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
American Depositary Shares, each representing one Ordinary Share	**New York Stock Exchange**
Ordinary Shares, with a par value of 1.00 each	**New York Stock Exchange** (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 o No þ

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 o No þ

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 þ No o

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 o No o Not Applicable þ

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 o Accelerated filer þ Non-accelerated filer o

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

U.S. GAAP o IFRS o Other þ

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.

o Item 17 þ 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 o No þ

Table of Contents

TABLE OF CONTENTS

TABLE OF CONTENTS

Table of Contents

TABLE OF CONTENTS

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

	Year Ended At December 31,					
	2010	**2010**	**2009**	**2008**	**2007**	**2006**
	(millions of dollars, except per Ordinary Share)(1)	(millions of euro, except per Ordinary Share)				
Statement of Operations Data:						
Amounts in accordance with Italian GAAP:						
Net sales:						
Leather- and fabric-upholstered furniture	$ 608.6	460.5	450.6	587.8	563.5	660.2
Other(2)	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
Operating income (loss) per Ordinary Share	*0.01*	*0.01*	*(0.02)*	*(0.64)*	*(0.90)*	*0.30*
Other income (expense), Net (3) (4) (5)	(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
Net income (loss) per Ordinary Share	*$ (0.27)*	*(0.20)*	*(0.32)*	*(1.13)*	*(1.14)*	*0.23*
Dividends declared per share						

Amounts in accordance with U.S. GAAP:							
Net sales		675.1	510.8	506.0	670.1	635.9	736.8
Operating income (loss)		0.6	0.4	(14.2)	(40.0)	(46.4)	22.7
Operating income (loss) per Ordinary Share		*0.01*	*0.01*	*(0.26)*	*(0.73)*	*(0.85)*	*0.41*
Net income (loss)		(12.3)	(9.3)	(25.7)	(55.7)	(60.0)	14.5
Net income (loss) per Ordinary Share (basic and diluted)	*$*	*(0.22)*	*(0.17)*	*(0.47)*	*(1.02)*	*(1.09)*	*0.26*
Weighted average number of Ordinary Shares Outstanding		*54,853,045*	*54,853,045*	*54,853,045*	*54,850,643*	*54,817,086*	*54,733,796*
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 interest		2.8	2.1	1.9	0.8	0.1	0.6
Shareholders equity attributable to Natuzzi S.p.A. and 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 attributable to Natuzzi S.p.A. and 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.

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.

Year:	**Average[(1)]**	**At Period End**
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

Month ending:	**High**	**Low**
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 depositary, as to how they wish such shares to be voted. For these reasons, the Company s ADS holders may find it more difficult to protect their interests against actions of the Company s management, Board of Directors or shareholders than they would 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 Depositary (the Depositary), 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 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.

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 stat 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:

Name	Percentage of ownership	Registered office	Activity
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 sofabeds, 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.

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

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

(2) Starting in 2010, the Other item includes net sales from the Natuzzi Editions/Editions 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) [3]

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

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

(2) 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 Paolo, 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.

25

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.

	2009					
	Natuzzi brand		**Other ***		**Total 2009**	
Country	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%
Total upholstery net Sales	**203,054.5**	**100.00%**	**247,501.7**	**100.00%**	**450,556.2**	**100.00%**

	2010					
	Natuzzi brand		**Other ***		**Total 2010**	
Country	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%
Total upholstery net Sales	**192,146.0**	**100.00%**	**268,383.5**	**100.00%**	**460,529.6**	**100.00%**

* 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 o 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.

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 trader 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.

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:

Location	Size (approximate square meters)	Function	Production Capacity per day	Unit of Measure
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 North Carolina U.S.A.	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:

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

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.

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.

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:

	Year Ended December 31,		
	2010	2009	2008
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.

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/Editions, 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/Editions, 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.

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/Editions 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.

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:

	Payments Due by Period (thousands of euro)				
Contractual Obligations	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Long-Term Debt[1]	15,414	1,831	6,756	5,497	1,330
Interest due on Long Term Debt [2]	772	251	366	134	21
Operating Leases [3]	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.