarantees are unsecured and have various maturities extending through December 31, 2015.

In December 1996, the Company and the Contract Planning Service of the Italian Ministry of the Industrial Activities signed a Program Agreement with respect to the Natuzzi 2000 project. In connection with this project, Natuzzi Group prepared a multi-faceted program of industrial investments for the increase of the production capacity of leather and fabric upholstered furniture in the area close to its headquarters in Italy. According to this Program Agreement, Natuzzi should have realized investments for 295,156 and at the same time the Italian government should have contributed in the form of capital grants for 145,455. During 2003 Natuzzi revised its growth and production strategy due to the strong competition of products realized by competitors in countries like China and Brazil. Therefore, as a consequence of this change in the economic environment in 2003 Natuzzi requested the Italian Ministry of the Industrial Activities to revise the original Program Agreement as follows: reduction of the investment to be realized from 295,156 to 69,772, and reduction of the related capital grants from 145,455 to 34,982. During April 2005 the Company received from the Italian Government the final approval of the Program Agreement confirming these revisions. Natuzzi received under the aforementioned project capital grants in 1997 and 2005 of 27,072 and of 7,910, respectively.

As of December 31 2009 the capital grants of 34,982 were secured by surety bonds for 11,595 from a bank. These surety bonds were unsecured and expired in 2010, when the Italian Ministry of Industrial Activities released the approvals of all investments made.

In prior years the Company and certain Italian subsidiaries, on the basis of the Italian law, for the personnel employed under the contract scheme referred to as training and work enjoyed an exemption for the social contribution due to the National Institute for Social Security ( *Istituto Nazionale per la Previdenza Sociale* or INPS ) for a certain period. During 2004, the European Court of Justice decided that these grants were not in conformity with European Union law and regulations in force about competition. As a consequence of this disposition the European Commission has established that Italy has to recover from its enterprises all the social contribution not paid from November 1995 to May 2001 for the above work contracts. Therefore, the Italian National Institute for Social Security has communicated, in 2005 with a preliminary notice and in 2007 with a final notice, to the Company and certain Italian subsidiaries to reimburse all the social contribution due and not paid, amounting to 19,732. The Company, based on the advice of its legal consultants, did not pay the amounts claimed back and, at the same time, has taken a legal action against the National Institute for Social Security in order to obtain the cancellation of the above request of 19,732. In 2008 the Company obtained from the National Institute by Social Security official notices for the cancellation of the above request for 18,639.

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

During 2009 and due to the receipt of formal binding assessments, the Company paid the rest on the initial request amount plus penalties and interest for a total amount of 1,558 and so the company utilized the provision of 475 and charged to other income (expense), net the amount of 1,080 (see note 23). The Company acted to request a refund as management and its advisors maintain that such formal assessments were issued in error by the competent authorities. Therefore, the Company for this contingent liability recognized a provision of nil, nil and 475 in the consolidated financial statements as of December 31, 2010, 2009 and 2008, respectively.

The Group is also involved in a number of certain and probable claims (including tax claims) and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters, after considering amounts accrued, will not have a material adverse effect on the Group's consolidated financial position or results of operations (see note 17 and 23).

**21. Segmental and geographical information**

The Group operates in a single industry segment, that is, the design, manufacture and marketing of contemporary and traditional leather and fabric upholstered furniture. It offers a wide range of upholstered furniture for sale, manufactured in production facilities located in Italy and abroad (Romania, Brazil and China).

Net sales of upholstered furniture analyzed by coverings are as follows:

|                                  | 2010    | 2009    | 2008    |
|----------------------------------|---------|---------|---------|
| Upholstered furniture    Leather | 431,089 | 413,751 | 535,178 |
| Upholstered furniture    Fabric  | 29,441  | 36,805  | 52,607  |
| Subtotal                         | 460,530 | 450,556 | 587,785 |
| Others                           | 58,104  | 64,796  | 78,241  |
| Total                            | 518,634 | 515,352 | 666,026 |

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

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

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

|                                        | 2010    | 2009    | 2008    |
|----------------------------------------|---------|---------|---------|
| <b>Sales of upholstered furniture</b>  |         |         |         |
| United States of America               | 114,113 | 103,174 | 165,445 |
| Italy                                  | 51,694  | 53,454  | 65,739  |
| England                                | 33,814  | 29,701  | 31,458  |
| Canada                                 | 40,769  | 28,076  | 37,345  |
| France                                 | 24,121  | 27,500  | 36,311  |
| Spain                                  | 27,305  | 27,304  | 37,383  |
| Belgium                                | 23,251  | 26,665  | 27,572  |
| Germany                                | 18,318  | 24,491  | 27,045  |
| Holland                                | 10,476  | 14,371  | 16,965  |
| Australia                              | 15,157  | 12,118  | 16,172  |
| Other countries (none greater than 2%) | 101,512 | 103,702 | 126,350 |
| Total                                  | 460,530 | 450,556 | 587,785 |

|                          | 2010    | 2009    |
|--------------------------|---------|---------|
| <b>Long lived assets</b> |         |         |
| Italy                    | 108,433 | 108,621 |
| Romania                  | 22,976  | 24,577  |
| China                    | 24,362  | 20,579  |
| United States of America | 15,431  | 14,982  |
| Brazil                   | 18,388  | 17,572  |
| Other countries          | 6,361   | 7,503   |
| Total                    | 195,951 | 193,834 |

In addition, the Group also sells minor volumes of excess polyurethane foam, leather by-products and certain pieces of furniture (coffee tables, lamps and rugs) which, for 2010, 2009 and 2008 totaled 58,104, 64,796 and 78,241, respectively.

**22. Cost of sales**

Cost of sales is analyzed as follows:

|                           | 2010    | 2009    | 2008    |
|---------------------------|---------|---------|---------|
| Opening inventories       | 81,565  | 92,012  | 107,290 |
| Purchases                 | 208,737 | 195,783 | 301,811 |
| Labor                     | 75,772  | 78,505  | 97,720  |
| Third party manufacturers | 12,438  | 10,627  | 18,474  |

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|                           |          |          |          |
|---------------------------|----------|----------|----------|
| Other manufacturing costs | 30,344   | 34,380   | 45,487   |
| Closing inventories       | (87,355) | (81,565) | (92,012) |
| Total                     | 321,501  | 329,742  | 478,770  |

F-36

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**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The line item Other manufacturing costs includes the depreciation expenses of property plant equipment used in the production of finished goods. This depreciation expense amounted to 11,457, 14,487 and 17,339 for the years ended December 31, 2010, 2009 and 2008, respectively.

**23. Other income (expense), net**

Other income (expense), net is analyzed as follows:

|                                                                    | 2010    | 2009    | 2008     |
|--------------------------------------------------------------------|---------|---------|----------|
| Interest income                                                    | 576     | 482     | 1,614    |
| Interest expense and bank commissions                              | (1,575) | (1,624) | (1,855)  |
| Interest (expense) income, net                                     | (999)   | (1,142) | (241)    |
| Gains (losses) on foreign exchange, net                            | 1,935   | 6,931   | (6,589)  |
| Unrealized exchange losses on exchange derivative instruments, net | (888)   | (62)    | (4,471)  |
| Gains (losses) on foreign exchange, net                            | 1,047   | 6,869   | (11,060) |
| Other, net                                                         | (4,475) | (2,606) | (14,517) |
| Total                                                              | (4,427) | 3,121   | (25,818) |

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

|                                                                  | 2010    | 2009    | 2008    |
|------------------------------------------------------------------|---------|---------|---------|
| Net realized losses on exchange derivative instruments           | (3,057) | (3,101) | (1,263) |
| Net realized gains (losses) on accounts receivable and payable   | 6,801   | 2,083   | (6,281) |
| Net unrealized gains (losses) on accounts receivable and payable | (1,809) | 7,949   | 955     |
| Total                                                            | 1,935   | 6,931   | (6,589) |

Other, net consists of the following:

|                                         | 2010    | 2009    | 2008     |
|-----------------------------------------|---------|---------|----------|
| Provisions for contingent liabilities   | (3,812) | (3,846) | (3,200)  |
| Settlement of INPS contingent liability |         | (1,080) |          |
| Impairment losses of long-lived assets  |         |         | (4,703)  |
| One-time termination benefits           |         |         | (4,605)  |
| Write off of fixed assets               | (454)   | (595)   | (1,189)  |
| Other, net                              | (209)   | 2,915   | (820)    |
| Total                                   | (4,475) | (2,606) | (14,517) |



**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**Provisions for contingent liabilities** The Company has charged to other income (expense), net in 2010, 2009 and 2008 the amount of 3,812, 3,846 and 3,200, respectively, for the estimated probable liabilities related to some claims (including tax claims) and legal actions in which it is involved.

Below are reported the comments on 2010 legal and tax actions.

During 2010 the Group has charged to other income (expense), net the amount of 1,033 for the probable tax contingent liabilities related to income taxes and other taxes of some foreign subsidiaries. This amount represents the probable amount that could be claimed back by the tax authorities in case of tax audit.

For 2010 the remaining amount of 2,779 of the provisions for contingent liabilities is related to several minor claims and legal actions arising in the ordinary course of business.

Below are reported the comments on the 2009 legal and tax actions.

During 2009 the Company has charged to other income (expense), net the amount of 2,603 for the probable tax contingent liabilities related to income taxes and other taxes of some foreign subsidiaries. This amount represents the probable amount that could be claimed back by the tax authorities in case of tax audit.

For 2009 the remaining amount of 1,243 of the provisions for contingent liabilities is related to several minor claims and legal actions arising in the ordinary course of business.

Below are reported the comments on the 2008 legal and tax actions.

During 2008 the Company has charged to other income (expense) net the amount of 2,237 for the probable tax contingent liabilities related to income taxes and other taxes of some foreign subsidiaries. This amount represents the probable amount that could be claimed back by the tax authorities in case of tax audit.

For 2008 the remaining amount of 963 of the provisions for contingent liabilities is related to several minor claims and legal actions arising in the ordinary course of business.

**Settlement of INPS contingent liability** As indicated in note 20 under the title Commitments and contingent liabilities, during 2009 the Company, following the receipt of formal binding assessments issued by the National Institute for Social Security (or INPS) has paid for 1,555 in cash. The Company recorded a provision of 475 in the consolidated financial statements as of December 31, 2008 which was fully utilized in 2009. The Company is a plaintiff in a suit in order to obtain the refund of that amount.

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**Impairment losses of long-lived assets** The Company in October 2008, in order to improve its manufacturing efficiency and in connection with the adoption of the three year business plan, decided to close and sell a manufacturing facility located in Brazil in the State of Bahia. As a result of this decision the Company performed an impairment analysis and determined that the carrying value of such manufacturing facility as of December 31, 2008 was more than the fair value less costs to sell. Therefore, as of December 31, 2008 the carrying value of such manufacturing facility was reduced to fair value less costs to sell. This resulted in an impairment loss of 2,911 recorded under the line other income (expense), net of the consolidated statement of operations for the year ended December 31, 2008. Company's management estimated the fair value based on third-party independent appraisals.

The Company in October 2008, in order to improve its manufacturing efficiency and in connection with the adoption of the three year business plan, decided to close and sell six industrial buildings utilized mainly as warehouses and located in the cities of Altamura and Matera nearby the Group's headquarters in Italy. As a result of this decision the Company performed an impairment analysis and determined that the carrying values of two of the six industrial buildings as of December 31, 2008 were more than the fair value less costs to sell. Therefore as of December 31, 2008 the carrying values of these two industrial buildings were reduced to fair value less costs to sell. This resulted in an impairment loss of 1,792 recorded under the line other income (expense), net of the consolidated statement of operations for the year ended December 31, 2008. Company's management estimated the fair value of these industrial buildings based on observable market transactions involving sales of comparable buildings and third party independent appraisals.

**One-time termination benefits** In light of the credit crisis and economic downturn started in 2007 that have negatively affected the order flows and the sales level, the Company in late 2008 in connection with the adoption of its 2009-2011 business plan and budget for 2009 approved by the its Board of Directors on October 17, 2008, and December, 15 2008, respectively, decided to terminate on a involuntarily basis a certain number of workers related to its Italian manufacturing facilities. Therefore, the Company on the basis of such decisions has charged in 2008 to other income, expense, net the one-time termination benefits, amounting to 4,605, to be recognized cash to 550 workers upon their involuntarily termination that should have occurred by the end of July 2009. For a certain number of these workers (No.76) the above termination benefits, for an amount of 2,093, was determined pursuant to an individual agreement reached by the Company during the first months of 2009; while for the rest of the workers (No. 474) the above termination benefits, for an amount of 2,512, was determined by the Company based on the current applicable Italian law and regulations for involuntarily termination of employees. The date of termination of work for such workers to be terminated on a involuntarily basis is at discretion of the Company and it should have occurred by the end of July 2009. Before or on December 31, 2008 the Company did not make any official announcement or notification to the terminated employees related to the above work termination plan and one-time termination benefits.

During 2009, the Company paid the one-time termination benefits to the workers terminated pursuant to an individual agreement reached during the first months of 2009 whilst the date of termination of the other employees, that is at discretion of the Company, should occur by the end of July 2011.



**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**Write off of fixed assets** The write off of fixed assets include the net book value of those fixed assets that refer mainly to damaged items and that were no longer in conformity with the production quality standards. As of December 31, 2010, 2009 and 2008 the write off of fixed assets amount to 454, 595 and 1,189, respectively.

**24. Financial instruments and risk management**

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

The Group is exposed to credit risk in the event that the counterparties to the domestic currency swaps and zero cost collars fail to perform according to the terms of the contracts. The contract amounts of the domestic currency swaps and zero cost collars described below do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure of the Group through its use of those financial instruments. The amounts exchanged are calculated on the basis of the contract amounts and the terms of the financial instruments, which relate primarily to exchange rates. The immediate credit risk of the Group's domestic currency swaps is represented by the unrealized gains or losses on the contracts. Management of the Group enters into contracts with creditworthy counter-parties and believes that the risk of material loss from such credit risk to be remote. The table below summarizes in euro equivalent the contractual amounts of forward exchange contracts and zero cost collars used to hedge principally future cash flows from accounts receivable and sales orders at December 31, 2010 and 2009:

|                    | 2010   | 2009   |
|--------------------|--------|--------|
| U.S. dollars       | 33,451 | 23,418 |
| Euro               | 12,200 | 10,714 |
| Canadian dollars   | 12,081 | 1,915  |
| British pounds     | 8,838  | 6,652  |
| Australian dollars | 7,149  | 5,164  |
| Swiss francs       | 1,584  | 795    |
| Norwegian kroner   | 1,091  | 718    |
| Swedish kroner     | 919    | 587    |
| Danish kroner      | 497    | 470    |
| Japanese yen       | 2,310  | 311    |
| Total              | 80,120 | 50,744 |

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

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

|             | 2010               |                              | 2009               |                                 |
|-------------|--------------------|------------------------------|--------------------|---------------------------------|
|             | Contract<br>amount | Unrealized<br>gains (losses) | Contract<br>amount | Unrealized<br>gains<br>(losses) |
| Assets      | 40,981             | 171                          | 13,281             | 318                             |
| Liabilities | 39,139             | (1,059)                      | 37,463             | (380)                           |
| Total       | 80,120             | (888)                        | 50,744             | (62)                            |

At December 31, 2010, 2009 and 2008, the exchange derivative instruments contracts had a net unrealized loss of 888, 62 and 4,471, respectively. These amounts are recorded in other income (expense), net in the consolidated statements of operations (see note 23).

Unrealized gains (losses) on forward exchange contracts are determined by using quoted prices in active markets for similar forward exchange contracts.

The fair value of zero cost collars is determined using pricing models developed based on the exchange rates in active markets.

Refer to note 3 (c) for the Group's accounting policy on forward exchange contracts and zero cost collars.

**25. Fair value of financial instruments**

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

|                               | 2010              |               | 2009              |               |
|-------------------------------|-------------------|---------------|-------------------|---------------|
|                               | Carrying<br>value | Fair<br>value | Carrying<br>value | Fair<br>value |
| Assets:                       |                   |               |                   |               |
| - Marketable debts securities | 4                 | 4             | 4                 | 4             |
| Liabilities:                  |                   |               |                   |               |
| - Long-term debt              | 15,414            | 14,149        | 6,981             | 6,214         |

Cash and cash equivalents, receivables, payables and bank overdraft approximate fair value because of the short maturity of these instruments.

Market value for quoted marketable debt securities is represented by the securities exchange prices at year-end. Market value for unquoted securities is represented by the prices of comparable securities, taking into consideration interest rates, duration and credit standing of the issuer.

**Table of Contents**

## Natussi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

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

**26. Application of generally accepted accounting principles in the United States of America**

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

In June 2009, the Financial Accounting Standards Board ( FASB ) issued the FASB Accounting Standards Codification (the ASC ). The ASC has become the single source of non-governmental accounting principles generally accepted in the United States ( GAAP ) recognized by the FASB in the preparation of financial statement. The ASC does not supersede the rules or regulations of the Securities and Exchange Commission ( SEC ), therefore, the rules and interpretative releases of the SEC continue to be additional sources of GAAP for the Company. The Company adopted the ASC as of July 1, 2009. The ASC does not change GAAP and did not have an effect on the Company's financial position, result of operations or cash flows.

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

**Reconciliation of net loss:**

|                                                                             | 2010     | 2009     | 2008     |
|-----------------------------------------------------------------------------|----------|----------|----------|
| Net loss attributable to Natussi S.p.A. and subsidiaries under Italian GAAP | (11,078) | (17,686) | (61,938) |
| Adjustments to reported income:                                             |          |          |          |
| (a) Revaluation of property, plant and equipment                            | 27       | 27       | 27       |
| (b) Government grants                                                       | 640      | 610      | 811      |
| (c) Revenue recognition                                                     | (1,462)  | (2,652)  | 2,330    |
| (d) Goodwill and intangible assets                                          | 505      | 1,505    | (2,634)  |
| (e) Share grants and options                                                |          |          | (2)      |
| (f) Translation of foreign financial statements                             | 2,896    | (5,193)  | 753      |
| (g) One-time termination benefits                                           |          | (2,559)  | 4,605    |
| (h) Impairment of long-lived assets                                         |          | (12)     | 400      |
| Tax effect of US GAAP adjustments                                           | (794)    | 223      | (14)     |
| Net loss in conformity with US GAAP                                         | (9,266)  | (25,737) | (55,662) |
| Basic loss per share in conformity with US GAAP                             | (0.17)   | (0.47)   | (1.02)   |
| Diluted loss per share in conformity with US GAAP                           | (0.17)   | (0.47)   | (1.02)   |

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**Reconciliation of equity attributable to Natuzzi S.p.A. and Subsidiaries:**

|                                                                                   | 2010     | 2009     |
|-----------------------------------------------------------------------------------|----------|----------|
| Total equity attributable to Natuzzi S.p.A. and Subsidiaries under Italian GAAP   | 323,119  | 325,027  |
| (a) Revaluation of property, plant and equipment                                  | (480)    | (507)    |
| (b) Government grants                                                             | (10,787) | (11,427) |
| (c) Revenue recognition                                                           | (6,157)  | (4,695)  |
| (d) Goodwill and intangible assets                                                | 6,731    | 6,226    |
| (f) Translation of foreign financial statements                                   | 6,933    | 13,208   |
| (g) One-time termination benefits                                                 | 2,046    | 2,046    |
| (h) Impairment of long-lived assets                                               | 388      | 388      |
| Tax effect of US GAAP adjustments                                                 | (3,494)  | (2,700)  |
| Equity attributable to Natuzzi S.p.A. and Subsidiaries in conformity with US GAAP | 318,300  | 327,566  |

The condensed consolidated balance sheets as at December 31, 2010 and 2009, and the condensed consolidated statements of operations for the years ended December 31, 2010, 2009 and 2008, which include all the US GAAP differences commented below are as follows:

**Condensed Consolidated Balance Sheets as at December 31, 2010 and 2009**

|                                                        | Dec. 31, 2010 | Dec. 31, 2009 |
|--------------------------------------------------------|---------------|---------------|
| <b>ASSETS</b>                                          |               |               |
| Current assets                                         | 289,630       | 295,125       |
| Non current assets                                     | 218,868       | 225,962       |
| Total assets                                           | 508,498       | 521,087       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>            |               |               |
| Current liabilities                                    | 108,261       | 118,354       |
| Long-term liabilities                                  | 79,825        | 73,307        |
| Equity attributable to Natuzzi S.p.A. and Subsidiaries | 318,300       | 327,566       |
| Non-controlling interest                               | 2,112         | 1,860         |
| Total Liabilities and Shareholders' Equity             | 508,498       | 521,087       |

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**Condensed Consolidated Statements of Operations Years Ended  
December 31, 2010, 2009 and 2008**

|                                                                   | 2010      | 2009      | 2008      |
|-------------------------------------------------------------------|-----------|-----------|-----------|
| Net sales                                                         | 510,755   | 506,026   | 670,130   |
| Cost of sales                                                     | (321,892) | (333,667) | (496,905) |
| Gross profit                                                      | 188,863   | 172,359   | 173,225   |
| Selling expenses                                                  | (146,035) | (140,021) | (163,265) |
| General and administrative expenses                               | (42,468)  | (46,585)  | (49,916)  |
| Operating income/(loss)                                           | 360       | (14,247)  | (39,956)  |
| Other income/(expenses), net                                      | (2,175)   | (1,248)   | (14,313)  |
| Earning/(loss) before taxes and non-controlling interest          | (1,815)   | (15,495)  | (54,269)  |
| Income taxes                                                      | (7,354)   | (9,808)   | (1,825)   |
| Net income/(loss)                                                 | (9,169)   | (25,303)  | (56,094)  |
| Net (income)/loss attributable to the non-controlling interest    | (97)      | (434)     | 432       |
| Net income/(loss) attributable to Natuzzi S.p.A. and Subsidiaries | (9,266)   | (25,737)  | (55,662)  |

The tables below sets forth the reconciliation of net sales and operating income (loss) from Italian GAAP to US GAAP for the years ended December 31, 2010, 2009 and 2008:

**Reconciliation of net sales from Italian GAAP to US GAAP**

|                                               | 2010    | 2009    | 2008    |
|-----------------------------------------------|---------|---------|---------|
| Net sales Italian GAAP                        | 518,634 | 515,352 | 666,026 |
| (b) Government grants (reclassification)      | (748)   | (953)   | (990)   |
| (c) Revenue recognition (adjustment)          | (4,893) | (5,144) | 9,430   |
| (j) Cost paid to resellers (reclassification) | (2,238) | (3,229) | (4,336) |
| Net sales US GAAP                             | 510,755 | 506,026 | 670,130 |

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**Reconciliation of operating loss from Italian GAAP to US GAAP**

|                                                            | 2010    | 2009     | 2008     |
|------------------------------------------------------------|---------|----------|----------|
| Operating income (loss) Italian GAAP                       | 398     | (10,571) | (34,996) |
| (a) Revaluation property, plant and equipment (adjustment) | 27      | 27       | 27       |
| (b) Government grants (adjustment)                         | 640     | 610      | 811      |
| (c) Revenue recognition (adjustment)                       | (1,462) | (2,652)  | 2,330    |
| (d) Goodwill and intangible assets (adjustment)            | 1,211   | 1,505    | (2,634)  |
| (e) Share grants and options (adjustment)                  |         |          | (2)      |
| (g) One-time termination benefits                          |         | (2,559)  |          |
| (h) Impairment of long-lived assets (reclassification)     |         |          | (4,703)  |
| (h) Impairment of long-lived assets (adjustment)           |         | (12)     | 400      |
| (i) Write-off of tangible assets (reclassification)        | (454)   | (595)    | (1,189)  |
| Operating income (loss) US GAAP                            | 360     | (14,247) | (39,956) |

The differences which have a material effect on net loss and/or shareholders' equity are disclosed as follows:

(a) Certain property, plant and equipment have been revalued in accordance with Italian laws. The revalued amounts are depreciated for Italian GAAP purposes. US GAAP does not allow for such revaluations, and depreciation is based on historical costs. The revaluation primarily relates to industrial buildings. The adjustment to net loss and shareholders' equity represents the reversal of excess depreciation recorded under Italian GAAP on revalued assets.

(b) Under Italian GAAP until December 31, 2000 government grants related to capital expenditures were recorded, net of tax, within reserves in shareholders' equity. Subsequent to that date such grants have been recorded as deferred income and recognized in the consolidated statement of operations as revenue or other income, as appropriate under Italian GAAP (see note 3 (m)), on a systematic basis over the useful life of the asset.

Under US GAAP, such grants, when received, are classified either as a reduction of the cost of the related fixed asset or as a deferred credit and amortized over the estimated remaining useful lives of the assets. The amortization is treated as a reduction of depreciation expense and classified in the consolidated statement of operations according to the nature of the asset to which the grant relates.

The adjustments to net loss represent mainly the annual amortization of the pre December 31, 2000 capital grants based on the estimated useful life of the related fixed assets. The adjustments to shareholders' equity are to reverse the amounts of capital grants credited directly to equity for Italian GAAP purposes, net of the amounts of amortization of such grants for US GAAP purposes.

Amortization of deferred income related to grants recognized as revenues under Italian GAAP of 748, 953 and 990 for the years ended December 31, 2010, 2009 and 2008 respectively would be reclassified to depreciation expense and recorded in cost of goods sold under US GAAP, in the period such amounts are recognized.

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

(c) Under Italian GAAP, the Group recognizes sales revenue, and accrued costs associated with the sales revenue, at the time products are shipped from its manufacturing facilities located in Italy and abroad. Most of the products are shipped from factories directly to customers under terms that transfer the risks and ownership 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.

US GAAP requires that revenue should not be recognized until it is realized or realizable and earned, which is generally at the time delivery to the customer occurs and the risks of ownership pass to the customer. Accordingly, the Italian GAAP for revenue recognition differs from US GAAP. The principal effects of this variance on the accompanying consolidated balance sheets as of December 31, 2010 and 2009 and related consolidated statements of operations for each of the years in the three-year period ended December 31, 2010 are indicated below:

|                                              | <b>2010<br/>Effects<br/>Increase<br/>(Decrease)</b> | <b>2009<br/>Effects<br/>Increase<br/>(Decrease)</b> |             |
|----------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|-------------|
| <b>Consolidated balance sheets</b>           |                                                     |                                                     |             |
| Trade receivables, net                       | (23,500)                                            | (18,607)                                            |             |
| Inventories                                  | 14,570                                              | 11,818                                              |             |
| Total effect on current assets (a)           | (8,930)                                             | (6,789)                                             |             |
| Accounts payable-trade                       | (2,773)                                             | (2,094)                                             |             |
| Income taxes                                 |                                                     | (413)                                               |             |
| Total effect on current liabilities (b)      | (2,773)                                             | (2,507)                                             |             |
| Total effect on shareholders' equity (a-b)   | (6,157)                                             | (4,282)                                             |             |
| <b>Consolidated statements of operations</b> | <b>2010</b>                                         | <b>2009</b>                                         | <b>2008</b> |
| Net sales                                    | (4,893)                                             | (5,144)                                             | 9,430       |
| Gross profit                                 | (2,141)                                             | (2,991)                                             | 3,149       |
| Operating income (loss)                      | (1,462)                                             | (2,652)                                             | 2,330       |
| Net Income                                   | (1,875)                                             | (2,707)                                             | 2,709       |

(d) Under Italian GAAP, the Company amortizes the goodwill arising from business acquisitions on a straight-line basis over a period of five years. US GAAP states that goodwill acquired in a purchase business combination completed after July 1, 2001 is not amortized, but instead tested for impairment at least annually in accordance with provisions of Accounting Standards Codification (ASC) No. 350, *Intangibles Goodwill and Other* (Formerly FASB

Statement No. 142). The Company tests its goodwill for impairment annually as of 31 December.

F-46

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**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

In addition, under Italian GAAP, the Company has allocated certain intangible assets, having definite lives and arising from a business acquisition and asset acquisition under the caption goodwill. Under US GAAP the Company would have classified such as intangible assets, would have amortized these over their estimated useful lives to their residual values, and would have reviewed these for impairment in accordance with Accounting Standards Codification ( ASC ) No. 360-10, *Impairment or Disposal of Long-Lived Assets* (Formerly FASB Statement No. 144).

The changes in the carrying amount of goodwill, intangible assets and deferred taxes arising from business and asset acquisitions completed after July 1, 2001, are as follows:

|                                   | Goodwill |         | Intangibles |         | Deferred taxes |         |
|-----------------------------------|----------|---------|-------------|---------|----------------|---------|
|                                   | US       | Italian | US          | Italian | US             | Italian |
| Balance at December 31, 2007      | 7,760    | 6,686   | 6,281       |         | (2,077)        | (921)   |
| Impairment of goodwill            | (1,500)  |         |             |         |                |         |
| Write off of goodwill             |          | (776)   |             |         |                |         |
| Impairment of an intangible asset |          |         | (3,583)     |         | 1,218          |         |
| Amortization                      |          | (2,507) | (834)       |         | 274            | (486)   |
| Balance at December 31, 2008      | 6,260    | 3,403   | 1,864       |         | (585)          | (1,407) |
| Acquisition of stores             | 651      | 651     |             |         |                |         |
| Amortization                      |          | (1,827) | (322)       |         | 100            | (526)   |
| Balance at December 31, 2009      | 6,911    | 2,227   | 1,542       |         | (485)          | (1,933) |
| Impairment of goodwill            | (706)    |         |             |         |                |         |
| Amortization                      |          | (1,516) | (305)       |         | 105            | (476)   |
| Balance at December 31, 2010      | 6,205    | 711     | 1,237       |         | (380)          | (2,409) |

Estimated amortization expense of the intangible assets for the next five years is as follows: 295 in 2011, 295 in 2012, 167 in 2013, 110 in 2014 and 110 in 2015.

The above US and Italian GAAP goodwill is entirely related to a small operating unit named Italian retail owned stores . The 2010 impairment loss of such goodwill of 706, as indicated above, was therefore, entirely related to this operating unit. As part of its 2010 close process, Natuzzi revised its sales growth projections for the Italian retail owned stores as the recovery in the Italian retail furniture market failed to materialize with the strength anticipated, following the crisis of 2008 and 2009. Prospects for full economic recovery in Italy still remain uncertain, since private consumption is negatively impacted by a general weakness in the job market, high levels of public indebtedness, and a decreasing level of savings among families. Lastly, the recent social and political tensions in the Middle East and Northern Africa have added a further level of uncertainty on the supply-side, and, consequently, on the

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

purchasing power of private consumers. As a result of the factors described above, and the resulting revision for the subsequent years in the expected level of sales of finished products through its Italian retail owned stores, the Company concluded that the carrying value of the goodwill related to such operating unit as of December 31, 2010 was less than the fair value of the operating unit based on the step one impairment test required by ASC 350. The fair value as of December 31, 2010 was determined based on Discounted Cash Flows. As a result, the Company performed the required step two of the impairment test by comparing the implied fair value of goodwill to the carrying value of the goodwill, which resulted in the impairment charge of 706. The key inputs that were used in performing the impairment tests related to the estimated long term growth rate of 1%, the weighted average cost of capital equal to 9.9%, and an estimated average growth rate in sales of 6% for the subsequent years.

Based on that evaluation, on a operating unit basis, for the years ended December 31, 2010, 2009 and 2008 such goodwill was impaired to the extent of 706, nil, 1,500, respectively.

In 2009 Natuzzi performed its annual impairment review of goodwill and no impairment loss was recorded. The Company determined the implied fair value of the reporting unit on the Unlevered Discounted Cash Flow and compared it with the carrying value of goodwill. No impairment loss arose due, in particular, to the improvement in cash flow projections related to the on-going cost saving program and considered the relevant increase in the Company's market capitalization. In addition, 2009 discount rate used to discount future cash flow and the expected level of sales of finished products remained substantially unchanged compared to 2008.

The 2008 impairment loss of such goodwill of 1,500, as indicated above, was entirely related to the reporting unit Italian retail owned stores. During the end of 2008 Natuzzi revised its sales growth strategy for its Italian retail owned stores as a consequence of the decline in the consumer demand in the Italian furniture market caused by the actual critical situation of the Italian economy. As a result of this 2008 revision for the subsequent years in the expected level of sales of finished products through its Italian retail owned stores, the 2008 increase in the discount rate used to discount future cash flow and the 2008 sharp decline in the company's market capitalization the Company concluded that the carrying value of the goodwill related to such reporting unit as of December 31, 2008 was less than the fair value of the reporting unit impaired. The fair value as of December 31, 2008 was determined on the basis of the methodology so called "Unlevered Discounted Cash Flow". The comparison of the implied fair value of goodwill with the carrying value of goodwill resulted in the determination of an impairment in value of 1,500.

The difference between the carrying value of the goodwill under Italian GAAP (711) and US GAAP (6,205) is attributable to the classification and amortization differences discussed above.

**Table of Contents**

## Natuszi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The Company in October 2008, in order to improve its manufacturing efficiency and in connection with the adoption of the three year business plan, decided to close and sell a manufacturing facility located in Brazil in the State of Bahia. As a result of this decision the Company performed an impairment analysis and determined that the carrying value of such manufacturing facility as of December 31, 2008 exceeded the fair value (see note 9). Therefore, as of December 31, 2008 the carrying value of such group of assets was reduced to fair value. This resulted, in particular, in an impairment loss of 3,583 related to the intangible asset export incentive benefit agreement that was being depreciated over twelve years (as of December 31, 2008 its residual useful life was of seven years). Under this export incentive benefit agreement, the Company was entitled to receive incentives calculated according to a certain percentage of sales of products manufactured in this facility and exported outside Brazil. As of December 31, 2008 under US GAAP the carrying value of this intangible asset net of the above impairment loss was zero. The valuation of such intangible asset was zero due to the following circumstances occurred during 2008: (a) in late 2008 the Company, as indicated above, ceased production in this manufacturing facility and therefore was no longer entitled to the export incentive benefit; (b) the Company could not sell the export incentive benefit agreement to third parties nor use it in other manufacturing facilities as this incentive benefit agreement was granted exclusively for production in this facility located in the city of Pojuca, in the State of Bahia in Brazil. Under Italian GAAP this intangible asset, due to the classification and amortization differences discussed above, was considered as goodwill and depreciated in five years. Therefore as of December 31, 2008 the net book value of this goodwill was zero.

(e) Under Italian GAAP the Company does not record in the consolidated statement of operations the compensation expense related to share based compensation plans.

Effective January 1, 2006, the Company adopted FASB Statement No. 123(R) (codified in Accounting Standards Codification ( ASC ) No. 718, *Compensation Stock Compensation*). This statement replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation* (Statement 123) and supersedes APB No. 25. ASC 718 requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. This statement was adopted using the modified prospective method of application, which requires the Company to recognize compensation cost on a prospective basis. Therefore, prior years financial statements have not been restated. Under this method, the Company recorded stock-based compensation expense for awards granted prior to, but not yet vested as of January 1, 2006, using the fair value amounts determined for pro forma disclosures under Statement 123.

At the beginning of 2009, the Company established an equity based incentive program as part of the Group's overall Incentive and Retention Plan for the period 2009-2011. The Program, extended to certain top managers of the Group, provided for the payment of a bonus calculated on the basis of the objectives indicated in the 2009-2011 Business Plan.

In December 2009 the Board of Directors withdrew the 2009-2011 Business Plan and the related Incentive and Retention Plan for the period 2009-2011 (since it was considered not probable that it would have vested). The Company did not pay any form of consideration for the cancellation of the award.

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The cash bonus granted for 2009 of 1,054, which is included in salaries, wages and related liabilities (see note 15) has been fully paid in cash during 2010.

During 2010, 2009, 2008, 2007 and 2006 Natuzzi did not launch any new stock awards plan. Therefore, as of the effective date of Statement 123 (R) on January 1, 2006 and as of December 31, 2010, 2009 and 2008 the only stock awards plan in place is the one described in note 19 and launched by the Company during 2004.

As of December 31, 2010, 2009 and 2008 for US GAAP purposes the Company for its compensation cost related to its stock awards plan recorded a cost of nil, nil and 2, respectively.

Under current Italian tax legislation, issuance of shares to satisfy share based compensation plans does not result in a deduction for tax purposes and, as such, no deferred taxation impacts have been recognized for US GAAP.

(f) Under Italian GAAP effective on December 31, 2005, the financial statements of the foreign subsidiaries expressed in a foreign currency (which has been determined to be the functional currency) are translated directly into euro as follows: (i) year-end exchange rate for assets and liabilities, (ii) historical exchange rates for share capital and retained earnings, and (iii) average exchange rates during the year for revenues and expenses. The resulting exchange differences on translation is recorded as a direct adjustment to shareholders' equity (see note 3 (d)).

Under US GAAP as of December 31, 2010, 2009 and 2008 the Natuzzi's foreign subsidiaries financial statements have been translated on the basis of the guidance included in Accounting Standards Codification (ASC) No. 830-20, *Foreign Currency Transactions* (Formerly FASB Statement No. 52). Under US GAAP, foreign subsidiaries are considered to be an integral part of Natuzzi due to various factors including significant intercompany transactions, financing, and cash flow indicators. Therefore, the functional currency for these foreign subsidiaries is the functional currency of the parent, namely the euro. As a result all monetary assets and liabilities are remeasured, at the end of each reporting period, using euro and the resulting gain or loss is recognized in the consolidated statements of operations. For all non monetary assets and liabilities, share capital and retained earnings historical exchange rates are used. The average exchange rates during the year are used for revenues and expenses, except for those revenues and expenses related to assets and liabilities translated at historical exchange rates. The resulting exchange differences on translation are recognized in the statements of operations.

At December 31, 2010, 2009 and 2008 the US GAAP difference arises due to the requirement to use the local currency as the functional currency under Italian GAAP as compared to US GAAP, which requires that the functional currency be determined based on certain indicators which may, or may not result in the local currency being determined to be the functional currency. Consequently, the Company recorded in the US GAAP reconciliation (a) income of 2,896 for 2010, loss of 5,193 for 2009 and income of 753 for 2008, respectively; and (b) an increase in shareholders' equity of 6,933 and 13,208 for 2010 and 2009, respectively.

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

(g) Under Italian GAAP, the Company has recognized in the consolidated statement of operations for the year ended December 31, 2008 the cost of one-time termination benefits of 4,605 related to the employees to be terminated on a involuntary basis as indicated in the plan of termination (see note 23). In accordance with Italian GAAP this cost has been recognized in 2008 as in such year the Company has formally decided to adopt the termination plan (approval by the Board of Directors) and is able to reasonably estimate the related one-time termination benefits. Before or on December 31, 2008 the Company did not make any official announcement or notification to the terminated employees related to the work termination plan and one-time termination benefits. Under Italian GAAP for the recognition of the cost for the termination benefits related to the terminated workers the communication or announcement to third parties of the plan of termination of workers is not relevant.

Accounting Standards Codification ( ASC ) No. 715, *Compensation Retirement Benefits* (Formerly FASB Statement No. 146), paragraph 8 states that the liability for the one-time termination benefits provided to current employees that are involuntarily terminated under the terms of a benefit arrangement that, in substance, is not an ongoing benefit arrangement or an individual deferred compensation contract is measured and recognized if a one-time arrangement exist at the date the plan of termination meets all the following criteria and has been communicated to the employees: (a) management, having the authority to approve the action, commits to a plan of termination; (b) the plan identifies the number of employees to be terminated, their job classifications or functions and their locations, and the expected completion date; (c) the plan establishes the terms of the benefit arrangement, including the benefits that employees will receive upon termination (including but not limited to cash payments), in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated; (d) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Therefore, on the basis of the above discussion, the Italian GAAP for recognition in the consolidated statement of operations for the year ended December 31, 2008 of the one-time termination benefits of 4,605 related to the employees to be terminated involuntarily differs from US GAAP.

Under US GAAP, considering the guidance of ASC 715, the one-time termination benefits of 4,605 has to be recorded in the consolidated statement of operations when the termination plan is communicated to the employees and meets all the criteria indicated in paragraph 8 of FASB Statement No. 146. Therefore, under US GAAP the cost of the one-time termination benefits of 4,605 had been reversed out of the consolidated statement of operations for the year ended December 31, 2008.

During 2009, the Company paid one-time termination benefits on the separation date to workers terminated for a cash consideration of 2,559 charged under the line cost of sales under US GAAP in the consolidated statement of operations for the year ended December 31, 2009.

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The residual difference of equity under Italian GAAP and US GAAP, for an amount of 2,046 is attributable to the remaining workers that the Company decided to terminate on an involuntary basis (see notes 17 and 23).

(h) The Company in October 2008, in order to improve its manufacturing efficiency and in connection with the adoption of the three year business plan, decided to close and sell a manufacturing facility located in Brazil in the State of Bahia. As a result of this decision the Company, in accordance with its Italian accounting policy (see note 3 (k)), performed an impairment analysis and determined that the carrying value of such manufacturing facility as of December 31, 2008 was more than the fair value less costs to sell. Therefore, as of December 31, 2008 the carrying value of such manufacturing facility was reduced to fair value less costs to sell. This resulted in an impairment loss of 2,911, recorded under the line other income (expense), net of the consolidated statement of operations for the year ended December 31, 2008, in accordance with its Italian accounting policy (see note 23). Company's management estimated the fair value based on third-party independent appraisals. In addition, as of December 31, 2008, 2009 and 2010 the Company, in accordance with its Italian accounting policy, has classified this manufacturing facility under the line property, plant and equipment held and used of the consolidated balance sheet (see note 9) as there is a current expectation that it is more-likely-than not that this asset will be sold in the medium long-term period (more than one year from the balance sheet date).

The Company in October 2008, in order to improve its manufacturing efficiency and in connection with the adoption of the three year business plan, decided to close and sell six industrial buildings utilized mainly as warehouses and located in the cities of Altamura and Matera nearby the Group's headquarter in Italy. As a result of this decision the Company, in accordance with its Italian accounting policy (see note 3 (k)), performed an impairment analysis and determined that the carrying values of two of the six industrial buildings as of December 31, 2008 were more than the fair value less costs to sell. Therefore, as of December 31, 2008 the carrying values of these two industrial buildings were reduced to fair value less costs to sell. This resulted in an impairment loss of 1,792 recorded under the line other income (expense), net of the consolidated statement of operations for the year ended December 31, 2008 in accordance with its Italian accounting policy (see note 23). Company's management estimated the fair value of such industrial buildings based on observable market transactions involving sales of comparable buildings and third party independent appraisals. In addition, as of December 31, 2008, 2009 and 2010 the Company, in accordance with its Italian accounting policy, has classified these industrial buildings under the line property, plant and equipment held and used in the consolidated balance sheet (see note 9) as there is a current expectation that it is more-likely-than not that these assets will be sold in the medium long-term period (more than one year from the consolidated balance sheet date).

**Table of Contents**

Natuszi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

In accordance with Accounting Standards Codification ( ASC ) No. 360-10, *Impairment or Disposal of Long-Lived* (Formerly FASB Statement No. 144), long lived assets (such as property, plant and equipment) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long lived asset or asset group be tested for possible impairment, an entity first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. Long lived assets or asset group to be disposed of by sale are classified as held for sale in the period in which are met all the six criteria indicated in ASC 360, and are measured at the lower of its carrying amount or fair value. If these six criteria are not met the assets are classified as held and used and measured as such as indicate above. In addition, in the statement of operations the impairment loss is classified as part of operating income.

Therefore, on the basis of the above discussion, as of December 31, 2010, 2009 and 2008 the Italian GAAP for measurement and classification in the consolidated statement of operations of the impairment loss related to the manufacturing facility of Brazil and industrial buildings of Italy differs from US GAAP.

Under Italian GAAP the measurement of the impairment loss of the manufacturing facility of Brazil and industrial buildings of Italy has been determined by the amount by which the carrying amount of the asset exceeds the fair value less costs to sell. Under US GAAP as the carrying value of these assets is not recoverable on an undiscounted cash flow basis, the impairment loss has been measured by the amount by which the carrying value exceeds its fair value. Therefore, at December 31, 2008 the difference between Italian GAAP and US GAAP for the measurement of the impairment losses was 400 and this is due to costs to sell. This amount has been reported in the US GAAP reconciliation for the year ended December 31, 2008. At December 31, 2009 and 2010 the difference between Italian GAAP and US GAAP is reduced to an amount of 388.

Under Italian GAAP the impairment losses of the manufacturing facility of Brazil and the industrial buildings of Italy of 4,703 have been classified under the line other income (expense), net in the consolidated statement of operations for the year ended December 31, 2008 (see note 23). Under US GAAP these impairment losses would be classified as cost of sales.

Further, there is no difference between Italian GAAP and US GAAP regarding the classification of the manufacturing facility of Brazil and industrial building of Italy in the consolidated balance sheets as of December 31, 2010, 2009 and 2008 as under both GAAP these assets are classified under the line property, plant and equipment held and used (see note 9).

(i) During 2010, 2009 and 2008 the Company under Italian GAAP has recognized the write-off of tangible assets of 454, 595 and of 1,189, respectively, as part of non operating loss. Under US GAAP such write-off charge would be included as part of operating loss.

(j) Under Italian GAAP certain costs paid to resellers are reflected as part of selling expenses. Under US GAAP, in accordance with Accounting Standard Codification ( ASC ) No. 605-50 Revenue Recognition Customer Payments and Incentive (Formerly EITF 01-09), these costs should be recorded as a reduction of net sales. Such expenses include advertising contributions paid to resellers which amounted at December 31, 2010, 2009 and 2008 to 2,238, 3,229 and 4,336, respectively.

**Table of Contents**

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

(k) Under Italian GAAP, the Company includes its warranty cost as a component of selling expenses in the consolidated statement of operations. Under US GAAP, warranty costs would be included as a component of cost of sales. For the years ended December 31, 2010, 2009 and 2008 warranty cost amounting to 4,104, 4,503 and 4,607, respectively, would be reclassified from selling expenses to cost of sales under US GAAP.

(l) Under Italian GAAP the Company includes income taxes in the provisions for contingent tax liabilities under the line other income (expense), net in the consolidated statement of operations. For the years ended December 31, 2010, 2009 and 2008 income taxes are approximately 392, 229 and 255, respectively. Under US GAAP these amounts would be classified in the line income taxes of the consolidated statements of operations.

(m) Under Italian GAAP the Company records a tax contingent liability (income tax exposure) when it is probable that the liability has been incurred and the amount of the loss can be reasonably estimated.

The Company adopted the provisions of FASB Statement No. 48 (codified in Accounting Standards Codification ( ASC ) No. 740-10, Income Taxes Overall,) on January 1, 2007. ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely-than-not for recognition of tax benefits and liabilities on uncertain tax position taken or expected to be taken in a tax return. ASC 740 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. As a result of the implementation of ASC 740 as of January 1, 2007, the Company did not recognize any increase or decrease in the liability for unrecognized tax benefits, in respect of the Italian GAAP.

There are no differences between the amounts recognized by the Company under ASC 740 and the amounts recognized under Italian GAAP.

The following table provides the movements in the liability for unrecognized tax benefits for the years ended December 31, 2010 and 2009:

|                                                              | 2010  | 2009  |
|--------------------------------------------------------------|-------|-------|
| Balance, beginning of the year                               | 1,944 | 1,715 |
| Additions based on tax positions related to the current year |       |       |
| Additions for tax positions of prior years                   | 87    | 351   |
| Reductions due to statute of limitations expiration          | (479) | (122) |
| Settlements                                                  |       |       |
| Balance, end of year                                         | 1,552 | 1,944 |



**Table of Contents**

## Natuszi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The Company recognized interest and penalties, accrued in relation to the uncertainties in income taxes disclosed above, in other income (expense), net. During the years ended December 31, 2010, 2009 and 2008, the Company recognized approximately 3, 216 and 42 in interest and penalties, respectively. The total provision for the payment of interest and penalties as at December 31, 2010 and 2009 amounted to approximately 1,715 and 1,717, respectively. As of December 31, 2010 the Company expects that a possible decrease in amounts accrued for uncertainty in income taxes could occur in the next twelve months.

The following table reports the movements and the difference in amounts accrued under US GAAP and Italian GAAP with regard to accounting for the liability for unrecognized tax benefits:

|                                                              | US GAAP | IT GAAP | Difference |
|--------------------------------------------------------------|---------|---------|------------|
| Balance at January 1, 2010                                   | 1,944   | 1,944   |            |
| Additions based on tax positions related to the current year |         |         |            |
| Additions for tax positions of prior years                   | 87      | 87      |            |
| Reductions due to statute of limitations expiration          | (479)   | (479)   |            |
| Settlements                                                  |         |         |            |
| Balance at December 31, 2010                                 | 1,552   | 1,552   |            |
|                                                              | US GAAP | IT GAAP | Difference |
| Balance at January 1, 2009                                   | 1,715   | 1,715   |            |
| Additions based on tax positions related to the current year |         |         |            |
| Additions for tax positions of prior years                   | 351     | 351     |            |
| Reductions due to statute of limitations expiration          | (122)   | (122)   |            |
| Settlements                                                  |         |         |            |
| Balance at December 31, 2009                                 | 1,944   | 1,944   |            |
|                                                              | US GAAP | IT GAAP | Difference |
| Balance at January 1, 2008                                   | 1,460   | 1,460   |            |
| Additions based on tax positions related to the current year | 2       | 2       |            |
| Additions for tax positions of prior years                   | 483     | 483     |            |
| Reductions due to statute of limitations expiration          | (230)   | (230)   |            |
| Settlements                                                  |         |         |            |
| Balance at December 31, 2008                                 | 1,715   | 1,715   |            |

Under Italian GAAP the Company includes the provisions for income tax contingent liabilities under the line other liabilities of the non current part of the balance sheet. For the years ended December 31, 2010 and 2009 the above provisions for income tax contingent liabilities amount to 3,268 and 3,661, respectively.



**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Under US GAAP these amounts would be classified in part in the line income taxes of the current part of the balance sheet for the income taxes (1,552 and 1,944 for the years ended December 31, 2010 and 2009, respectively), and for the other part in the line accounts payable-other for penalties and interest (1,715 and 1,717 for the years ended December 31, 2010 and 2009, respectively) of the current part of the balance sheet.

(n) The consolidated statements of cash flows for the years ended December 31, 2010, 2009 and 2008 prepared by the Company under Italian GAAP is in conformity with US GAAP (Accounting Standards Codification ( ASC ) No. 230, *Statement of Cash Flow* (Formerly FASB Statement No. 95)).

**Comprehensive Income** The Company has adopted the Accounting Standard Codification ( ASC ) No. 220, Comprehensive Income (Formerly FASB Statement No. 130), which established standards for the reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income/(loss) generally encompasses all changes in shareholders' equity (except those arising from transactions with owners). The Company's comprehensive income (loss) does not differ from its US GAAP net income (loss).

**Accounting Standards Update( ASU ) No. 2009-17, Improvements to Financial Reporting by Enterprises involved with Variable Interest Entities (Formerly FASB Statement No. 46R):** In December 2009 the FASB issued ASU 2009-17 (Statement 167) that amends the guidance on variable interest entities in Accounting Standards Codification ( ASC ) No. 810, Improvements to Financial Reporting by Enterprises involved with Variable Interest Entities (Formerly FASB Statement No. 46R) related to the consolidation of variable interest entities. It requires reporting entities to evaluate former QSPEs for consolidation, changes the approach to determining a VIE's primary beneficiary from a quantitative assessment to a qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE. It also clarifies, but does not significantly change, the characteristics that identify a VIE. ASU 2010-10 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2009, and for subsequent interim and annual reporting periods. Early adoption is prohibited. The adoption of Accounting Standards Update( ASU ) No. 2009-17, did not have any significant impact on the Company's consolidated financial statements.

**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**Recently issued Accounting Pronouncements**

Recently issued but not yet adopted U.S. Accounting pronouncements relevant for the Company are as follows:

**Accounting Standards Update ( ASU ) No. 2010-06, Fair Value Measurements and Disclosures:** in January 2010 the FASB issued Accounting Standards Update ( ASU ) No. 2010-06, Fair Value Measurements and Disclosures. The standard amends certain disclosure requirements of Subtopic 820-10. This ASU provides additional disclosures for transfers in and out of Levels I and II and for activity in Level III. This ASU also clarifies certain other existing disclosure requirements including level of desegregation and disclosures around inputs and valuation techniques. The final amendments to the Accounting Standards Codification were effective for annual or interim reporting periods beginning after December 15, 2009, except for the requirement to provide the Level III activity for purchases, sales, issuances, and settlements on a gross basis. That requirement will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. The amendments in the Update do not require disclosures for earlier periods presented for comparative purposes at initial adoption. The Company will make all required disclosures effective from January 1, 2011.

**Accounting Standards Update ( ASU ) No. 2010-13, Compensation Stock Compensation:** in April 2010 the FASB issued Accounting Standards Update ( ASU ) No. 2010-13, Compensation Stock Compensation. The objective of this Update is to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. FASB Accounting Standards Codification<sup>TM</sup> Topic 718, Compensation Stock Compensation, provides guidance on the classification of a share-based payment award as either equity or a liability. A share-based payment award that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. This Update provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update do not expand the recurring disclosures required by Topic 718. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company is currently evaluating the provisions of this standard, but does not expect adoption to have a material impact on its financial position and results of operations.

**Accounting Standards Update ( ASU ) No. 2009-13, Revenue Recognition (Topic 605): Multiple Deliverable Revenue Arrangements:** in October 2009, the FASB issued Accounting Standards Update (ASU) 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements* (EITF Issue No. 08-1, *Revenue Arrangements with Multiple Deliverables* ). ASU 2009-13 amends FASB ASC Subtopic 605-25, *Revenue Recognition Multiple-Element Arrangements*, to eliminate the requirement that all undelivered elements have vendor specific objective evidence of selling price (VSOE) or third party evidence of selling price (TPE) before an entity can recognize the portion of an overall arrangement fee that is attributable to items that already have been delivered. In the absence of VSOE and TPE for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. The overall arrangement fee will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. Application of the residual method of allocating an overall arrangement fee between delivered and undelivered elements will no longer be permitted upon adoption of ASU 2009-13. Additionally, the new guidance will require entities to disclose more information about their multiple-element revenue arrangements. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company expects that the adoption of ASU 2009-13 in 2011 will not have a material impact on its consolidated financial statements.



**Table of Contents**

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**Accounting Standards Update ( ASU ) No. 2010-28, Intangibles Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, a consensus of the FASB Emerging Issues Task Force (Issue No. 10-A):** in December 2010, the FASB issued ASU 2010-28, Intangibles Goodwill and Other (Topic 350): *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, a consensus of the FASB Emerging Issues Task Force (Issue No. 10-A)*. ASU 2010-28 modifies Step 1 of the goodwill impairment test under ASC Topic 350 for reporting units with zero or negative carrying amounts to require an entity to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are adverse qualitative factors, including the examples provided in ASC paragraph 350-20-35-30, in determining whether an interim goodwill impairment test between annual test dates is necessary. The ASU allows an entity to use either the equity or enterprise valuation premise to determine the carrying amount of a reporting unit. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010 for a public company. The Company expects that the adoption of ASU 2010-28 will not have a material impact on its consolidated financial statements.

**27. Subsequent events**

The Chinese plant owned by the Group was subject to an expropriation process by local Chinese authorities since the plant is located on land that is intended for public utilities. Negotiations involving the expropriation process began in 2009 and were concluded in the first semester of 2011. The agreement setting forth the payment of compensation for the expropriated plant was signed with Chinese authorities on January 26, 2011. As compensation for the expropriation, the parties agreed upon a total indemnity of Chinese Yuan 420 million, which is equivalent to approximately 46 million based on the Yuan-euro exchange rate as of June 24, 2011. The Company expects to recognize a gain on this transaction.

Furthermore, on June 22, 2011 the subsidiary Natuzzi Americas Inc has reached for the 2005/2006 open assessment periods a settlement with U.S. Internal Revenue Service according to which Natuzzi Americas paid an amount of money in line with what accounted in the provision of FASB Statement No. 48 (codified in Accounting Standards Codification ( ASC ) No. 740-10, Income Taxes Overall, ASC 740).

**Table of Contents**

**SIGNATURE**

The registrant, Natuzzi S.p.A., hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**NATUZZI S.p.A.**

By: /s/ Pasquale Natuzzi  
Name: Pasquale Natuzzi  
Title: Chief Executive Officer

Date: June 30, 2011

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**Table of Contents**

**Exhibit Index**

- 1.1 English translation of the by-laws (*Statuto*) of the Company, as amended and restated as of January 24, 2008 (incorporated by reference to the Form 20-F filed by Natuzzi S.p.A. with the Securities and Exchange Commission on June 30, 2008, file number 1-11854).
- 2.1 Deposit Agreement dated as of May 15, 1993, as amended and restated as of December 31, 2001, among the Company, The Bank of New York, as Depositary, and owners and beneficial owners of ADRs (incorporated by reference to the Form 20-F filed by Natuzzi S.p.A. with the Securities and Exchange Commission on July 1, 2002, file number 1-11854).
- 8.1 List of Significant Subsidiaries.
- 12.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.