

NATUZZI S P A  
Form 20-F  
April 30, 2012

**Natuzzi S.p.A**

Annual Report on Form 20-F

2011

**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, 2011

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:

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
American Depositary Shares, each representing one Ordinary Share	New York Stock Exchange New York Stock Exchange
Ordinary Shares, with a par value of 1.00 each	(for listing purposes only)

Edgar Filing: NATUZZI S P A - Form 20-F

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, 2011 **54,853,045 Ordinary Shares**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

U.S. GAAP  IFRS  Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

---

**TABLE OF CONTENTS**

	Page
<b><u>PART I</u></b>	3
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	3
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	3
<u>ITEM 3. KEY INFORMATION</u>	3
<u>Selected Financial Data</u>	3
<u>Exchange Rates</u>	5
<u>Risk Factors</u>	5
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	11
<u>Introduction</u>	11
<u>Organizational Structure</u>	13
<u>Strategy</u>	14
<u>Manufacturing</u>	18
<u>Supply-Chain Management</u>	22
<u>Products</u>	24
<u>Advertising</u>	27
<u>Retail Development</u>	27
<u>Markets</u>	27
<u>Incentive Programs and Tax Benefits</u>	31
<u>Management of Exchange Rate Risk</u>	34
<u>Trademarks and Patents</u>	34
<u>Regulation</u>	34
<u>Environmental Regulatory Compliance</u>	35
<u>Insurance</u>	35
<u>Description of Properties</u>	35
<u>Capital Expenditures</u>	36
<u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>	36
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	36
<u>Critical Accounting Policies</u>	37
<u>Results of Operations</u>	41
<u>2011 Compared to 2010</u>	42
<u>2010 Compared to 2009</u>	45
<u>Liquidity and Capital Resources</u>	48
<u>Contractual Obligations and Commitments</u>	50
<u>Trend information</u>	52
<u>Off-Balance Sheet Arrangements</u>	52
<u>Related Party Transactions</u>	52
<u>New Accounting Standards under Italian and U.S. GAAP</u>	52
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	54
<u>Compensation of Directors and Officers</u>	58
<u>Statutory Auditors</u>	59
<u>External Auditors</u>	59
<u>Employees</u>	60
<u>Share Ownership</u>	62
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	63
<u>Major Shareholders</u>	63

---

**TABLE OF CONTENTS**

	Page
<u>Related Party Transactions</u>	63
<u>ITEM 8. FINANCIAL INFORMATION</u>	64
<u>Consolidated Financial Statements</u>	64
<u>Export Sales</u>	64
<u>Legal and Governmental Proceedings</u>	64
<u>Dividends</u>	65
<u>ITEM 9. THE OFFER AND LISTING</u>	65
<u>Trading Markets and Share Prices</u>	65
<u>ITEM 10. ADDITIONAL INFORMATION</u>	67
<u>By-laws</u>	67
<u>Material Contracts</u>	75
<u>Exchange Controls</u>	75
<u>Taxation</u>	81
<u>Documents on Display</u>	81
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	81
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	83
<u>ITEM 12A. DEBT SECURITIES</u>	83
<u>ITEM 12B. WARRANTS AND RIGHTS</u>	83
<u>ITEM 12C. OTHER SECURITIES</u>	83
<u>ITEM 12D. AMERICAN DEPOSITARY SHARES</u>	83
<b><u>PART II</u></b>	
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	85
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	85
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	85
<u>ITEM 16. [RESERVED]</u>	88
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	88
<u>ITEM 16B. CODE OF ETHICS</u>	88
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	89
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	90
<u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	90
<u>ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	90
<u>ITEM 16G. CORPORATE GOVERNANCE</u>	91
<b><u>PART III</u></b>	95
<u>ITEM 17. FINANCIAL STATEMENTS</u>	95
<u>ITEM 18. FINANCIAL STATEMENTS</u>	95
<u>ITEM 19. EXHIBITS</u>	95

---

**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 \$ are to 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 December 31, 2011 of U.S.\$ 1.2973. 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 29 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 otherwise require, mean Natuzzi and its consolidated subsidiaries.

**FORWARD-LOOKING INFORMATION**

The Company makes forward-looking statements in this annual report. Statements that are not historical facts, including statements about the Group's beliefs and expectations, are forward-looking statements. Words such as believe, expect, intend, plan and anticipate and similar expressions are intended to identify forward-looking statements but are not exclusive means of identifying such statements. These statements are based on management's current plans, estimates and projections, 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.

**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 29 to the Consolidated Financial Statements included in Item 18 of this annual report.

Edgar Filing: NATUZZI S P A - Form 20-F

	Year Ended At December 31,					
	2011 (millions of dollars, except per Ordinary Share) <sup>(1)</sup>	2011	2010	2009	2008	2007
			(millions of euro, except per Ordinary Share)			
<b>Statement of Operations Data:</b>						
<i>Amounts in accordance with Italian GAAP</i>						
:						
Net sales:						
Leather- and fabric-upholstered furniture	\$ 595.5	425.3	460.5	450.6	587.8	563.5
Other(2)	85.4	61.0	58.1	64.8	78.2	70.9
Total net sales	680.9	486.3	518.6	515.4	666.0	634.4
Cost of sales	(456.6)	(326.1)	(321.5)	(329.8)	(478.8)	(460.6)
Gross profit	224.3	160.2	197.1	185.6	187.2	173.8
Selling expenses	(202.0)	(144.3)	(154.3)	(149.6)	(172.3)	(173.9)
General and administrative expenses	(60.6)	(43.3)	(42.4)	(46.6)	(49.9)	(49.0)
Operating income (loss)	(38.4)	(27.4)	0.4	(10.6)	(35.0)	(49.1)
<i>Operating income (loss) per Ordinary Share</i>	(0.70)	(0.50)	0.01	(0.19)	(0.64)	(0.90)
Other income (expense), Net (3) (4) (5)	24.2	17.3	(4.4)	3.1	(25.8)	(2.6)
Income (loss) before taxes and minority interests	(14.1)	(10.1)	(4.0)	(7.5)	(60.8)	(51.7)
Income taxes	(12.5)	(8.9)	(7.0)	(9.8)	(1.5)	(11.4)
Income (loss) before non-controlling interests	(26.6)	(19.0)	(11.0)	(17.3)	(62.3)	(63.1)
Non-controlling interest	1.0	0.7	0.1	0.4	(0.4)	(0.5)
Net income (loss)	(27.6)	(19.7)	(11.1)	(17.7)	(61.9)	(62.6)
<i>Net income (loss) per Ordinary Share</i>	(0.50)	(0.36)	(0.20)	(0.32)	(1.13)	(1.14)
<i>Dividends declared per share</i>						
<i>Amounts in accordance with U.S. GAAP:</i>						
Net sales	\$ 683.7	488.3	510.8	506.0	670.1	635.9
Operating income (loss)	(36.4)	(26.0)	0.4	(14.2)	(40.0)	(46.4)
<i>Operating income (loss) per Ordinary Share</i>	(0.66)	(0.47)	0.01	(0.26)	(0.73)	(0.85)
Net income (loss)	(18.3)	(13.1)	(8.9)	(25.9)	(55.7)	(60.0)
<i>Net income (loss) per Ordinary Share (basic and diluted)</i>	(0.33)	(0.24)	(0.16)	(0.47)	(1.02)	(1.09)
<i>Weighted average number of Ordinary Shares Outstanding</i>	54,853,045	54,853,045	54,853,045	54,853,045	54,850,643	54,817,086
<b>Balance Sheet Data :</b>						
<i>Amounts in accordance with Italian GAAP</i>						
:						
Current assets	\$ 426.0	328.4	298.6	301.9	318.5	364.1
Total assets	662.9	511.0	503.9	508.6	543.8	617.5
Current liabilities	159.4	122.9	107.8	116.8	136.3	146.0
Long-term debt	14.0	10.8	13.6	5.9	3.3	2.1
Non-controlling interest	3.9	3.0	2.1	1.9	0.8	0.1
Shareholders' equity attributable to Natuzzi S.p.A. and Subsidiaries (6)	402.8	310.5	323.2	325.0	345.2	411.6
Net Asset	406.7	313.5	325.3	326.9	346.0	411.7
<i>Amounts in accordance with U.S. GAAP:</i>						
Total assets	\$ 662.9	511.0	508.5	521.1	560.5	627.5
Shareholders' equity attributable to Natuzzi S.p.A. and Subsidiaries	400.3	308.6	321.7	327.6	353.3	408.5



Edgar Filing: NATUZZI S P A - Form 20-F

Net Asset	404.2	311.6	323.8	329.5	354.1	408.6
-----------	-------	-------	-------	-------	-------	-------

- 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 2011 of U.S.\$ 1.4002 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.\$ 1.2973 per 1 euro as of December 31, 2011. 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 2011 Compared to 2010, Item 11. Quantitative and Qualitative Disclosures about Market Risk and Notes 3, 26 and 27 to the Consolidated Financial Statements included in Item 18 of this annual report.
- 4) 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.
- 5) Other income (expense), net in 2011 was positively affected by the net Chinese relocation compensation and negatively affected by the impairment losses of long-lived assets, a one-time employee termination benefit and the provision for contingent liabilities. See Note 26 to the Consolidated Financial Statements included in Item 18 of this annual report.
- 6) Share capital as of December 31, 2011, 2010, 2009, 2008 and 2007 amounted to 54.9 million, 54.9 million, 54.9 million, 54.9 million and 54.8 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 <sup>(1)</sup>	At Period End
2007	1.3797	1.4603
2008	1.4695	1.3919
2009	1.3955	1.4332
2010	1.3216	1.3269
2011	1.4002	1.2973
<b>Month ending on:</b>	<b>High</b>	<b>Low</b>
31-Oct-2011	1.4172	1.3281
30-Nov-2011	1.3803	1.3244
31-Dec-2011	1.3487	1.2926
31-Jan-2012	1.3192	1.2682
29-Feb-2012	1.3463	1.3087
30-Mar-2012	1.3336	1.3025

- (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 March 30, 2012 was U.S.\$ 1.3334 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 to a large extent on its ability to overcome macroeconomic and operational challenges** The Group reported net losses in 2011 ( 19.6 million), 2010 ( 11.1 million), 2009 ( 17.7 million), 2008 ( 61.9 million) and 2007 ( 62.6 million), while it reported an operating loss of 27.3 million in 2011 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 declined from 634.4 million in 2007 to 486.4 million in 2011. As evidenced by these financial results, we may not be able to achieve or maintain profitability on a consistent basis.

The Group attributes its negative results in 2011 to a difficult macroeconomic environment affecting the furniture industry as a whole (particularly in mature markets such as Europe and the United States), including the European sovereign debt crisis and the consequent decline in consumer confidence, continued high levels in raw material prices, price competition from low-cost manufacturers and unfavorable currency conditions. See Item 5. Operating and Financial Review and Prospects. Operational challenges also contributed the Group's losses over the past year. In particular, the relocation of our previous Chinese plant to a new Chinese plant during the first half of 2011 resulted in labor strikes, interruptions in the Group's production cycle, additional costs and delays in order scheduling. The Group has also faced increased labor costs for some of its manufacturing plants operating abroad. See Item 4. Information on the Company Manufacturing for further information.

Our results of operations in the future will depend on our ability to overcome these and other challenges. Our failure to achieve profitability in the future could adversely affect the trading price of our shares and our ability to raise additional capital and, accordingly, our ability to grow our business. There can be no assurance that we will succeed in addressing any or all of these risks, and the failure to do so could have a material adverse effect on our business, financial condition and operating results.

**The 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 there were considerable differences in the rate of recovery (if any) among regions.

During 2011, the global economy, after an encouraging first half, subsequently lost momentum. In the Euro-zone, as a consequence of weakening world economic growth and the sovereign debt crisis affecting Greece, Portugal, Spain, Italy and Ireland, the economic situation worsened in the latter part of 2011.

Prospects for full economic recovery, therefore, 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, a decreasing level of savings among families, high levels of public indebtedness in most developed countries, whose creditworthiness has been recently downgraded or put under review by major rating agencies, austerity measures designed to reduce public expenditures and decreased consumer credit and spending. Furthermore, the repercussions of the sovereign debt crisis in Europe are not easy to quantify: the persistent funding difficulties of Europe's banking industry could diminish its ability to lend to the real economy, setting in motion a negative spiral of declining production, a weakening financial sector and sovereign debt risks. Lastly, 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, consumer confidence and the availability of consumer credit, 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.

**The Group's ability to generate the significant amount of cash needed to service our debt obligations and our ability to refinance all or a portion of our indebtedness or obtain additional financing depends on multiple factors, many of which may be beyond our control** Our ability to make scheduled payments due on our existing and anticipated debt obligations, to refinance and to fund planned capital expenditure and development efforts will depend on our ability to generate cash. We will require generation of sufficient operating cash flow from our projects to service our current and future projected indebtedness. Our ability to obtain cash to service our existing and projected debts is subject to a range of economic, financial, competitive, legislative, regulatory, business and other factors, many of which are beyond our control. We may not be able to generate sufficient cash flow from operations to satisfy our existing and projected debt obligations, in which case, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments, or seek to raise additional capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the financial markets and our financial condition at such time. To the extent we have borrowings under bank overdrafts that are payable upon demand or which have short maturities, we may be required to repay or refinance such amounts on short notice, which may be difficult to do on acceptable financial terms or at all. At December 31, 2011, we had € 24.1 million of bank overdrafts outstanding. In addition, while we had € 94.0 million of cash and cash equivalents at December 31, 2011, a portion of this amount is held by our Chinese subsidiary and cannot be paid to us as a dividend without incurring withholding taxes. We cannot assure you that any refinancing or restructuring would be possible, that any assets could be sold, or, if sold, of the timing of the sales or the amount of proceeds that would be realized from those sales. We cannot assure you that additional financing could be obtained on acceptable terms, if at all, or would be permitted under the terms of our various debt instruments then in effect. Our failure to generate sufficient cash flow to satisfy our existing and projected debt obligations, or to refinance our obligations on commercially reasonable terms, would have an adverse effect on our business, financial condition and results of operations.

**The Group's operations have benefited in 2011 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 September 2011 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 two-year period that will expire in October 2013. There is no guarantee that the Group will be able to renew this lay-off program upon the expiration of its two-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 2011, the Group derived 33.7% of its leather and fabric-upholstered furniture net sales from the Americas, 51.8% from Europe and 14.5% 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.

**The Group operates principally in a niche area of the furniture market** The Group is a leading player in the production of leather-upholstered furniture, with 94.8% of net sales of upholstered furniture in 2011 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 Asia and Eastern Europe 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 2011, 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 also holds a substantial portion of its cash and cash equivalents in currencies other than the euro, including a large amount in RMB received as compensation for the relocation of its Chinese manufacturing plant. 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, exchange rate and interest rate fluctuations. Any of these factors could have a material adverse effect on the Group's results.

**The price of the Group's principal raw materials 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** In 2011, 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 adoption of the new SAP system 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. The implementation of the SAP system has also involved a change in the management culture of the Company to create a more productive working environment and to better prepare for the transition to the new technological platform. To the extent the Group is unable to successfully manage the integration of the new SAP systems, as well as the challenges associated therewith, it may experience adverse consequences, including financial ones.

---

**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.

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 2011, part of these tax benefits and export incentives were reduced or expired. There can be no assurance that the Group will continue to be eligible for such tax benefits or export incentives for its current or future investments.

**The Group is dependent on qualified personnel** The Group's ability to maintain its competitive position will depend to some considerable degree upon the personal commitment of its founder, chairman and CEO, Mr. Pasquale Natuzzi, as well as its ability to continue to attract and maintain highly qualified managerial, manufacturing and sales and marketing personnel. There can be no assurance that the loss of key personnel would not have a material adverse effect on the Group's results of operations.

**Investors may face difficulties in protecting their rights as shareholders or holders of ADSs** The Company is incorporated under the laws of the Republic of Italy. As a result, the rights and obligations of its shareholders and certain rights and obligations of holders of its ADSs are governed by Italian law and the Company's *Statuto* (or By-laws). These rights and obligations are different from those that apply to U.S. corporations. Furthermore, under Italian law, holders of ADSs have no right to vote the shares underlying their ADSs; however, pursuant to the Deposit Agreement, ADS holders do have the right to give instructions to The Bank of New York Mellon, the ADS depository, as to how they wish such shares to be voted. For these reasons, the Company's ADS holders may find it more difficult to protect their interests against actions of the Company's management, Board of Directors or shareholders than they would if they were shareholders of a company incorporated in the United States.

**One shareholder has a controlling stake of the company** Mr. Pasquale Natuzzi, who founded the Company and is currently Chief Executive Officer and Chairman of the Board of Directors, beneficially owns, as of March 30, 2012, 29,534,627 Ordinary Shares, representing 53.8% of the Ordinary Shares outstanding (59.0% 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 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.

**Our auditors, like other independent registered public accounting firms operating in Italy, are not permitted to be subject to inspection by the Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection** Our independent registered public accounting firms that issue the audit reports included in our annual reports filed with the SEC, as auditors of companies that are traded publicly in the United States and firms registered with the Public Company Accounting Oversight Board, or PCAOB, are required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with SEC rules and PCAOB professional standards. Because our auditors are a registered public accounting firm in Italy, a jurisdiction where the PCAOB is currently unable under Italian law to conduct inspections, our auditors, like other independent registered public accounting firms in Italy, are currently not inspected by the PCAOB.

Inspections of audit firms that the PCAOB has conducted where allowed have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections in Italy prevents the PCAOB from regularly evaluating our auditors' audits and quality control procedures. As a result, the inability of the PCAOB to conduct inspections of auditors in Italy may deprive investors of the benefits of PCAOB inspections.

#### ITEM 4. INFORMATION ON THE COMPANY

##### Introduction

The Group is primarily engaged in the design, manufacturing 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 market for leather-upholstered furniture in the United States and Europe, respectively (Sources: CSIL, *The European market for upholstered furniture*, September 2011; CSIL, *Upholstered furniture: world market outlook 2012*, July 2011). Our distribution network covers approximately 100 countries.

The Group sells its Natuzzi branded furniture principally through franchised *Divani & Divani by Natuzzi* and *Natuzzi* furniture stores. As of March 30, 2012, the Group sells its furniture through 105 *Divani & Divani by Natuzzi* and 188 *Natuzzi* stores, of which 49 are directly owned by the Group, and through 16 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 30, 2012, there were 372 Natuzzi galleries worldwide (store-in-store concept managed by independent partners). In 2012, the Group intends to restructure and re-launch the Natuzzi brand, consolidating its product portfolio.

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 Editions* collection was mainly distributed through wholesale customers.

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 maintained 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 were already operating under the Natuzzi name.

The *Editions* brand was officially presented in January 2010 during a well-known worldwide trade fair in Cologne, Germany, as a new trademark intended for the traditional wholesale market. Both the *Natuzzi Editions* and the *Editions* collections were targeted specifically to large customers and were intended to help the Group recover market share.

Throughout 2011, customer response demonstrated that the *Editions/Natuzzi Editions* brand positioned itself in the medium end of the market, hence targeting independent retailers. During the third quarter of 2011, the Group reworked the *Editions/Natuzzi Editions* brand's motto to be *Leather and Craftsmanship* and launched its new logo for the brand in Europe and Asia: *Leather Editions*. In the Americas, the brand continues to be *Natuzzi Editions*.

In 2012, the Group intends to protect current market share developed with the *Natuzzi Editions/Leather Editions* brand and expand further through a gallery program.

In addition to the repositioning of *Natuzzi Editions/Leather Editions* for the medium end of the market, the Group launched a fourth brand, *Softaly*, in the first quarter of 2011, targeting key-accounts with the mission of offering good prices, quality and customized service. With the repositioning of the *Natuzzi Editions/Leather Editions* brand, the Group believed it was fitting to launch a fourth brand, dedicated solely to key-accounts, that would still permit the Group to better control the supply chain from the purchasing of raw materials to delivery.

The *Softaly* brand is focused only on offering exclusive products to key-accounts and following their requested customizations. Such customized products can be listed, among others, as private label or even unbranded. The selection of key-account customers is based on the forecasted volume that such customers can generate on a regular basis. The *Softaly* brand is currently marketed in Europe, Brazil, North America and in the Asia-Pacific region through a few customers.

The Group, since 2007, has refreshed and updated the image of the *Italsofa* brand, and operates, as of March 30, 2012, a total of 19 *Italsofa* stores (one of which is directly owned by the Group), with the objective of positioning *Italsofa* as a higher market alternative to very low-cost Chinese competitors. From the beginning of 2011 until March 30, 2012 the Group also opened four *Italsofa* stores in Europe, the Middle East and Asia. In 2012, 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.

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 March 30, 2012, 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	Sydney, Australia	(4)
Natuzzi Russia OOO	100.00	Moscow, Russia	(4)
Natuzzi India Furniture PVT Ltd	100.00	New Delhi, India	(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.

### **Strategy**

The negative performance of the Group in 2011 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, sovereign debt-related issues within the European Monetary Union in particular, and a generalized 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 2012 approved the 2012 Budget, which took into account the prevailing financial and economic uncertainty.

The Group updates annually, for internal guidance purposes only, a long-term business plan (L-T Plan), which sets forth the macro targets of turnover and profitability of the Group over the next few years. This L-T Plan mainly focuses 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, Russia and India. The L-T Plan also accounts for different sources of efficiencies, namely a rationalization of its distribution channel, generalized savings in operations at the manufacturing, headquarters and commercial subsidiaries levels, and a global revision in processes to reduce complexity. If the Group is unable to fully implement the strategies that are 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 employs a growth strategy based on:

increasing competitiveness among industry players;

improving service to clients;

improving product quality;

striving for product, process and material innovation to reduce complexity;

creating more efficiency in the manufacturing and procurement process by revising product cost structures and focusing more on the R&D and engineering process;

focus on fast growing markets such as China, Brazil, Russia and India;

recovering market share in mature markets thanks to:

- a) the development of the B2B trademark *Edition*, launched in 2010;
- b) the Key-Account program intended to help the Group recover market share among large customers in historical markets such as North America and Europe;
- c) a rationalization of the existing distribution channel while increasing the number of points-of-sale on worldwide basis;
- d) a new commercial organization with focus on differentiation by brands, regions and distribution channels; and
- e) strong reduction in waste and redundancies in Group processes, with a focus on increasing integration within the Group by completing the SAP rollout.

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:

**The Brand Portfolio Strategy of the Group** The Group competes in all price segments of the leather upholstered furniture market with a complementary range of furnishings and accessories to deliver the total living concept. The Group has divided its extensive product range into four different business propositions each with specific brand name, identity, target and positioning: a) *Natuzzi*; b) *Italsofa*; c) *Natuzzi Editions* (only for the North American market) and *Leather Editions* (Rest of the World); d) *Softaly*. This differentiated brand portfolio is designed to address all market segments to increase sales and profitability.

**a) The *Natuzzi* brand** is the most established consumer brand within the Group's portfolio. It is sold through single brand stores, concessions and galleries delivering sofas that are designed and made in Italy, priced at the middle to high-end, with unique and customized materials, workmanship and finishes, thanks to the Natuzzi heritage of fine craftsmanship in the leather sofas segment. The positioning of the *Natuzzi* brand is one that delivers the total Italian living concept by extending its line to complementary decorative products and furnishings for the

living room. The benefit consists in helping consumers make their home a harmonious, beautiful environment. Through the style and quality of its products and the merchandizing techniques in its stores, the Group aims to make this brand aspirational yet affordable. 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.

**b) *Italsofa*** targets the medium- to medium-low segment of the market. The Group aims to position this brand by offering Italian style products at the best value. The brand includes a wide range of sofas and armchairs, with a particular emphasis on fabrics and a more restricted range of leather coverings, all available in different colors, to address young consumers in particular. Products are designed and engineered in Italy, but manufactured at the Group's factories outside of Italy, to provide the best possible value in the market. Products under this brand are mainly distributed through the wholesale channel supported by tailor-made display systems in galleries and complemented by in-store communications and advertising tools for independent, qualified retailers recognized as design product specialists. Development through single-brand stores is planned in a few selected markets (Brazil, India, China, Israel).

**c.1) The *Leather Editions*** collection includes products with a wide range of upholstery positioned in the medium- to low-segments of the market, leveraging on the know-how and the high credibility of Natuzzi in the leather upholstery business. *Leather Editions* products are manufactured at the Group's foreign plants (Romania, China and Brazil) and sold through the wholesale channel, with specific display systems within galleries and merchandising materials designed to emphasize the core values of *Leather & Craftsmanship*. Its product offering is developed according to regional market needs and linked with specific plants to serve regional customers.

**c.2) *Natuzzi Editions*** While the European and the Rest of the World markets are served through the *Leather Editions* brand, in the North American market *Leather Editions* is sold under the *Natuzzi Editions* brand name. In this market the Natuzzi Group has historically held a notable market share thanks to its strong reputation among wholesalers and the Natuzzi Editions name.

**d) *Softaly*** At the beginning of 2011 the Group introduced a key-account program to compete in low segments of the market. The objective of the key-account program is to recover business from large distributors and develop additional volumes. The Natuzzi Group aims to replicate the best practices applied in connection with the most demanding customer in terms of quality, service and price. Each account will be managed by dedicated key-account teams under the following guidelines to maintain efficiency:

accurate forecasting;

product offerings to create production efficiency through synergies on raw material, components and coverings, resulting in a focused collection with few models, versions and coverings;

dedicated manufacturing plant: China for Asia Pacific and American accounts (other than those located in Brazil), Romania for European accounts and Brazil for Brazilian accounts; and

dedicated supply chain and transportation service (full truck or full container).

Precise market segmentation, clear, simple brand positioning and clearly defined customer and consumer targets are intended to enhance the Group's competitive strengths in all market segments to gain market share.

**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 brands, primarily through an increase in the number of Natuzzi stores and Natuzzi galleries worldwide. See Item 4. Information on the Company Markets.

In 2011, according to a survey ( *World Luxury Tracking* ) by Lagardère Global Advertising in cooperation with an independent market-research company, IPSOS, the Natuzzi brand was ranked as the best-known global brand within the furniture category, and the second best-known brand if all sectors are considered, based on a sample of 8,800 luxury consumers from seven countries (Italy, France, Germany, Spain, UK, the United States and Japan).

Such recognition of the Natuzzi brand among luxury consumers from developed countries is the result of investments the Company has made over the past decade on its products, communication, in-store experience and customer service, thus securing a premium inherent in the brand itself. This consumer brand awareness encourages the Company to carry on in its brand development, through the rationalization of the Group's brand portfolio and enhancement of the Group's distribution network, in order to further increase consumers' familiarity with the Natuzzi brand, and their association of it as a luxury brand. As of March 30, 2012, the Group sells its furniture through 105 *Divani & Divani by Natuzzi* and 188 *Natuzzi* stores, of which 49 are directly owned by the Group, and through 16 concessions in the United Kingdom. The concessions are a store-in-store concept managed directly by a subsidiary of the Company located in the United Kingdom. As of March 30, 2012, there were 372 *Natuzzi* galleries worldwide (store-in-store concept managed by independent partners).

Apart from the *Natuzzi* stores and *Divani & Divani by Natuzzi* network, *Italsofa* operates 19 stores and 123 galleries, whilst *Natuzzi Editions/Leather Editions* galleries totaled 205 as of March 30, 2012.

The Group's penetration into the Indian market continued in 2011 bringing the total number of the Group's points-of-sale to six as of March 30, 2012, of which five are *Natuzzi* stores and one is an *Italsofa* store. Fourteen *Natuzzi* stores were also opened in China during 2011, bringing the total number of points-of-sale in China to 36 (of which 4 are *Italsofa* stores).

In 2011, 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 Group's future retail strategy will be focused on improving same-store sales, making the existing network more efficient, and continuing expansion where the business model is properly executed and shows greatest potential. The willingness to support all of our partners and our joint efforts in continuously looking for new retail solutions are clearly visible at the Group's headquarters, where three new showrooms have been built (one for each brand, *Natuzzi*, *Italsofa* and *Natuzzi Editions/Leather Editions*) in order to properly test the effectiveness of the Group's retail concept as well as to host all of the visitors during the Retail Congress in an energizing setting.

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

**Product Diversification and Innovation** The Group believes that it is the Italian manufacturing company in the 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.

In 2011, the Group introduced a new innovative material in production under the *Softaly* brand specifically for the North American and the Brazilian markets: Next Leather®. This material is made of genuine leather left-overs, pressed together and adhered to the fabric core. The backside is then bonded with bits and pieces of leather. This type of material can also be referred to as reconstituted leather. Next Leather® is a bonded leather that contains a minimum of 17 percent leather in the product. The above-noted construction meets the United States Federal Trade Commission's definition of bonded leather. The introduction of this material has enabled the Group to enter a new market with very competitive price points. The Group currently produces models composed of a mix of leather and Next Leather® for the North American market and 100% Next Leather® for the Brazilian market.

In order to add to its already vast offerings in upholstered furniture, the Group has begun to invest in its furnishings and accessories offerings.

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. In 2011, the Group also launched a furnishings collection composed of tables and rugs under its Italsofa brand. 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 30, 2012, in addition to the headquarters site, the Group operated six production facilities and three warehouses (one for leather, one for finished goods and one for accessories) in Italy. Four of the facilities are engaged in upholstery cutting and sewing and assembly of finished and semi-finished products, and employed, as of December 31, 2011, 2,019 workers, 31% 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 were created. The industrialization of the prototyped product lines was defined in May 2011, and in December 2011 three new production lines were already completed in a new dedicated plant (located in Iesce, Matera, Italy). These new production lines produce approximately 60% of the Italian production of motion products. We also moved the manufacturing of wooden frames that was originally executed in the production site located in Santeramo in Colle (Ba), Italy, to the Iesce, Matera, Italy, plant, thus further optimizing both productivity and logistics costs through a direct, *in-loco* integration of sofa assembly.



These new Lean Production lines were also implemented in the Company's manufacturing subsidiary located in Romania (4 lines), thus contributing to a marked increase in the productivity level as well as a reduction in industrial costs in this plant. The Group is planning to extend these new production lines on a world-wide basis, through their implementation during the course of 2012 in the Group's manufacturing sites located in China and Brazil, while the existing production lines continue to be developed.

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 .

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 Natuzzi Editions/Leather Editions and 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 56 workers as of December 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 the *Natuzzi Editions/Leather Editions* collections mainly outside of Italy. If orders exceed production capacity at the foreign plants, *Italsofa* products and *Natuzzi Editions/Leather 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 and Romania.

The Chinese plant owned by the Group was subject to an expropriation process by local Chinese authorities since the plant was located on land that was 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 (CNY or RMB, hereafter) 420 million, which is equivalent to approximately 46.7 million based on the Yuan-euro exchange rate as of December 31, 2011. The Company collected the full amount of the indemnity payment from the local Chinese authorities in 2011.

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

Furthermore, in order to minimize the imbalances on production capacity caused by the relocation, a new plant of 15,000 square meters was leased, starting in July 2010. This smaller plant is located 1 kilometer from the new production plant of 88,000 square meters and focuses on sofa sewing and assembly processes. The Group expects that it will not renew the agreement for the leased plant by April 2012, since by that time the new production plant is supposed to be fully operational.

The Group owns two plants in Brazil that, in the past, have been used for the production of furnishings for the Americas region. Due to the appreciation over the past few years of the Brazilian Real 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, which consists primarily of 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, the Group intends 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 Editions/Leather Editions* points-of-sale.

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 of 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, other countries in 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 ten 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.

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 half of 2011, the prices for hides increased. During the second half of 2011 the prices remained substantially stable, with a slow decrease in prices in the last months of 2011. Due to the volatile nature of the hides market, there can be no assurances that any current trend in 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 and 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 *Natuzzi Editions/Leather 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 2011, 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.

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 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 stable level of 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

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 was launched in March 2011 for sales coming from the North American and Asia Pacific markets, under the supervision of a forecast manager and, starting in June 2011, was implemented worldwide. This tool currently supports corporate logistics, operations managers and sales managers in better forecasting the future demand for the Group's products so as to improve the lead time from materials 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 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 uses software designed to minimize total transport costs by taking into account volume and route optimization for customers' orders in defined areas. 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-foot high cube containers, while those produced for the European market are generally delivered by truck and, in some cases, by railway. In 2011, the Group shipped 8,299 containers to overseas countries and approximately 4,358 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 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.

### 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.

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.

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 six 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); sliding furniture, a new category that the Group launched in 2011 which differentiates itself from stationary or motion furniture, with seats that slide forward, allowing the consumer to adjust seat length.

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 four different brands and collections that satisfy different market needs:

- a) **Natuzzi**: an inspirational, middle- to high-end consumer brand, vigorously promoted worldwide as "Made in Italy";
- b) **Italsofa**: a consumer brand that aspires to provide customers with tasteful designs at affordable prices;
- c) **Natuzzi Editions/Leather Editions**: a trademark that leverages on the Group's strength in leather and craftsmanship offering products at the medium- to low-end of the market; and
- d) **Softaly**: a brand that aims to offer the best price at the low-end of the market that satisfies the needs of key accounts under private label.

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 30, 2012, this line of products offered 133 models. Regarding the range of coverings offered, the Natuzzi retail collection has 14 leather articles in 75 colors and 21 fabric articles in 83 colors. In 2011, coffee tables matching the new wall unit furniture were introduced to the Natuzzi collection with vibrant and fresh colors, available in both opaque and shiny lacquer as well as dining tables and chairs designed by *Claudio Bellini*. During the last quarter of 2011, the Group widened its *Natuzzi* collection with products designed in accordance with the Transitional style (a blend of modern and classical styles), targeting mainly the North American market, which were commercialized beginning in the first quarter of 2012. The collection also includes a selection of additional furniture (wall units, tables, lamps, carpets), accessories (pots and candles), and furniture for the dining room (tables, chairs, lamps) to offer complete furnishings with the aim of enabling the Group to become a real Lifestyle Company.

The *Italsofa* collection, which is characterized by a young and vibrant style, in 2011 reinforced its style makeover to differentiate itself from Chinese competitors and the collection was divided into two macro groups: Retail and Wholesale. The Group launched a transformation of the *Italsofa* brand from a wholesale to a retail brand and thus introduced affordable design products. As of March 30, 2012, the *Italsofa* collection consisted of 60 models including exclusive models to key accounts. Regarding the range of coverings offered, the *Italsofa* retail collection has 3 leather products in 24 colors and 5 fabric products in 22 colors.

The Natuzzi Editions/Leather Editions collection, as of March 30, 2012, consisted of 160 models. 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/Leather Editions* offers 13 products in leather available in 65 colors and two products in fabric with 9 colors.

The *Softaly* collection, as of March 30, 2012, is composed of 63 models including exclusive models for key accounts. Apart from the new covering, Next Leather<sup>®</sup>, the *Softaly* brand utilizes the existing covers in production.

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

**Innovation** remains a strategic activity for the Group. An important step in such direction is the 3P Project (Production, Preparation and Process). The 3P Project aims at reaching different goals, such as the reduction in complexity of products, improvement in production efficiency and increase in standardization and cost reduction, through the adoption of an innovative methodology that is specific for the industrialization processes. Such methodology has already been successfully implemented worldwide by different companies that apply the principles of Lean Enterprise and waste-hunting. The 3P Project was put into practice during the first week of July 2011 in one of the Group's plants, Iesce 1, located in Matera (Italy), in cooperation with a consulting company.

Twenty-five professionals of the Company, including managers and employees from the Research & Development (R&D, hereafter), Operations and Human Resources departments, were involved in the 3P Project. During the five days spent in the plant, these people started to set the basis for conceiving a completely new way of designing product.

The objective of the 3P Project was to reduce, through its complete re-engineering, the number of components in one of our armchair models, and consequently reduce its overall production cost. The Company, through the 3P Project, was able to achieve a 46% reduction in the number of components and a 13% reduction in the production costs of that model.

Therefore, considering the encouraging results achieved with the 3P Project, it was recently decided to extend such methodology to some models/versions of the *Softaly* collection as well, through the implementation of the Lean Product Development project, with the aims of reducing waste, focusing on value-added activity, reducing product complexity and increasing efficiency in the production phase, as well as component standardization.

Innovation, quality, cost control and a high level of customer service are at the basis of growth as a strategic priority. Within R&D are major, specific competences. By integrating all company skills, no matter the department they report to, the Group strives to maximize results, thus creating a true empowerment of resource.

In this perspective, the Group believes that the Lean Product Development program is an innovative approach to new product development: it focuses on know-how and technical features that must characterize an area where the ability to innovate is a key factor.

The recently launched Lean Product Development program aims at reaching the above-mentioned ambitious goals, through training sessions, workshops and activities in the field.

Research and development expenses were 7.3 million in 2011, 7.0 million in 2010, and 5.3 million in 2009.



### 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.

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 Retail Department team continues to develop useful sales tools for the market, including manuals and guidelines to be followed when it comes to managing a store and/or a gallery (Store Operations Manual, Visual Merchandising Manual, etc.) 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 in the second half of 2007, the Group has sold its promotional line in China through *Italsofa* stores, of which there were 19 worldwide as of March 30, 2012.

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)

	2011		2010		2009	
<b>Americas<sup>(1)</sup></b>	<b>143.5</b>	<b>33.7%</b>	<b>164.2</b>	<b>35.7%</b>	<b>139.8</b>	<b>31.0%</b>
Natuzzi brand	16.2	3.8%	15.5	3.4%	15.3	3.4%
Other <sup>(2)</sup>	127.3	29.9%	148.7	32.3%	124.5	27.6%
<b>Europe</b>	<b>220.3</b>	<b>51.8%</b>	<b>238.1</b>	<b>51.7%</b>	<b>263.7</b>	<b>58.5%</b>
Natuzzi brand	131.9	31.0%	145.0	31.5%	159.9	35.5%
Other <sup>(2)</sup>	88.4	20.8%	93.1	20.2%	103.8	23.0%
<b>Rest of the world</b>	<b>61.5</b>	<b>14.5%</b>	<b>58.2</b>	<b>12.6%</b>	<b>47.0</b>	<b>10.4%</b>
Natuzzi brand	33.3	7.8%	31.6	6.8%	27.8	6.2%
Other <sup>(2)</sup>	28.2	6.6%	26.6	5.8%	19.2	4.3%
<b>Total</b>	<b>425.3</b>	<b>100.0%</b>	<b>460.5</b>	<b>100.0%</b>	<b>450.6</b>	<b>100.0%</b>

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

<sup>(2)</sup> Starting in 2010, the Other item includes net sales from the *Natuzzi Editions/Leather Editions* and *Italsofa* brands, as well as the *Unbranded* products. Therefore, net sales for the year 2009 have been classified accordingly.

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

	2011		2010		2009	
<b>Americas<sup>(1)</sup></b>	<b>776,171</b>	<b>43.4%</b>	<b>886,471</b>	<b>45.4%</b>	<b>785,156</b>	<b>40.8%</b>
Natuzzi brand	45,777	2.6%	40,112	2.1%	43,520	2.3%
Other <sup>(2)</sup>	730,394	40.9%	846,359	43.3%	741,636	38.6%
<b>Europe</b>	<b>780,791</b>	<b>43.7%</b>	<b>847,451</b>	<b>43.4%</b>	<b>943,103</b>	<b>49.0%</b>
Natuzzi brand	331,983	18.6%	370,626	19.0%	414,876	21.6%
Other <sup>(2)</sup>	448,808	25.1%	476,826	24.4%	528,227	27.5%
<b>Rest of the world</b>	<b>230,858</b>	<b>12.9%</b>	<b>220,670</b>	<b>11.3%</b>	<b>194,961</b>	<b>10.1%</b>
Natuzzi brand	78,787	4.4%	73,050	3.7%	70,855	3.7%
Other <sup>(2)</sup>	152,071	8.5%	147,620	7.6%	124,106	6.5%
<b>Total</b>	<b>1,787,819</b>	<b>100.0%</b>	<b>1,954,592</b>	<b>100.0%</b>	<b>1,923,220</b>	<b>100.0%</b>

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

(2) Starting in 2010, the Other item includes unit data from the Natuzzi Editions/Leather Editions and Italsofa brands, as well as the Unbranded products. Therefore, the number of units sold for the year 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 2011, net sales of leather and fabric-upholstered furniture in the United States and the Americas were 143.5 million, 12.6% less than the 164.2 million reported in 2010, and the number of seats sold decreased by 12.4%, from 886,471 in 2010 to 776,171 in 2011.

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, Canada and Latin America (excluding Brazil) were handled by Natuzzi Americas until June 30, 2010. Starting on July 1, 2010, as a part of a 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 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 30, 2012, the High Point North Carolina operation had 58 employees, 30 independent sales representatives and seven 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. Until the end of the first half of 2011, the representative office in São Paulo, Brazil, was taking care of trademarks and products promotion activities for all markets south of the US-Mexico border. During the second half of 2011, this responsibility moved back to Natuzzi Americas. The São Paulo office, since June 2011, has handled only the Brazilian Market. At March 30, 2012, the commercial office had nine representatives.

A directly owned store operates in New York City under the brand *Natuzzi*. In addition to this store, as of March 30, 2012, there were also eight *Natuzzi* single-brand stores operating in the Americas that are owned by local dealers (one each in the United States, Canada, Panama, Brazil and Venezuela, and three in Mexico). Furthermore, as of the same date, there were four *Italsofa* single-brand stores in Brazil and one in Venezuela.

## **2. Europe.**

During 2011, 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 7.5% in 2011 to 220.3 million (from 238.1 million in 2010), with the number of seats sold decreasing by 7.9%, from 847,451 in 2010 to 780,791 in 2011.

**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 30, 2012 there were 92 *Divani & Divani by Natuzzi* stores and two *Natuzzi* stores located in Italy. The Group directly owns 20 of these stores, including the two stores 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 30, 2012, 112 single-brand stores were operating in Europe: under the *Divani & Divani by Natuzzi* franchise brand, 11 were located in Portugal and two in Greece; one *Italsofa* store was located in Spain; and the remaining 98 were under the *Natuzzi* name (22 in France, 16 in Spain, 11 in Holland, eight each in the United Kingdom and Russia, six in Switzerland, three each in the Czech Republic, Poland and Cyprus, two each in Malta, the Ukraine, Slovenia and Croatia, and one each in Germany, Latvia, Belgium, Denmark, Hungary, Serbia, Bosnia-Herzegovina, Armenia, Greece and Estonia). Of these stores, 28 were directly owned by the Group as of March 30, 2012 and all were operated under the *Natuzzi* name: 16 in Spain, six in Switzerland, five in the United Kingdom, and one in Denmark. Apart from the *Natuzzi* stores, the Group also operates 16 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 the 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 2011, net sales of leather and fabric-upholstered furniture in the Middle East & Africa increased to 15.3 million from 15.1 million in 2010, and the number of seats sold decreased from 58,416 in 2010 to 56,434 in 2011.

## Edgar Filing: NATUZZI S P A - Form 20-F

In January 2012, following the worsening of the European Union's diplomatic relations with Iran and Syria, the Company decided to cease any kind of business relations with these two countries. No impairment issue arose following the interruption of business relations with those two countries.

The tables below summarize the Group's yearly turnover (in thousands of euro) before this decision was taken and the relative percentage of total upholstery net sales for 2010 and 2011 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.

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

2011 Country	Natuzzi brand		Other *		Total 2011	
	Net Sales	%	Net Sales	%	Net Sales	%
IRAN	161.2	0.09%	432.5	0.17%	593.7	0.14%
SUDAN	0.0	0.00%	0.0	0.00%	0.0	0.00%
SYRIA	20.0	0.01%	64.1	0.03%	84.1	0.02%
All Other Countries	176,858.3	99.90%	247,739.2	99.80%	424,597.4	99.84%
<b>Total upholstery net Sales</b>	<b>177,039.4</b>	<b>100.00%</b>	<b>248,235.8</b>	<b>100.00%</b>	<b>425,275.2</b>	<b>100.00%</b>

\* Including *Italsofa* and *Natuzzi Editions/Editions* brands, as well as *Unbranded* products.

Considering that the combined sales for Iran and Syria have never exceeded one-fifth of one-percent of Natuzzi total upholstery net sales, Natuzzi does not believe that its previous activities in and contacts with Iran and Syria constituted a material part of its operations. No turnover has ever been generated in Sudan. Furthermore, the Group does not believe that a reasonable investor would consider Natuzzi's prior 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 was in business with independent Iranian and Syrian dealers that were not controlled by, owned or otherwise related to the governments of Iran or Syria.

As of March 30, 2012, the Group had a total of 16 *Natuzzi* stores in the Middle East & Africa: four in Israel, three each in Turkey and Saudi Arabia, two in the United Arab Emirates, and one each in Egypt, Kuwait, Lebanon and Qatar.

In addition, seven single-brand stores were operating under the brand *Italsofa* in Israel and one in Turkey.

**3b) Asia-Oceania.** In 2011, net sales of leather and fabric-upholstered furniture in the Asia-Oceania region increased to 46.2 million (up from 43.1 million in 2010), and the number of seats sold increased 7.5%, from 162,255 in 2010 to 174,424 in 2011.

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, an agency in South Korea and an agency for Australia and New Zealand. 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 30, 2012, 63 single-brand *Natuzzi* stores were operating in the Asia-Oceania market: 32 in China, 13 in Australia, five each in India and Taiwan, two in Singapore, and one each in the Philippines, New Zealand, Thailand, Malaysia, South Korea and Indonesia. The Group also maintains 17 galleries in the Asia-Oceania region with locations in Japan, New Zealand, Thailand and Indonesia, including a gallery presence in Australia, specifically at seven David Jones department stores.

As of March 30, 2012, there were four *Italsofa* single-branded stores in China and one in India. 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 30, 2012, the Group operates five *Natuzzi* stores and one *Italsofa* store in the Indian market.

**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 Europe, it is now focusing its attention on BRIC countries (Brazil, Russia, India and China) and other developing markets. Sources: CSIL, *Upholstered Furniture: World Market Outlook 2011*, August 2010. The Group intends to continue 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 82% of its sales and obtains credit insurance for almost 89% of this amount; less than 9% of the Group's sales are commonly made to customers on a cash against documents and cash on delivery basis; and lastly, about 9% of the Group's sales are supported by a letter of credit or payment in advance.

#### **Incentive Programs and Tax Benefits**

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

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.

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 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 October 2011, the Italian Ministry of Industrial Activities issued a concession decree reducing the total investment from 3.9 to 1.9 million and, accordingly, capital grants from up to 1.7 million to 0.7 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.

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 also holds a substantial portion of its cash and cash equivalents in currencies other than the euro, including a large amount in RMB received as compensation for the relocation of its Chinese manufacturing plant. 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*, *Leather Editions*, *Natuzzi Editions* and *Softaly* trademarks. These trademarks and certain other trademarks, such as *Divani & Divani* by Natuzzi, have been registered in all those countries in which the Group has a commercial interest, such as Italy, the European Union and elsewhere. In order to protect its investments in new product development, the Group has also undertaken the 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.

#### Description of Properties

The location, approximate size and function of the principal physical properties used by the Group as of December 31, 2011 are set forth below:

Country	Location	Size (approximate square meters)	Function	Production Capacity per day	Unit of Measure
Italy	Santeramo in Colle (BA)	29,000	Headquarters, prototyping, showroom (Owned)	N.A.	N.A.
Italy	Santeramo in Colle, Iesce (BA)	28,000	Sewing and product assembly (Owned)	1,400	Seats
Italy	Matera La Martella	38,000	General warehouse of sofas and accessory furnishing (Owned)	N.A.	N.A.
Italy	Ginosa (TA)	16,000	Sewing and product assembly (Owned)	900	Seats
Italy	Matera Iesce	10,000	Motion product assembly, manufacturing of wooden frames (Owned)	200	Seats
Italy	Laterza (TA)	11,000	Leather cutting (Owned)	7,500	Square Meters
Italy	Laterza (TA)	13,000	Fabric and lining cutting, leather warehouse (Owned)	6,000	Linear Meters
Italy	Laterza (TA)	20,000	Accessory Furnishing Packaging and Warehouse (Owned)	N.A.	N.A.
Italy	Qualiano (NA)	12,000	Polyurethane foam production (Owned)	87	Tons
Italy	Pozzuolo del Friuli (UD)	21,000	Leather dyeing and finishing (Owned)	14,000	Square Meters
U.S.A.	High Point North Carolina	10,000	Office and showroom for Natuzzi Americas (Owned)	N.A.	N.A.
Romania	Baia Mare	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
China	Shanghai	88,000	Leather cutting, sewing and product assembly, manufacturing of wooden frames, polyurethane foam shaping,	3,000	Seats

Edgar Filing: NATUZZI S P A - Form 20-F

			fiberfill production (Leased)			
China	Shanghai		15,000	Sewing and product assembly (Leased)	700	Seats
Brazil	Salvador de Bahia	Bahia	28,700	Leather cutting, sewing and product assembly, manufacturing of wooden frames, polyurethane foam shaping, fiberfill production (Owned)	700	Seats

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 70.0% 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.

### Capital Expenditures

The following table sets forth the Group's capital expenditures for each year for the three-year period ended December 31, 2011:

	Year ending December 31, (millions of Euro)		
	2011	2010	2009
Land and plants	0.9	0.2	0.3
Equipment	18.8	13.8	1.6
Intangible assets	1.3	3.1	6.7
Total	21.0	17.1	8.6

Capital expenditures during the last three years were primarily made to make improvements to property, plant and equipment, for the expansion of the Company's retail network as well as for SAP implementation. In 2011, capital expenditures were primarily made to make improvements at the Group's existing facilities and in particular in order to adequate the new Chinese facility in leasing for the implementation of the production process, to implement a photovoltaic plant in all our Italian production sites, to increase productivity of the facility located in Baia Mare, (Romania), and to implement the SAP system.

The Group expects that capital expenditures in 2012 will be approximately 14 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. The Group expects almost all of the new store and gallery openings to be in the Asia 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 29 to the Consolidated Financial Statements included in Item 18 of this annual report. All information that is not historical in nature and disclosed under Item 5 Operating and Financial Review and Prospects is deemed to be a forward-looking statement. See Item 3. Key Information Forward Looking Information.

### 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 results 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. Actual results could differ from such estimates, due to, among other things, uncertainty, lack or limited availability of information, variations in economic inputs such as prices, costs, and other significant factors including the matters described under Risk Factors.

**Long-lived Assets** Management reviews long-lived assets for impairment whenever changes in circumstances indicate that the carrying amount of the assets may not be recoverable and would record an impairment charge if necessary. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted and discounted net cash flows expected to be generated by the asset and are significantly impacted by estimates of future prices for our products, capital needs, economic trends and other factors. 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. The Company analyzes its overall valuation and performs an impairment analysis of its long-lived assets in accordance with Italian GAAP and U.S. 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).

The fair value analysis of each long-lived asset in use is unique and requires that management use estimates and assumptions that are deemed prudent and reasonable for a particular set of circumstances. 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 cash flows employed in our 2011 undiscounted and discounted cash flow analyses for impairment analysis of long lived assets in use were based on 2012-2014 year financial forecasts developed internally by management.

While management believes its estimates are reasonable, many of these matters involve significant uncertainty, and actual results may differ from the estimates used.

The key inputs that were used in performing the 2011 (2010 only undiscounted cash flow) impairment tests for the long-lived assets are as follow:

Long lived assets (in use) located in	Cash flows	Year Ended Dec. 31, 2011		
		g	WACC	Sales CAGR 2012-14
Italy	Undiscounted	n/a	n/a	n/a
Brazil	Third-party independent appraisal	n/a	n/a	n/a
America	Undiscounted	n/a	n/a	n/a
Spain	Discounted	0.5%	9.75%	11.5%
U.K.	Undiscounted	n/a	n/a	n/a

n/a Not Applicable;

g estimated long term growth rate;

WACC Weighted Average Cost of Capital;

Sales CAGR Sales Cumulative Average Growth Rate

The fair value analysis of each long-lived asset not in use is determined by means of third party independent appraisal.

For a discussion of the differences between Italian GAAP and U.S. GAAP with respect to the above impairment analysis and the effect on net loss and shareholders' equity as of December 31, 2011, please see Note 29(g) of the Consolidated Financial Statements included in item 18 of this annual report.

**Goodwill and intangible assets** Management tests goodwill and intangible assets for impairment by reporting unit at least once a year or whenever the events or changes in circumstances indicate that the carrying amount of goodwill and intangible assets may be not recoverable.

The Company analyzes its overall valuation and performed the impairment analysis of its goodwill and intangible assets in accordance with Italian and U.S. GAAP. Under Italian GAAP the Company amortizes the goodwill and intangible assets arising from business acquisition on a straight-line basis over a period of five years. Under U.S. GAAP goodwill and intangible assets are not amortized but annually tested for impairment.

For a discussion of the differences between Italian GAAP and U.S. GAAP with respect to the above impairment analysis and the effect on net loss and shareholders' equity as of December 31, 2011, please see Note 29(d) of the Consolidated Financial Statements included in item 18 of this annual report.

The fair value as of December 31, 2011 was determined based on Discounted Cash analyses, which require significant assumptions and estimates about the future operations of the reporting unit. Significant judgments inherent in this analysis include the determination of appropriate discount rates, the amount and timing of expected future cash flows and growth rates. The cash flows employed in our 2011 discounted cash flow analyses were based on 2012-2014 year financial forecasts developed internally by management for the Italian retail owned stores. The credit crisis experienced in Italy during 2011, negatively impacted the Company's results and management's expectations for the Italian market where private consumption remains weak. In addition, in 2011, the Italian Government passed significant tax, social security, and other extraordinary measures in order to meet the European Commission and European Financial Stability Facility requirements. Such measures were recognized by the International community as a positive step in the right direction, but also resulted in a negative impact in the medium to short-term growth expectation of consumer demand and the overall market recovery. The key inputs used in performing the impairment test of Italian retail owned stores relate to an estimated long term growth rate of 0.5% (1% in 2010), a weighted average cost of capital equal to 9.67% (9.91% in 2010), and an estimated average growth rate in sales of 4.2% (6% in 2010) for the subsequent years.

The lower growth rates used in the 2011 analysis reflect the difficult economic outlook in the key markets in which we operate. See Trend Information below. Although management believes its estimates are reasonable, actual results may differ, and future downward revisions to management's estimates, if any, may result in further charges in future periods.

Furthermore, the Company would like to highlight that the net book value of goodwill (net of impairment charge) as of December 31, 2011 under Italian GAAP and U.S. GAAP was 0.06% and 0.05% of total assets, respectively (see notes 11 and 29(d) of the Consolidated Financial Statements included in item 18 of this annual report).

**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. Estimating future taxable income requires estimates about matters that are inherently certain and requires significant management judgment, and different estimates can have a significant impact on the outcome of the analysis.

In 2011, because most of the Italian and foreign subsidiaries realized significant pre-tax losses and were in a cumulative loss position, 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 16 to the Consolidated Financial Statements included in Item 18 of this annual report). In making its determination that a valuation allowance was required, management considered the scheduled reversal of deferred tax liabilities and tax planning strategies but did not identify any relevant tax planning strategies available to reduce the need for a valuation allowance.

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.

**One-time termination benefits** In September 2011, the Company renewed its agreement with the Trade Unions to participate in a temporary workforce reduction program for 24 months beginning on October 16, 2011 (provided for under Italian law July, 23 1991 n. 223 e D.M. August 20, 2002 n. 31444) pursuant to a special Social Security procedure known as CIGS - *Cassa Integrazione Guadagni Straordinaria*. The average number of employees involved in the CIGS program within the Group's Italian facilities for the 2011-2013 period is 1,273 and such employees are currently employed in the Italian headquarters and production sites. In October 2011, the Italian Ministry of Labor accepted the above request, and admitted the Company to a 24-month lay-off period, in order to support the reorganization process of the Company that assumes a surplus of 1,060 employees at the end of the lay-off period (October 15, 2013).

Further to agreement that was entered into between the Company and the trade unions, the Company believes that upon expiration of the above-mentioned unemployment benefits in 2013, an agreement will be likely reached with the trade union providing for a one-time termination benefit to each employee to be laid off based on the social contribution set in Italy for staff mobility procedures.

Pursuant to the above-mentioned agreement, as of December 31, 2011, the Company, accrued a one-time termination benefits reserve with an accrual of 5.4 million (for the 1,060 employees to be dismissed) recorded as a non-operating expense, under the line other income/(expense) net of the consolidated statement of operations for the year ended December 31, 2011.

In accordance with Italian GAAP this cost has been recognized in 2011 as in such year the Company has formally decided to adopt the termination plan (approved by the Company's board of directors) and is able to reasonably estimate the related one-time termination benefits. On or before December 31, 2011 the Company did not make any official announcement or notification to the terminated employees in connection with the work termination plan and the one-time termination benefits. Under Italian GAAP for the recognition of the cost for the termination benefits related to the terminated workers the communication or announcement to third parties of the plan of termination of workers is not relevant.

Although management believes its estimates of the one-time termination benefits are reasonable, different assumptions regarding the number of employees to be laid off, the outcome of the negotiations with the trade unions, and other factors, could lead to different conclusions, which could have a significant impact on the figures determined.

Under U.S. GAAP, considering the guidance of ASC 420, the one-time termination benefits has to be recorded in the consolidated statement of operations when the termination plan is communicated to the employees and meets all the criteria indicated in paragraph 420-10-25-4. Therefore, under U.S. GAAP the cost of the one-time termination benefits was reversed out of the consolidated statement of operations for the year ended December 31, 2011.

**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 collectability 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 the customer generally occurs within one to six weeks from the time of shipment. The Group's revenue recognition under Italian GAAP is at variance with U.S. GAAP. For a discussion of revenue recognition under U.S. GAAP, see Note 29(c) to the Consolidated Financial Statements included in Item 18 of this annual report.

### Results of Operations

**Summary** In 2011, the Group had net losses of 19.6 million, which increased compared to net losses of 11.1 million in 2010; Group net sales decreased by 6.2%, from 518.6 million in 2010 to 486.3 million in 2011, due primarily to a decrease of 8.5% in seats sold, as compared to 2010. In 2011, net sales of Natuzzi branded products, which target the high-end of the market, decreased by 5.6% to 181.4 million (from 192.1 million in 2010), with the number of Natuzzi-branded seats sold decreasing by 5.6% as compared to 2010. Net sales of the Natuzzi Editions/Edizioni, Italsofa brand and Unbranded products decreased by 9.1% in 2011, to 243.9 million from 268.4 million in 2010, with the number of seats sold decreasing by 9.5%.

The Group's negative performance in 2011 was principally due to a decrease in the sales volume of *Natuzzi*-branded products. 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 decrease in net sales volume of our products, the increase of raw materials costs and unfavorable trends of currency exchange rates, and the effect of the relocation of the manufacturing facilities in China, which had low operating efficiency, the Group reported an operating loss in 2011. Despite these negative performances the net financial position improved due to Chinese relocation compensation collected during the year.

Despite these challenges, the Group continued to invest in the repositioning of the *Natuzzi* brand and the reorganization of its sales activities in 2011, as well as in the ongoing restructuring of its operations, with the aim of regaining its competitiveness and ensuring its long-term profitability.

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,		
	2011	2010	2009
Net sales	100.0%	100.0%	100.0%
Cost of sales	67.0	62.0	64.0
Gross profit	33.0	38.0	36.0
Selling expenses	29.7	29.7	29.0
General and administrative expenses	8.9	8.2	9.0
Operating margin	(5.6)	0.1	(2.0)
Other income (expense), net	3.6	(0.8)	0.6
Income taxes	1.8	1.4	1.9
Net loss	(4.0)	(2.1)	(3.3)



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, 2009, 2010 and 2011.

### 2011 Compared to 2010

**Net Sales** for 2011, 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 6.6% to 486.3 million, as compared to 518.6 million in 2010.

Net sales for 2011 of leather and fabric-upholstered furniture decreased 7.66% to 425.3 million, as compared to 460.5 million in 2010. The 7.66% decrease was due to a combination of factors, principally a 8.53% decrease in the number of seats sold. Net sales of *Natuzzi*-branded furniture accounted for 42.7% of our total furniture net sales in 2011 (as compared to 41.7% in 2010), and net sales of *Natuzzi Editions/Editions*, *Italsofa* brand and *Softaly* products accounted for 57.3% of our total net sales for 2011 (as compared to 58.3% in 2010).

Net sales for 2011 of leather upholstered furniture decreased 6.5% to 403.0 million, as compared to 431.1 million in 2010, and net sales for 2011 of fabric upholstered furniture decreased 24.5% to 22.2 million, as compared to 29.4 million in 2010.

In the Americas, net sales of upholstered furniture in 2011 decreased by 12.6% to 143.5 million, as compared to 164.2 million in 2010, and seats sold decreased by 19.1% to 716,920, as compared to 886,471 in 2010. Net sales of *Natuzzi Editions/Editions*, *Italsofa* brand and *Softaly* products decreased 14.4% compared to 2010, while net sales of the higher-priced *Natuzzi*-branded furniture increased 4.4% as compared to 2010. In Europe, net sales of upholstered furniture in 2011 decreased 15.9% to 220.2 million, as compared to 238.1 million in 2010, due to the combined effect of a 10.1% decrease in net sales of *Natuzzi*-branded furniture and to a 3.7% decrease in net sales of *Natuzzi Editions/Editions*, *Italsofa* brand and *Softaly* products. In the Rest of the World, net sales of upholstered furniture increased 5.4% to 61.5 million, as compared to 58.2 million in 2010.

Net sales for 2011 of the *Natuzzi*-branded furniture decreased 7.8% to 177.1 million, as compared to 192.1 million in 2010, with the number of *Natuzzi*-branded seats sold decreasing by 7.9%. During 2011, net sales of *Natuzzi Editions/Editions*, *Italsofa* brand and *Softaly* products increased 6.2% to 243.9 million, as compared to 268.4 million in 2010, with the number seats sold increasing by 3.0%.

In 2011, total seats sold increased 9.3% to 1,787,819 from 1,954,592 sold in 2010. Negative performance was recorded in the Europe region (down 8.5% to 780,791 seats) and in the Americas region (down 14.2% to 776,171 seats), whereas the Group had negative results in the Rest of the World (up 4.4% to 230,858 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 Australia (-23.8%), Chile (-42.0%), Spain (-18.8%), France (-13.2%), United Kingdom (-10.5%), Italy (-12.3%), the Netherlands (-4.1%), Switzerland (-8.6%), Ireland (-29.3%), Portugal (-32.6%), Denmark (-27.8%), and Belgium (-26.7%). Positive results were reported in the United States (+8.11%), Canada (4.5%), Korea (+7.5%), Germany (+2.9%), China (+39.0%), Mexico (+59.1%), Taiwan (+7.8%), and UAE (+3.1%).

**- Natuzzi Editions/Editions, Italsofa brand and Softaly products.** The Group recorded a decrease in terms of seats sold in many countries, among which were Saudi Arabia (-20.7%), United States (-21.2%), Canada (-12.2), Israel (-15.0%), Spain (-21.8%) Belgium (-20.2%), France (-17.6%), United Kingdom (-14.6%), Holland (-12.3%), Portugal (-58.1) and Sweden (-9.6%). Positive results were reported in Germany (+30.0%), Korea (+20.2%), Japan (+6.6%), India (+44.0%) and China (+11.1%).

**Other Net Sales** (principally sales of polyurethane foam and leather sold to third parties, as well as of accessories) increased 5.1% to 61.1 million, as compared to 58.1 million in 2010.

**Cost of Sales** in 2011 increased in absolute terms by 14.2% to 326.1 million (representing 67.0% of net sales), as compared to 321.5 million (or 62.0% of net sales) in 2010. The increase in cost of sales as a percentage of sales primarily reflects higher raw material costs, particularly of leather, and a negative sales mix. Labor costs also increased as a percentage of sales, reflecting higher salaries in China, Romania and Italy, and to a lesser extent Brazil, as well as the effect of a temporary shift of production from China to Italy during the relocation of our Chinese plant. Other manufacturing costs also increased as a percentage of sales reflecting lower sales and the new plant in China.

**Gross Profit.** The Group's gross profit decreased 18.7% in 2011 to 160.3 million (33.0% of net sales), as compared to 197.1 million in 2010 (38.0% of net sales) as a result of the factors described above.

**Selling Expenses** decreased 6.5% in 2011 to 144.3 million, as compared to 154.3 million in 2010, and, as a percentage of net sales, remained at the same level as in 2010 (+29.7%). The stable performance as a percentage of sales primarily reflects a reduction in transportation costs and lower commissions and advertising expenses.

**General and Administrative Expenses.** In 2011, the Group's general and administrative expenses decreased by 0.02% to 43.3 million, from 42.4 million in 2010, and, as a percentage of net sales, increased from 8.2% in 2010 to 8.9% in 2011. The percentage increase is linked to the net sales decrease.

**Operating Income (Loss).** Reflecting the above factors, the Group had an operating loss of 27.3 million for 2011, as compared to operating income of 0.4 million in 2010.

**Other Income (expenses), net.** The Group registered other income, net, of 17.3 million in 2011 as compared to other expenses, net of 4.4 million in 2010.

Under the line other income/(expense) net of the consolidated statement of operations for the year ended December 31, 2011 the Chinese relocation effects was recorded as compensation amount of 46.7 million (equal to RMB 420 million) and write-off of 18.4 million (equivalent to RMB 165 million) of all fixed assets owned by Italsofa Shanghai that were not transferred in the new industrial site (the industrial building and some machines and equipments). In addition the Chinese subsidiary recorded other extraordinary expenses for employees compensation and fees of 3.2 million (equivalent to RMB 28 million).

The Company has also recorded an impairment loss of 1.0 million under the line other income (expense) on the plant located in Brazil in Pojuca-State of Bahia and based on the annual impairment analysis with a third-party independent appraisals.

The Company, at December 2011, increased the One-time termination benefits reserve with an accrual of 5.5 million (for the 1,060 employees to be dismissed) recorded as a non operating expense, under the line other income/(expense) net of the consolidated statement, based on the new restructuring program signed with the Trade Unions, in order to support the reorganization process of the Company, that assumes a surplus of 1,060 employees at the end of the lay-off period (October 15, 2013).

Net interest expenses, included in other expense, net, in 2011 was 0.5 million, as compared to net expenses of 1.0 million in 2010. See Note 26 to the Consolidated Financial Statements included in Item 18 of this annual report.

The Group registered a 0.5 million foreign-exchange net gain in 2011 (included in other income (expense), net), as compared to a net gain of 1.0 million in 2010. The foreign exchange gain in 2011 primarily reflected the following factors:

a net realized gain of 1.9 million in 2011 (as compared to a net realized loss of 3.1 million from 2010) 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 unfavorable exchange rate variations);

a net realized loss of 1.2 million in 2011 (compared to a gain of 6.8 million in 2010), from the difference between invoice exchange rates and collection/payment exchange rates;

a net unrealized gain of 0.4 million in 2011 (compared to an unrealized gain of 1.8 million in 2010) on accounts receivable and payable; and

a net unrealized loss of 0.6 million in 2011 (compared to an unrealized loss of 0.8 million in 2010), from the mark-to-market of domestic currency swaps.

The Group also recorded other expenses, included in other income (expense), net, in 2011 of 17.4 million, compared to other expenses of 4.5 million reported in 2010. These expenses reflected the following factors:

a 2.5 million contingent-liabilities provision for estimated losses related to some claims (including tax claims) and legal actions in 2011, while in 2010, the provisions for contingent liabilities amounted to 3.8 million;

other expenses of 0.3 million deriving from the write-off of fixed assets in 2011, while in 2010, the other expenses deriving from the write off of fixed assets amounted to 0.5 million;

1.5 million as other expense, net in 2011, compared to other income, net of 0.2 million in 2010.

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 2011, the Group had an effective tax rate of 88.9% on its losses before taxes and non-controlling interests, compared to the Group's effective tax rate of 172.5% reported in 2010.

For the Group's Italian companies the effective tax rate (*i.e.*, the obligation to accrue taxes despite reporting a loss before taxes) was, in part, due to the regional tax known as *Irap* (*Imposta regionale sulle attività produttive*; see Note 16 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 2011, most Italian companies within the Group reported losses but had to pay *Irap*.

In 2011, the Group's effective income tax rate was also negatively affected by a considerable increase in the non-current deferred tax assets valuation allowance. In 2011, because most of the Italian and foreign subsidiaries realized significant pre-tax losses and were in a cumulative loss position, 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 16 to the Consolidated Financial Statements included in Item 18 of this annual report).

**Net Loss.** Reflecting the factors above, the Group reported a net loss of 19.6 million in 2011, as compared to a net loss of 11.1 million in 2010. On a per-Ordinary Share, or per-ADS basis, the Group had net losses of 0.36 in 2011, as compared to net losses of 0.20 in 2010.

As disclosed in Note 29 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 13.1 million, 8.9 million and 25.9 million in 2011, 2010 and 2009, respectively, compared to net losses of 19.6 million, 11.1 million and 17.7 million in 2011, 2010 and 2009, respectively under Italian GAAP.

#### 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/Edizioni, *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 139.8 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/Edizioni, *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/Edizioni, *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 26 to the Consolidated Financial Statements included in Item 18 of this annual report.

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 unfavorable 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 17.7 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 29 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.

### Liquidity and Capital Resources

In the ordinary course of business, our principal uses of funds are for the payment of operating expenses, working capital requirements, capital expenditures and restructuring of operations. The Group's principal source of liquidity has historically been its existing cash and cash equivalents and cash flow from operations, supplemented to the extent needed to meet the Group's short term cash requirements by accessing the Group's existing lines of credit. Management believes that the Group's working capital is sufficient for its present requirements.

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 2012 and are committed to execute only those projects that are necessary for business operations.

As of December 31, 2011, the Group had cash and cash equivalents on hand of 94.0 million, and available unsecured lines of credit for cash disbursements totaling 51.7 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 12.7 million (see Note 13 to the Consolidated Financial Statements included in Item 18 of this annual report) as of December 31, 2011. At December 31, 2011, we had 24.2 million in bank overdrafts outstanding. 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. If these lines of credit are terminated on short notice, we would need to find alternative sources of liquidity or refinance these amounts on short notice, which could be difficult to do on favorable terms. See Item 3 Key Information Risk Factors. The Group's borrowing needs generally are not subject to significant seasonal fluctuations.

Although we had 94.0 million in cash and cash equivalents on hand at December 31, 2011, a substantial portion of this amount consists of the unused portion of the relocation compensation payment received in connection with our Chinese plant in 2011. To the extent management intends to move them from China by a dividend distribution, a withholding tax of 10% would have to be paid.

### **Cash Flows**

The Group's cash and cash equivalents were 94.0 million as of December 31, 2011, as compared to 61.1 million as of December 31, 2010. The most significant changes in the Group's cash flows between 2010 and 2011 are described below.

Cash flow used by operating activities was -19.9 million in 2011, as compared to cash flow generated in operations of 2.4 million in 2010.

As at December 31, 2011, we had a general increase in inventory level of 6.2 million in comparison with December 31, 2010, due mostly to the increase of the leather prices occurred during 2011.

Net cash generated from investment activities in 2011 were 28.1 million. The increase in cash generated by investment activities in 2011 was primarily due to receipt of 46.7 million relocation compensation payment from the local Chinese authority, partially offset by higher capital expenditures.

In 2011, the main investments carried out by the Group were related primarily to adapting the structure of the Group's leased 88,000 square meter plant in China to its operational needs. See Item 3. Key Information Risk Factors Introduction of a new integrated management system.

Cash generated by financing activities in 2011 totalled 23.2 million, as compared to 7.8 million of cash generated by financing activities in 2010 are mainly due to the increase in short term borrowings.



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. Moreover, management highlights that the Group's cash liquidity is sufficient for its normal course of business, even if most of the cash is mainly in China and in case management intends to move it from China by means of a dividend distribution, a withholding tax of 10% has to be paid according to the Chinese law currently in force. However, the Company's management currently does not intend to move such money from China, because it plans to carry out investments at manufacturing and retail distribution level in order to increase its retail presence in the local market.

As of December 31, 2011, the Group's long-term contractual cash obligations amounted to 118.6 million of which 17.3 million comes due in 2012 ( 18.7 million in 2011). 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, 2011 and 2010 (see Note 18 to the Consolidated Financial Statements included in Item 18 of this annual report). As of December 31, 2011 and 2010 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, 2011, the Group's long-term debt consisted of 14.5 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 24.2 million outstanding under its existing lines of credit, comprised entirely of bank overdrafts. This compares to 15.4 million of long-term debt as of December 31, 2010.

As of December 31, 2011, 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 21.0% 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 1.91% on the Group's overdraft borrowing as of December 31, 2011, compared to 1.27% as of December 31, 2010. 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, Chinese Yuan, U.S. dollars, euro, New Romanian Leu, British pounds and Canadian dollars.

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, 2011:

Contractual Obligations	Payments Due by Period (thousands of euro)				
	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Long-term debt	14,523	3,735	6,774	3,125	889
Bank overdrafts	24,157	24,157			
Total Debt <sup>(1)</sup>	38,680	27,892	6,774	3,125	889
Interest due on Total Debt <sup>(2)</sup>	1,158	635	353	152	18
Operating Leases <sup>(3)</sup>	118,616	17,330	34,769	36,244	30,272
Total Contractual Cash Obligations	158,454	45,857	41,896	39,521	31,179

<sup>(1)</sup> Please see Note 18 to the Consolidated Financial Statements included in Item 18 of this annual report for more information on the Group's long-term debt. See Notes 13 and 18 of the Consolidated Financial Statements included in Item 18 of this annual report on Form 20-F.

<sup>(2)</sup> Interest due on Total debt has been calculated using rates contractually agreed with lenders

<sup>(3)</sup> 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, 2011, the Group had accrued an aggregate employee termination indemnity of 26.7 million. In addition, as of December 31, 2011, the Company had accrued a sales agent termination indemnity of 1.2 million and a one-time termination indemnity benefit of 6.7 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(o) and 19 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.

On September, 2011 the Company and the Trade Unions submitted a request to the Italian Ministry of Labor to access for 24 months (starting from October 16, 2011) to the unemployment benefits (Italian law July, 23 1991 n. 223 e D.M. August 20, 2002 n. 31444) granted by a special Social Security procedure called CIGS - Cassa Integrazione Guadagni Straordinaria. The average number of positions involved in the CIGS program within the Group's Italian facilities for the 2011-2013 period is 1,273 and are currently employed in the Italian headquarters and production sites. On October, 2011 the Italian Ministry of Labor accepted the above request, and admitted the Company to a 24-month layoff period, in order to support the reorganization process of the Company that assumes a surplus of 1,060 employees at the end of the lay-off period (October 15, 2013). Based on the above-mentioned agreement, the Company, during the 24 months layoff period, has a formal commitment to make investments (equipment related to the production activities; marketing, sales and distribution network development; research and development; patents; trademarks; training requalification) for a total amount of 25.0 million. These amounts are not reflected in the table above because it is not possible to determine when this investment will be carried out.

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, 2011, the Group had accrued provisions relating to these contingent liabilities in the amount of 12.2 million. See Item 8. Financial Information Legal and Governmental Proceedings and Notes 19 and 26 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 2012. Looking ahead, the economic correction phase is still underway and the austerity measures being implemented by some governments in developed countries are expected to further depress overall growth in those markets. Due to persistent sovereign debt-related difficulties, particularly in the Euro area, the continuing weakness in the real estate and job markets, and continuing uncertainty regarding the management of public finance in the United States, the growth prospects for 2012 have weakened. Furthermore, the socio-political developments in the Middle East, and their related worldwide repercussions, add further uncertainty to the global economic outlook, making it difficult to clearly understand the direction that certain markets in which the Company operates will take.

In light of this uncertain situation, the Company plans to continue to improve its efficiency by controlling costs, to fight counterfeiting and unfair competition, to encourage innovation, to improve quality and, above all, to strive to regain its competitiveness and profitability.

#### **Off-Balance Sheet Arrangements**

As of December 31, 2011, neither Natuzzi S.p.A. nor any of its subsidiaries was a party to any off-balance sheet arrangements.

#### **Related Party Transactions**

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

#### **New Accounting Standards under Italian and U.S. GAAP**

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

---

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

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

Presentation of Comprehensive Income (Topic 220) , which revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in ASC 220, Comprehensive income , and requires entities to report components of comprehensive income in either (i) a continuous statement of comprehensive income or (ii) two separate but consecutive statements. Under the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income. The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this ASU should be applied retrospectively and they are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The provisions of ASU 2011-05 are not expected to have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about offsetting Assets and Liabilities . The objective of this update is to provide enhanced disclosures that will enable financial statements users to evaluate the effect or potential effect of netting arrangements on an entity's financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities within the scope of this ASU. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. The amendments in this update are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The provisions of ASU 2011-11 are not expected to have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standard Update No 2011-05 . The amendments in this ASU supersede certain pending paragraphs in ASU 2011-05, to effectively defer the requirement that companies present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements. Companies are still required to present reclassifications out of accumulated other comprehensive income on the face of the financial statements or disclose those amounts in the notes to the financial statements. The provisions of ASU 2011-12 are not expected to have a material impact on the Company's consolidated financial statements.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

The Board of Directors of Natuzzi S.p.A. currently consists of nine members, whose term will expire on the date in which the shareholders meeting will approve the financial statements for fiscal year 2013. The directors and senior executive officers of the Company as of March 30, 2012, were as follows:

<b>Name</b>	<b>Age</b>	<b>Position with the Company</b>
Pasquale Natuzzi *	71	Chairman of the Board of Directors, Chief Executive Officer & <i>ad interim</i> Chief Commercial Officer EMEA
Antonia Isabella Perrone *	41	Director
Annamaria Natuzzi *	44	Director
Giuseppe Antonio D Angelo *	45	Outside Director
Maurizia Iachino Leto di Priolo *	61	Outside Director
Giuseppe Desantis*	49	Outside Director
Pietro Scott Jovane*	42	Outside Director
Giuseppe Marino*	46	Outside Director
Andrea Martinelli*	64	Outside Director
Vittorio Notarpietro	48	Chief Financial Officer
Fernando Rizzo	47	Chief Human Resources and Organization Officer
Antonio Cavallera	32	Chief Strategic Program Management Officer
Giuseppe Cacciapaglia	43	Chief Internal Control Systems Officer
Giambattista Massaro	49	Chief Operating Officer
Stefano Sette	43	Chief Strategic Style & Product Officer
Giacomo Ventolone	44	Chief Strategic Marketing & Communications Officer
Angelo Colacicco	42	Chief Information Officer
Massimiliano Quatraro	37	Chief Legal & Corporate Affairs Officer
Simon Hughes	51	Chief Commercial Officer Asia Pacific
Joe Mussallem	43	Chief Commercial Officer Americas
Giuseppe Vito Stano	53	Chief Worldwide Softaly Division
Giuseppe Pellegrino	50	Chief Commercial Officer Brazil

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

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

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

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

**Giuseppe Antonio D Angelo** is an Outside Director of the Company and is currently Executive Vice President of Anglo-America Regions with Ferrero International SA. Before joining Ferrero in 2009, he acquired significant international experience in general management of multinational companies such as General Mills (from 1997 to 2009), S.C. Johnson & Son (from 1991 to 1997) and Procter & Gamble (from 1989 to 1991). Mr. D Angelo earned his Bachelor's of Arts degree in Economics from LUISS University of Rome in 1988. He received certification from Harvard Business School in the Advanced Management Program in 2004.

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

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

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

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

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

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

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

**Antonio Cavallera** is the Chief Strategic Program Management Officer of the Company. He joined the Company in December 2005 and covered roles of increasing responsibility in the HR & Organization Department. From November 2010 to August 2011 he was Corporate & Commercial HR Manager and from June 2009 to November 2010 as Commercial HR Manager. He has also served as Training & Change Management Manager from July 2008 to June 2009 and HR Retail Specialist from September 2006 to June 2009.

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

**Giambattista Massaro** is the Chief Operating Officer. He was from January 2010 to December 2011 Chief Procurement Officer. He returned to the Company in January 2010 after his service as CEO of Ixina Italy S.r.l. Snaidero Group from 2007 to 2009. From 1993 to 2007, he was General Manager of Purchasing, Logistics and Overseas Operation and a member of the Board of Directors of the Group. From 1992 to 1993, he was Assistant to Mr. Natuzzi, and from 1990 to 1992, he was Pricing and Costs Manager. He joined the Company in 1987 as a buyer. He also previously served as Chairman of Natco S.p.A., Natuzzi Trade Service S.r.l. and Lagene as well as Director of Italsofa Bahia Ltda., Italsofa Romania S.r.l. and Natuzzi Asia Ltd.

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

**Giacomo Ventolone** is the Chief Strategic Marketing & Communications Officer. He was from April 2010 to September 2011 the Chief Institutional Relations & Corporate Communication Officer. He worked in the US market as Brand Manager for Natuzzi Italy from December 2009 to March 2010. From January 2009 to December 2009, he was Regional Vice President for Latin America. He joined the company in 1997 and eventually served as Corporate and Internal Communication Manager from February 2004 to March 2007, and Communications Director from March 2007 to December 2008. Mr. Ventolone began his career as a freelancer with *Pryngeps Gallery* from 1992 to 1995, where he was responsible for the creation of communication tools for the industry. From 1995 to 1997, he worked in marketing and sales at *De Agostini Diffusione del Libro*.

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

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

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



**Joseph Mussallem** is the Chief Commercial Officer Americas of the Company (except for Brazil). Starting in 2010 he was appointed as President & CEO of Natuzzi Americas. After beginning his furniture career within Retail Management at Harlem Furniture Chicago, he joined the Natuzzi Group covering various roles of increasing responsibility within Natuzzi Americas. From 1992 to 2001, he was sales representative in the United States Midwest region and, from 2001 to 2008, was Product Manager for the Americas. From 2009 to 2010, he was Senior Vice President of *Natuzzi Editions* and *Softaly* brands and national accounts, being directly responsible for 5 major accounts representing approximately 50% of the turnover of Natuzzi Americas.

**Giuseppe Vito Stano** is the Chief Worldwide *Softaly* Division Officer. From May 2011 to December 2012, he was regional manager of *Natuzzi* and *Italsofa* EMEA and India, and from April 2010 to May 2011 he was regional manager for Western and Southern Europe and the Middle East. Prior thereto, he was the *Italsofa* brand Manager of the Group from November 2008 to December 2009. He developed his professional career as the Key Global Account Management Vice President after being Sales Administration Director of the Company since 1991. He was also a Director of Natuzzi Americas, Inc. From 1986 to 1991, he was Executive Vice President of Natuzzi Upholstery Inc. (currently Natuzzi Americas, Inc.) in the United States. Prior to that, he was Assistant Vice President of Natuzzi Upholstery Inc. He joined the Group in 1980, as a staff member of the Company's Export Department.

**Giuseppe Pellegrino** is the Chief Commercial Officer Brazil. He rejoined the Company in March 2011. From January 1987 to January 2000 he covered roles of increasingly responsibility in the sales area as Area Manager Europa and Regional Manager Europa in the Group. From April to November 2000 he was worldwide commercial director in *Incanto Divani S.p.A.* He also worked as Commercial Director in many upholstery companies, such as *Biflex S.p.A.*, *Max Divani S.p.A.*, *Contempo S.p.A.* and *News S.r.l.*

### Compensation of Directors and Officers

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

Aggregate compensation paid by the Group to the directors and officers was approximately 2.7 million in 2011. The compensation paid in 2011 to the members of the Board of Directors is set forth below individually:

Name	Base Compensation
Pasquale Natuzzi	221,674
Antonia Isabella Perrone	35,343
Annamaria Natuzzi	35,343
Giuseppe Antonio D'Angelo	35,343
Maurizia Iachino Leto di Priolo	35,343
Giuseppe De Santis	22,266
Pietro Scott Iovane	22,266
Giuseppe Marino	20,800
Andrea Martinelli	20,000

In 2011 a new management incentive system called Management By Process and Objectives ( MBPO ) was implemented with the aim of motivating, in the short-term, all of the beneficiaries to the achievement of strategic outcomes, such as, competitiveness, quality and innovation, customer satisfaction, profitability, brand support and social mission.

In order to protect the interests of the shareholders of the Company, the MBPO system is based on an on/off switch formula that contemplates, as a necessary condition to trigger the liquidation of 2011 MBPO, the achievement of the Company's operating profit goal, including the cost of the new incentive system.

#### Statutory Auditors

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

Name	Position
Carlo Gatto	Chairman
Gianvito Giannelli	Member
Cataldo Sferra	Member
Costante Leone	Alternate
Giuseppe Pio Macario	Alternate

During 2011, the statutory auditors of the Group received approximately 142,300 in compensation in the aggregate for their services to the Company and its Italian subsidiaries.

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

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

#### External Auditors

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

### Employees

As of December 31, 2011, the Group had 6,680 employees (of which 3,233 were located in Italy and 3,447 were located abroad), as compared to 6,766 on December 31, 2010.

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

Qualification	2011	2010	Change between 2010 and 2011
Top managers	62	57	5
Middle managers	127	121	6
Clerks	1,206	1,234	-28
Blue collars	5,270	5,354	-84
<b>Total</b>	<b>6,665</b>	<b>6,766</b>	<b>-101</b>

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

Italian law provides that, upon termination of employment for whatever reason, employees located in Italy are entitled to receive certain severance payments based on the length of employment. As of December 31, 2011, the Company had 26.7 million reserved for such termination indemnities, with such reserves being equal to the amounts, calculated on a percentage basis, required by Italian law.

As a result of the credit crisis and economic downturn in 2008 that negatively affected order flows and the Group's sales numbers, the Company launched an industrial restructuring program in late 2008 in order to increase productivity while improving product quality. This restructuring program was based on the *Cassa Integrazione Guadagni Straordinaria* (or CIGS), an Italian temporary lay-off program, and it involved on average 1,273 workers in the Group's Italian facilities in 2008 and 2009. The extraordinary and temporary lay-off program was extended for several periods by the Ministry of Labor, and expired on October 15, 2011.

Due to persistently difficult business conditions that continued to negatively affect the Group's order flow also in 2011, the Company entered into an important agreement with the Italian trade unions and the Ministry of Labor on September 22, 2011, to improve production efficiency by rationalizing the Group's production and services organizations in Italy. This restructuring program, based on the *Cassa Integrazione Guadagni Straordinaria per riorganizzazione* (or CIGS in connection with restructuring), is set to expire on October 15, 2013. The average number of positions involved in the CIGS program within the Group's Italian facilities for the 2011-2013 period is 1,273.

According to the CIGS restructuring program, the Company expects at the end of the two-year plan a redundancy of about 1,060 workers for whom the Company has provided the following management tools:

1. Resignation of workers on a voluntary basis and with the incentive of approximately 13,000.00, before tax, paid by the Company, in accordance with Italian law currently in force;
2. Resignation of workers on a voluntary basis having only a few years left to retirement. The relevant social security contributions still to be paid will be granted by the Italian Government;
3. Support to self-employment plans;
4. Relocation plan of some employees within different corporate areas;
5. Outplacement.

Based on the above-mentioned agreement, the Company, as of December 2011, increased the one-time termination benefits reserve with an accrual of 5.5 million (for the 1,060 employees to be dismissed) recorded as a non-operating expense, under the line other income/(expense) net of the consolidated statement of operations for the year ended December 31, 2011.

In addition, the Company, during the 24-month layoff period, will make the following investments for a total amount of 25 million:

equipment related to production activities (machinery, equipment and other production tools);

electronic equipment, computers and software;

marketing, sales and distribution network development;

research and development, patents and trademarks; and

training and requalification.

On May 3, 2011, the Company, together with *Confindustria*, the main organization representing the Italian manufacturing and services companies, and the trade unions signed an agreement regarding the establishment of a performance bonus. The Company, even in a difficult financial situation and notwithstanding a global economic downturn, has decided to focus on the improvement of its human capital to increase productivity and competitiveness.

Starting on January 1, 2011 the additional rewarding parameter, Performance Bonus, has been introduced with the aim of linking the labor cost to the collective results achieved, measured by productivity and profitability indicators of the Italian production sites.

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

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

signed an agreement during the second part of 2011 with a vendor to implement at a worldwide level the ERP system for human resources management (SAP Human Capital Management) through a structured management and computerization of Human Resources processes that will allow the Company to set up a database at a worldwide level (containing information such as training plans, career paths, fields of expertise currently required, and expected to be required in the future, within the Group's organizations, hiring plans, and other personal data);

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

The compensation policy, which considers organizational impacts and cost control measures, continues to be driven by values such as motivation, meritocracy and selectivity. The compensation policy is compliant with labor market standards, attentive to internal equilibriums, and aims at preserving the Group's human resources while also making the Company attractive to potential valuable employees.

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

In line with the Company's decision to strengthen its human capital, during 2011 Natuzzi S.p.A. has implemented over 80 different training actions that involve about 400 employees on a wide range of topics (information technologies, foreign languages, technical and managerial skills) for more than 1,000 hours of training.

### Share Ownership

Mr. Pasquale Natuzzi, who founded the Company and is currently its Chief Executive Officer and Chairman of the Board of Directors, as of March 30, 2012, beneficially owns 29,534,627 Ordinary Shares, representing 53.8% of the Ordinary Shares outstanding (59.0% of the Ordinary Shares outstanding if the 5.2% of the Ordinary Shares owned by members of Mr. Natuzzi's immediate family (the Natuzzi Family) are aggregated).

As a result, Mr. Natuzzi controls the Group, including its management and the selection of its Board of Directors. Since December 16, 2003, Mr. Natuzzi has held his entire beneficial ownership of Natuzzi S.p.A. shares through INVEST 2003 S.r.l., an Italian holding company wholly-owned by Mr. Natuzzi and having its registered office at Via Gobetti 8, Taranto, Italy.

Starting on September 27, 2011 through March 30, 2012, INVEST 2003 S.r.l. purchased 176,538 Natuzzi S.p.A. ADSs, (representing 0.3% of the Company's total shares outstanding), at the average price of 2.15 (U.S.\$ 2.86). Such purchases were made according to Rule 10b-18 (*Purchases of Certain Equity Securities by the Issuer and Others*) promulgated under the Securities Exchange Act of 1934. Since the 1% threshold required by the Rule 10b-18 has not yet been reached and overcome, no disclosure of such purchases has been filed with the U.S. Securities and Exchange Commission.

On April 18, 2008, INVEST 2003 S.r.l. purchased 3,293,183 American Depositary Shares, each representing one Ordinary Share, at the price U.S.\$ 3.61 per ADS. For more information, refer to Schedule 13D filed with the U.S. Securities and Exchange Commission (SEC) on April 24, 2008. In relation to the Natuzzi Stock Incentive Plan 2004-2009 (see Item 10. Additional Information Authorization of Shares), the total number of new Natuzzi ordinary shares that were assigned without consideration to the beneficiary employees in 2006, 2007 and 2008 represents 0.3% of the current outstanding shares. For further discussion, see Note 19 to the Consolidated Financial Statements included in Item 18 of this annual report.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****Major Shareholders**

Mr. Pasquale Natuzzi, who founded the Company and is currently Chief Executive Officer and Chairman of the Board of Directors, as of March 30, 2012, beneficially owns 29,534,627 shares (including Ordinary Shares and ADSs), representing 53.8% of the Ordinary Shares outstanding (59.0% of the Ordinary Shares outstanding if the Ordinary Shares owned by the Natuzzi Family are aggregated). Since December 16, 2003, Mr. Natuzzi has held his entire beneficial ownership of Natuzzi S.p.A. shares through INVEST 2003 S.r.l., an Italian holding company wholly-owned by Mr. Natuzzi and having its registered office at Via Gobetti 8, Taranto, Italy. Each of the Company's other directors (with the exception of Mrs. Anna Maria Natuzzi) and officers owns less than 1% of the Company's Ordinary Shares and ADS. None of the directors or officers have stock options.

The following table sets forth information, as reflected in the records of the Company as of March 30, 2012, with respect to each person who owns 5% or more of the Company's Ordinary Shares or ADSs:

	Number of Shares Owned	Percent Owned
Pasquale Natuzzi <sup>(1)</sup>	29,534,627	53.8%
Schroder Investment Management North America Ltd. <sup>(2)</sup>	3,748,678	6.8%
Quaeroq CVBA <sup>(3)</sup>	2,760,400	5.0%

<sup>(1)</sup> Includes ADSs purchased on April 18, 2008 and purchases made from September 27, 2011 through March 30, 2012 according to Rule 10b-18 ( *Purchases of Certain Equity Securities by the Issuer and Others* ) promulgated under the Securities Exchange Act of 1934. If Mr. Natuzzi's Ordinary Shares are aggregated with those held by members of the Natuzzi Family, the amount owned would be 32,334,629 and the percentage ownership of Ordinary Shares would be 59.0%.

<sup>(2)</sup> According to the Schedule 13G filed with the SEC by Schroder Investment Management North America on February 16, 2012.

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

In addition, the Natuzzi Family has a right of first refusal to purchase all the rights, warrants or other instruments which The Bank of New York Mellon, as Depository under the Deposit Agreement, determines may not lawfully or feasibly be made available to owners of ADSs in connection with each rights offering, if any, made to holders of Ordinary Shares. None of the shares held by the above shareholders have any special voting rights.

As of March 30, 2012, 54,853,045 Ordinary Shares were outstanding. As of the same date, there were 22,663,325 ADSs (equivalent to 22,663,325 Ordinary Shares) outstanding. The ADSs represented 41.3% of the total number of Natuzzi Ordinary Shares issued and outstanding.

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

**Related Party Transactions**

Transactions with related parties amounted to 6.6 million in 2011 sales and 3.1 million as at December 31, 2011 in trade receivables and were conducted at arm's length. Other than the foregoing transactions, neither the Company nor any of its subsidiaries was a party to a transaction with a related party that was material to the Company or the related party, or any transaction that was unusual in its nature or conditions, involving goods, services, or tangible or intangible assets, nor is any such transaction presently proposed. During the same period, neither the Company nor any of its subsidiaries made any loans to or for the benefit of any related party. For purposes of the foregoing, related party has the meaning ascribed to it in Item 7.B of Form 20-F.

---

**ITEM 8. FINANCIAL INFORMATION**

**Consolidated Financial Statements**

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

**Export Sales**

Export sales from Italy totaled approximately 178.4 million in 2011, up 27.1% from 2010. That figure represents 43.4% of the Group's 2011 net leather and fabric-upholstered furniture sales.

**Legal and Governmental Proceedings**

The Group is involved in legal proceedings, arising in the ordinary course of business with suppliers and employees.

During 2009, the Company charged to other income (expense), net the amount of 2.6 million for the probable tax contingent liabilities related to income taxes and other taxes of the Company and some foreign subsidiaries. This represents the amount that could, more likely than not, be claimed back by the tax authorities in case of tax audit.

Furthermore, in 2009, the Company set up a provision of 1.2 million for contingent liabilities related to several minor claims and legal actions arising in the ordinary course of business. See Note 19 to the Consolidated Financial Statements included in Item 18 of this annual report.

During 2010 the Group has charged to other income (expense), net the amount of 1.0 million for the probable tax contingent liabilities related to income taxes and other taxes of some foreign subsidiaries. This amount represents the amount that could, more likely than not, be claimed back by the tax authorities in case of tax audit. Furthermore, in 2010, the Company set up a provision of 2.8 million for contingent liabilities related to several minor claims and legal actions arising in the ordinary course of business. See Note 19 the Consolidated Financial Statements included in Item 18 of this annual report on Form 20-F.

For 2011, the Group also increased a provision of 1.4 million for the probable tax contingent liabilities related to income taxes of the Company and some foreign subsidiaries. Furthermore, in 2011, the Company set up a provision of 1.1 million for contingent liabilities related to several minor claims and legal actions arising in the ordinary course of business. See Not 19 to the Consolidated Financial Statements included in Item 18 of this annual report on Form 20-F.

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

For 2011, the Group also set up provisions of 2.5 million for contingent liabilities related to for tax, civil and labor litigation. See Note 19 to the Consolidated Financial Statements included in Item 18 of this annual report.

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

### **Dividends**

Considering that the Group reported a negative net result in 2011 and the capital requirements necessary to implement the restructuring of the operations and its planned retail and marketing activities, the Group decided not to distribute dividends in respect of the year ended on December 31, 2011. The Group has also not paid dividends in each of the prior three fiscal years.

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

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

### **ITEM 9. THE OFFER AND LISTING**

#### **Trading Markets and Share Prices**

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

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



	New York Stock Exchange	
	Price per ADS (in US dollars)	
	High	Low
<b>2007</b>	9.60	4.36
<b>2008</b>	4.63	1.63
<b>2009</b>	3.51	1.00
<b>2010</b>	5.76	2.78
<b>2011</b>	4.75	2.10
<b>2010</b>	<b>High</b>	<b>Low</b>
First quarter	5.76	3.258
Second quarter	4.987	2.95
Third quarter	3.71	2.78
Fourth quarter	3.80	3.04
<b>2011</b>	<b>High</b>	<b>Low</b>
First quarter	4.72	3.12
Second quarter	4.75	3.42
Third quarter	3.57	2.58
Fourth quarter	3.13	2.10
<b>2012</b>	<b>High</b>	<b>Low</b>
First quarter	3.79	2.35
<b>Monthly data</b>	<b>High</b>	<b>Low</b>
October 2011	3.13	2.45
November 2011	2.90	2.22
December 2011	2.45	2.10
January 2012	3.01	2.35
February 2012	3.79	2.96
March 2012	3.45	2.67
April 2012 (through April 20)	2.85	2.54

---

**ITEM 10. ADDITIONAL INFORMATION**

**By-laws**

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

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

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

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

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

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

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

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

---

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

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

**Voting Rights** Registered holders of the Company's Ordinary Shares are entitled to one vote per Ordinary Share.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**External Auditor** The audit of the Company's accounts is entrusted, as per current legislation, to an independent audit firm whose appointment falls under the competency of the Shareholders Meeting, upon the Board of Statutory Auditors' opinion. In addition to the obligations set forth in national auditing regulations, Natuzzi's listing on the New York Stock Exchange requires that the audit firm issues a report on the Annual Report on Form 20-F, in compliance with the auditing principles generally accepted in the United States. Moreover, the audit firm is required to issue an opinion on the efficacy of the internal control system applied to financial reporting. No changes were identified in the Company's internal control over financial reporting that occurred during the 2011 fiscal year that have materially affected or are reasonably likely to affect the Company's internal control over financial reporting.

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

On April 30, 2010, the Company's shareholders appointed Reconta Ernst & Young S.p.A., with registered offices at Via Po, 32, Rome, Italy, as its external auditor for three-year term. For the entire duration of their office the external auditors or the firm of external auditors must meet certain requirements provided for by law.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company does not own any of its ordinary shares.

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



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

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

Each shareholder may bring to the attention of the board of statutory auditors facts or actions which are deemed wrongful. If such shareholders represent more than 5% of the share capital of the Company, the board of statutory auditors must investigate without delay and report its findings and recommendations to the shareholders' meeting.

Shareholders representing more than 10% of the Company's share capital have the right to report to a competent court serious breaches of the duties of the directors, which may be prejudicial to the Company or to its subsidiaries. In addition, shareholders representing at least 20% of the Company's share capital may commence derivative suits before a competent court against its directors, statutory auditors and general managers.

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

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

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

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

### **Material Contracts**

The following are material contracts, not entered into in the ordinary course of business, to which Natuzzi has been a party during the past two years.

#### ***Chinese Production Plant Lease***

The Chinese plant previously owned by the Group was subject to an expropriation process by local Chinese authorities so that the land could be used for public utilities instead. In March 2010, Natuzzi China Ltd. entered into a lease with Shanghai Yuanchao Electronic Science and Technology Co., Ltd. relating to a new 88,000 square meter production plant to compensate for the production capacity reduction caused by the expropriation. For further information, see Item 4 Manufacturing. A copy of the lease is filed as an exhibit to this annual report on Form 20-F.

### **Exchange Controls**

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

Certain procedural requirements, however, are imposed by law. Regulations on the use of cash and bearer securities are contained in the legislative decree No.231 of November 21, 2007, as amended from time to time, which implemented in Italy the European directives on anti-money laundering No. 2005/60 and 2006/70. Such legislation requires that transfers of cash or bearer bank or postal passbooks or bearer instruments in euro or in foreign currency, effected for whatsoever reason between different parties, shall be carried out by means of credit institutions and any other authorized intermediaries when the total amount of the value to be transferred is equal to or more than 1,000. Credit institutions and other intermediaries effecting such transactions on behalf of residents or non-residents of Italy are required to maintain records of such transactions for ten years, which may be inspected at any time by Italian tax and judicial authorities. Non-compliance with the reporting and record-keeping requirements may result in administrative fines or, in the case of false reporting and in certain cases of incomplete reporting, criminal penalties. The Bank of Italy is required to maintain reports for ten years and may use them, directly or through other government offices, to police money laundering, tax evasion and any other unlawful activity.

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

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

### **Taxation**

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

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

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

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

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

### **Taxation of Dividends**

**i) Tax Considerations** As a general rule, Italian laws provide for the withholding of income tax on dividends paid by Italian companies to shareholders who are not residents of Italy for tax purposes, currently levied at a 20% rate on dividends paid as of January 1, 2012. Italian laws provide a mechanism under which non-resident shareholders can claim a refund of, as of January 1, 2012, up to one-fourth of Italian withholding taxes on dividend income by establishing to the Italian tax authorities that the dividend income was subject to income tax in another jurisdiction in an amount at least equal to the total refund claimed. U.S. owners should consult their own tax advisers concerning the possible availability of this refund, which traditionally has been payable only after extensive delays. Alternatively, reduced rates (normally 15%) may apply to non-resident shareholders who are entitled to, and comply with procedures for claiming, benefits under an income tax convention.

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

However, the amount initially made available to the Depository for payment to U.S. owners will reflect withholding at the 20% rate. U.S. owners who comply with the certification procedures described below may then claim an additional payment of 5% of the dividend (representing the difference between the 20% rate applicable as of January 1, 2012, and the 15% rate, and referred to herein as a treaty refund). The certification procedure will require U.S. owners (i) to obtain from the U.S. Internal Revenue Service (IRS) a form of certification required by the Italian tax authorities with respect to each dividend payment (Form 6166), unless a previously filed certification will be effective on the dividend payment date (such certificates are effective until March 31 of the year following submission), (ii) to produce a statement whereby the U.S. owner represents to be a U.S. owner individual or corporation and does not maintain a permanent establishment in Italy, and (iii) to set forth other required information. IRS Form 6166 may be obtained by filing a request for certification on IRS Form 8802. (Additional information, including IRS Form 8802, can be obtained from the IRS website at [www.irs.gov](http://www.irs.gov). Information appearing on the IRS website is not incorporated by reference into this document.) The time for processing requests for certification by the IRS normally is 30 to 45 days. Accordingly, in order to be eligible for the procedure described below, U.S. owners should begin the process of obtaining certificates as soon as possible after receiving instructions from the Depository on how to claim a treaty refund.

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

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

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

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

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2013 with respect to the Ordinary Shares or ADSs will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the Ordinary Shares or ADSs will be treated as qualified dividends if (i) the Company is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules and (ii) the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company (PFIC). The Income Tax Convention has been approved for the purposes of the qualified dividend rules. Based on the Company's audited financial statements and relevant market and shareholder data, the Company believes that it was not treated as a PFIC for U.S. federal income tax purposes with respect to its 2011 taxable year. In addition, based on the Company's audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, the Company does not anticipate becoming a PFIC for its 2012 taxable year.

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

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

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

#### **Taxation of Capital Gains**

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

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

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

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

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

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

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

---

## Taxation of Distributions from Capital Reserves

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

## Other Italian Taxes

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

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

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

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

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

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

**United States Information Reporting and Backup Withholding Requirements** In general, information reporting requirements will apply to payments by a paying agent within the United States to a non-corporate (or other non-exempt) U.S. owner of dividends in respect of the Company Shares or ADSs, or the proceeds received on the sale or other disposition of the Company Shares or ADSs. Backup withholding may apply to such amounts if the U.S. owner fails to provide an accurate taxpayer identification number to the paying agent on a properly completed IRS Form W-9 or otherwise comply with the applicable requirements of the backup withholding rules. Amounts withheld as backup withholding will be creditable against the U.S. owner's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

---

**Documents on Display**

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

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

**Exchange Rate Risks**

The Group's foreign exchange rate risks in 2011 arose principally in connection with the Chinese yuan, U.S. dollars, British pounds, Canadian dollars, Australian dollars, Japanese yen, Swiss francs, Swedish kroner, Norwegian kroner and Danish kroner, as well as in connection with Euros for the Company's subsidiary located in Eastern Europe.

As of December 31, 2011 and 2010, the Group had outstanding trade receivables denominated in foreign currencies totaling 52.1 million and 52.6 million, respectively, of which 53.8% and 56.6%, respectively, were denominated in U.S. dollars. On those same dates, the Group had 22.1 million and 18.0 million, respectively, of trade payables denominated in foreign currencies, principally U.S. dollars. See Notes 6 and 14 to the Consolidated Financial Statements included in Item 18 of this annual report.

As of December 31, 2011, the Company was a party to a number of currency forward contracts (known in Italy as domestic currency swaps), all of which are designed to hedge future sales denominated in U.S. dollars and other currencies. As of the same date, no option contract was outstanding (as of December 31, 2010 there were two zero-cost collar option contracts outstanding). The Group does not use such foreign exchange contracts for speculative trading purposes.

As of December 31, 2011, the notional amount in Euro terms of all of the outstanding currency forward contracts totaled 46.1 million. As of December 31, 2010, the notional amounts of all of the outstanding foreign exchange derivatives totaled 80.1 million, of which 77.2 million were represented by currency forward contracts and 2.9 million were represented by two zero-cost collar options. At the end of 2011, such currency forward contracts had notional amounts of U.S.\$ 16.1 million, 13.8 million, British pounds 6.0 million, Canadian dollars 7.4 million, Australian dollars 5.2 million, Japanese yen 265.0 million, Swiss francs 1.2 million, Swedish kroner 5.7 million and Norwegian kroner 3.7 million. All of these forward contracts had various maturities extending through June 2012. See Note 27 to the Consolidated Financial Statements included in Item 18 of this annual report.



The table below summarizes (in thousands of euro equivalent) the contractual amounts of foreign exchange derivatives (both currency forward contracts and zero-cost collar currency options) intended to hedge future cash flows from accounts receivable and sales orders as of December 31, 2011 and 2010:

Euro equivalent of contractual amounts of	December 31,	
<b>currency forward contracts as of:</b>	<b>2011</b>	<b>2010</b>
Euro	14,264	12,200
U.S. dollars	11,493	30,604
British pounds	6,950	8,838
Canadian dollars	5,041	12,081
Australian dollars	3,800	7,149
Japanese yen	2,452	2,310
Swiss francs	984	1,584
Swedish kroner	630	919
Norwegian kroner	481	1,091
Danish kroner	0	497
<b>Total</b>	<b>46,095</b>	<b>77,273</b>

Euro equivalent* of contractual amounts of	December 31,	
<b>zero-costs collar options as of</b>	<b>2010</b>	<b>2010</b>
U.S. dollars	0	2,847
<b>Total</b>	<b>0</b>	<b>2,847</b>

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

As of December 31, 2011, these forward contracts had a net unrealized gain of 0.3 million, compared to a net unrealized loss of 0.9 million as of December 31, 2010. The Group recorded this amount in other income (expense), net in its Consolidated Financial Statements. See Note 27 to the Consolidated Financial Statements included in Item 18 of this annual report.

The following table presents information regarding the contract amount (including option contracts for 2010) in thousands of euro equivalent and the estimated fair value of all of the Group's foreign exchange contracts: contracts with unrealized gains are presented as assets and derivative contracts with unrealized losses are presented as liabilities.

	December 31, 2011		December 31, 2010	
	Contract Amount	Unrealized gains (losses)	Contract Amount	Unrealized gains (losses)
<b>Assets</b>	17,537	36	40,981	171
<b>Liabilities</b>	28,558	(630)	39,139	(1,059)
<b>Total</b>	<b>46,095</b>	<b>(594)</b>	<b>80,120</b>	<b>(888)</b>

The Group's foreign currency forward contracts as of December 31, 2011 had maturities of a maximum of six months. The potential loss in fair value of all of the Group's forward contracts as of December 31, 2011 that would have resulted from a hypothetical, instantaneous and unfavorable 10% change in currency exchange rates would have been approximately \$ 5.7 million. This sensitivity analysis assumes an instantaneous and unfavorable 10% fluctuation in exchange rates affecting the foreign currencies of all of the Group's hedging contracts.

For the accounting of transactions entered into in an effort to reduce the Group's exchange rate risks, see Notes 3 and 27 to the Consolidated Financial Statements included in Item 18 of this annual report.

At December 31, 2011, the Group had approximately € 64 million in cash and cash equivalents held in Chinese yuan. Exchange rate fluctuations in respect of this amount could have significant positive or negative effects on our results of operations in future periods.

#### **Interest Rate Risks**

To a significantly lesser extent, the Group is also exposed to interest rate risk. As of December 31, 2011, the Group had \$ 14.5 million (equivalent to 2.8% of the Group's total assets as of the same date) in debt outstanding (short-term borrowings and long-term debt, including the current portion of such debt), which is for the most part subject to floating interest rates. See Notes 13 and 18 to the Consolidated Financial Statements included in Item 18 of this annual report.

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

#### **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

##### **ITEM 12A. DEBT SECURITIES**

Not applicable.

##### **ITEM 12B. WARRANTS AND RIGHTS**

Not applicable.

##### **ITEM 12C. OTHER SECURITIES**

Not applicable.

##### **ITEM 12D. AMERICAN DEPOSITARY SHARES**

**Fees paid by ADR holders** The Bank of New York Mellon, as the depositary of our ADSs (the "Depositary"), collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The Depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

**Persons depositing or withdrawing shares**

**must pay:**  
\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

**For:**  
Depositing or substituting the underlying shares

Selling or exercising rights

A fee for the distribution of proceeds of sales of securities or rights in an amount equal to the lesser of: (i) the fee for the issuance of ADSs referred to above which would have been charged as a result of the deposit by owners of securities (for purposes hereof treating all such securities as if they were shares) or shares received in exercise of rights distributed to them, respectively, but which securities or rights are instead sold by the Depositary and the net proceeds distributed and (ii) the amount of such proceeds

Registration or transfer fees

Expenses of the Depositary

Taxes and other governmental charges the Depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the Depositary or its agents for servicing the deposited securities

**Fees payable by the Depositary to the Company**

**Fees incurred in past annual period** From January 1, 2011 to December 31, 2011, the Depositary waived a total of \$1,825.81 in administrative fees for routine corporate actions including services relating to Natuzzi's annual general meeting of shareholders

**Fees to be paid in the future** The Company does not have any agreements in place with the Depositary for the payment or reimbursement of fees or other direct or indirect payments by the Depositary to the Company in connection with its ADS program.

Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates

Distribution of securities distributed to holders of deposited securities which are distributed by the Depositary to ADS registered holders

Transfer and registration of shares on our share register to or from the name of the Depositary or its agent when you deposit or withdraw shares

Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)

Converting foreign currency to U.S. dollars  
As necessary

As necessary

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

**ITEM 15. CONTROLS AND PROCEDURES**

**(a) Disclosure Controls and Procedures** The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2011. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based on the Company's evaluation of its disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2011 to provide reasonable assurance that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's applicable rules and forms, and that it is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

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

The Company's management assessed the effectiveness of its internal control over financial reporting as of December 31, 2011. Based on such assessment, the Company's management has concluded that as of December 31, 2011, the Company's internal control over financial reporting was effective and that there were no material weaknesses in the Company's internal control over financial reporting.

The effectiveness of internal control over financial reporting as of December 31, 2011 has been audited by Reconta Ernst & Young S.p.A., an independent registered public accounting firm, as stated in their report on the Company's internal control over financial reporting, which follows below.

---

**(c) Attestation Report of the Registered Public Accounting Firm**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

Natuzzi S.p.A.

We have audited Natuzzi S.p.A. and Subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Natuzzi S.p.A. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Natuzzi S.p.A. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Natuzzi S.p.A. and Subsidiaries as of December 31, 2011 and 2010 and the related consolidated statement of operations, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2011 and our report dated April 30, 2012 expressed an unqualified opinion thereon.

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

Bari, Italy

April 30, 2012

**ITEM 16. [RESERVED]**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

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

Each of the audit committee financial experts is independent under the NYSE Independence Standards that would apply to audit committee members in the absence of our reliance on the exemption in Rule 10A-3(c)(3).

**ITEM 16B. CODE OF ETHICS**

The Company has adopted a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act. This code of ethics applies, among others, to the Company's Chief Executive Officer and Chief Financial Officer. The Company's code of ethics is downloadable from its website at [www.natuzzi.com/codeofethics/](http://www.natuzzi.com/codeofethics/). If the Company amends the provisions of its code of ethics that apply to the Company's Chief Executive Officer and Chief Financial Officer, or if the Company grants any waiver of such provisions, it will disclose such amendment or waiver on its website at the same address.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Reconta Ernst & Young S.p.A. ( Ernst & Young , hereafter) has served as Natuzzi S.p.A. 's principal independent public auditor for fiscal year 2011 and 2010 for which audited Consolidated Financial Statements appear in this Annual Report on Form 20-F.

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

The following table sets forth the aggregate fees billed and billable to the Company by Ernst & Young in Italy and abroad during the fiscal years ended December 31, 2011 and 2010, for audit fees, audit related fees, tax fees and all other fees for audit.

	<b>2011</b>	<b>2010</b>
	(Expressed in thousands of euros)	
Audit fees	870	821
Audit-related fees		
Tax fees		86
Other fees		
<b>Total fees</b>	<b>870</b>	<b>907</b>

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

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

The Company 's audit committee expressly pre-approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or to us.



**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.**

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

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

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

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Starting on September 27, 2011 through March 30, 2012, INVEST 2003 S.r.l., totally owned by Mr. Natuzzi, President of the Board of Directors and CEO of the Company, purchased 176,538 Natuzzi S.p.A. ADSs, (representing 0.3% of the Company's total shares outstanding), at the average price of 2.15 (U.S.\$ 2.86). Such purchases were made according to Rule 10b-18 ( *Purchases of Certain Equity Securities by the Issuer and Others* ) promulgated under the Securities Exchange Act of 1934. Since the 1% threshold required by the Rule 10b-18 has not yet been reached and overcome, no disclosure of such purchases has been filed with the U.S. Securities and Exchange Commission.

The following table summarizes the purchases made by INVEST 2003 S.r.l.

Settlement month	Total number of ADSs purchased	Weighted average price per ADS (in euro equivalent) <sup>(1)</sup>	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate U.S. Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1 - January 31, 2011				
February 1 - February 28, 2011				

Edgar Filing: NATUZZI S P A - Form 20-F

March 1 - March 31, 2011		
April 1 - April 30, 2011		
May 1 - May 31, 2011		
June 1 - June 30, 2011		
July 1 - July 31, 2011		
August 1 - August 31, 2011		
September 1 - September 30, 2011	5,279	2.08
October 1- October 31, 2011	27,710	2.22
November 1- November 30, 2011	13,251	1.95
December 1- December 31, 2011	36,037	1.70
January 1- January 31, 2012	48,461	2.14
February 1 - February 29, 2012	38,274	2.58
March 1 - March 31, 2012	7,526	2.27
<b>Total ADSs purchased</b>	<b>176.538</b>	<b>2.15</b>

(1) Euro equivalents of U.S. dollar prices, converted into euros based on the March 30, 2012 exchange rate of US\$1.3334/€.

From January 1, 2011 to December 31, 2011, no purchases were made by or on behalf of the Company or any other affiliated purchaser of the Company's Ordinary Shares or ADSs.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

None.

---

**ITEM 16G. CORPORATE GOVERNANCE**

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

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

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

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

**Independent Directors**

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

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

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

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

#### **Executive Sessions**

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

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

#### **Audit Committee and Internal Audit Function**

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

*Our Practice* Rule 10A-3 under the Exchange Act provides that foreign private issuers with a board of statutory auditors established in accordance with local law or listing requirements and meeting specified requirements with regard to independence and responsibilities (including the performance of most of the specific tasks assigned to audit committees by Rule 10A-3, to the extent permitted by local law) (the Statutory Auditor Requirements) are exempt from the audit committee requirements established by the rule. The Company is relying on this exemption on the basis of its separate board of statutory auditors, which is permitted by the Civil Code and which satisfies the Statutory Auditor Requirements. Notwithstanding that, our Board of Statutory Auditors, consisting of independent and highly professional experts, comply with the requirements indicated at points (i), (iii) and (iv) of the preceding paragraph.

The Company also has an internal audit function, which it has not outsourced.

### **Compensation Committee**

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

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

### **Nominating Committee**

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

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

### **Corporate Governance and Code of Ethics**

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

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

### **Certifications as to Violations of NYSE Standards**

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

The CEO of both domestic and foreign issuers listed on the NYSE must promptly notify the NYSE in writing if any executive officer becomes aware of any material non-compliance with the NYSE corporate governance standards.

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

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

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

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

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

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

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

**ITEM 18. FINANCIAL STATEMENTS**

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

**Index to Consolidated Financial Statements**

	Page
<u>Reports of Independent Registered Public Accounting Firms</u>	F-1
<u>Consolidated Balance Sheets as of December 31, 2011 and 2010</u>	F-3
<u>Consolidated Statements of Operations for the Years Ended December 31, 2011, 2010 and 2009</u>	F-4
<u>Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2011, 2010 and 2009</u>	F-5
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009</u>	F-6
<u>Notes to the Consolidated Financial Statements</u>	F-7

**ITEM 19. EXHIBITS**

- 1.1 English translation of the by-laws (*Statuto*) of the Company, as amended and restated as of January 24, 2008 (incorporated by reference to the Form 20-F filed by Natuzzi S.p.A. with the Securities Exchange Commission on June 30, 2008, file number 1-11854).
  
- 2.1 Deposit Agreement dated as of May 15, 1993, as amended and restated as of December 31, 2001, among the Company, The Bank of New York, as Depositary, and owners and beneficial owners of ADRs (incorporated by reference to the Form 20-F filed by Natuzzi S.p.A. with the Securities and Exchange Commission on July 1, 2002, file number 1-11854).
  
- 4.1 Lease Contract For Customized Standard Factory Building, entered into between Shanghai Yuanchao Electronic Science and Technology Co., Ltd. and Natuzzi China Ltd., dated as of March 22, 2010.
  
- 8.1 List of Significant Subsidiaries.
  
- 12.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  
- 12.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  
- 13.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

Natuzzi S.p.A.

We have audited the accompanying consolidated balance sheets of Natuzzi S.p.A. and Subsidiaries as of December 31, 2011 and 2010 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Natuzzi S.p.A. and Subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2011, in conformity with established accounting principles in the Republic of Italy.

Established accounting principles in the Republic of Italy vary in certain significant respects from generally accepted accounting principles in the United States of America. Information relating to the nature and effect of such differences is presented in note 29 to the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Natuzzi S.p.A. and Subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 30, 2012 expressed an unqualified opinion thereon.

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

Bari, Italy

April 30, 2012



---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders of Natuzzi S.p.A.

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

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

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

Established accounting principles in the Republic of Italy vary in certain significant respects from generally accepted accounting principles in the United States of America. Information relating to the nature and effect of such differences is presented in note 29 to the consolidated financial statements.

KPMG S.p.A.

Bari, Italy

June 24, 2010

## Natuzzi S.p.A. and Subsidiaries

## Consolidated Balance Sheets

as of December 31, 2011 and 2010

(Expressed in thousands of euros)

	Notes	Dec. 31, 2011	Dec. 31, 2010
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	94,040	61,094
Marketable securities	5	4	4
Trade receivables, net	6	92,939	95,815
Other receivables	7	44,870	51,709
Inventories	8	93,537	87,355
Unrealized foreign exchange gain	27	36	171
Prepaid expenses and accrued income	9	2,597	1,334
Deferred tax asset	16	378	1,078
<b>Total current assets</b>		<b>328,401</b>	<b>298,560</b>
<b>Non current assets:</b>			
Property, plant and equipment, net	10	175,801	195,951
Intangible asset, net	11	5,059	7,205
Goodwill	12	261	711
Investment in affiliates	3k)	1,429	1,429
<b>Total non current assets</b>		<b>182,550</b>	<b>205,296</b>
<b>TOTAL ASSETS</b>		<b>510,951</b>	<b>503,856</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
<b>Current liabilities:</b>			
Bank Overdrafts	13	24,157	83
Current portion of long-term debt	18	3,735	1,831
Accounts payable-trade	14	63,543	64,317
Accounts payable-other	15	21,416	27,617
Unrealized foreign exchange losses	27	630	1,059
Income taxes	16	1,335	2,952
Salaries, wages and related liabilities	17	8,040	9,909
<b>Total current liabilities</b>		<b>122,856</b>	<b>107,768</b>
<b>Non current liabilities:</b>			
Employees leaving entitlement	3o)	26,742	28,412
Long-term debt	18	10,788	13,583
Deferred taxes liabilities	16	6,906	
Deferred income for capital grants	3n)	9,815	10,358
Other liabilities	19	20,332	18,504
<b>Total non current liabilities</b>		<b>74,583</b>	<b>70,857</b>
<b>Commitments and contingent liabilities</b>	21		
<b>Shareholders equity:</b>	20		

Edgar Filing: NATUZZI S P A - Form 20-F

Share capital	54,853	54,853
Reserves	42,780	42,780
Additional paid-in capital	8,282	8,282
Retained earnings	204,562	217,204
Total equity attributable to Natuzzi S.p.A. and Subsidiaries	310,477	323,119
Non-controlling interest	3,035	2,112
Total Shareholders' equity	313,512	325,231
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>510,951</b>	<b>503,856</b>

See accompanying notes to the consolidated financial statements

**Natuzzi S.p.A. and Subsidiaries**

**Consolidated Statements of Operations**

**Years ended December 31, 2011, 2010 and 2009**

(Expressed in thousands of euros except per share data)

	Notes	2011	2010	2009
Net sales	22	486,364	518,634	515,352
Cost of sales	23	(326,068)	(321,501)	(329,742)
<b>Gross profit</b>		<b>160,296</b>	<b>197,133</b>	<b>185,610</b>
Selling expenses	24	(144,290)	(154,267)	(149,596)
General and administrative expenses	25	(43,298)	(42,468)	(46,585)
Operating income/(loss)		(27,292)	398	(10,571)
Other income/(expense), net	26	17,299	(4,427)	3,121
Net income/(loss) before income taxes		(9,993)	(4,029)	(7,450)
Income taxes	16	(8,884)	(6,952)	(9,802)
<b>Net income/(loss)</b>		<b>(18,877)</b>	<b>(10,981)</b>	<b>(17,252)</b>
Less: Net income/(loss) attributable to non-controlling interest		709	97	434
Net Income/(loss) attributable to Natuzzi S.p.A. and Subsidiaries		(19,586)	(11,078)	(17,686)
<i>Basic loss per share</i>	<i>3z)</i>	<i>(0.36)</i>	<i>(0.20)</i>	<i>(0.32)</i>
<i>Diluted loss per share</i>	<i>3z)</i>	<i>(0.36)</i>	<i>(0.20)</i>	<i>(0.32)</i>
<i>Average Ordinary Shares Outstanding</i>		<i>54,853,045</i>	<i>54,853,045</i>	<i>54,853,045</i>
<i>Average Ordinary Shares Outstanding assuming dilution</i>		<i>54,853,045</i>	<i>54,853,045</i>	<i>54,853,045</i>
See accompanying notes to the consolidated financial statements				

## NatuZZi S.p.A. and Subsidiaries

## Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2011, 2010 and 2009

(Expressed in thousands of euros)

	Share Capital amount	Reserves	Additional paid in capital	Retained earnings	Total equity attributable to Natuzzi S.p.A. and Subsidiaries	Non-controlling interest	Total Shareholders equity
<b>Balances at Dec. 31, 2008</b>	<b>54,853</b>	<b>42,780</b>	<b>8,282</b>	<b>239,303</b>	<b>345,218</b>	<b>795</b>	<b>346,013</b>
Exchange difference on translation of financial statement				(2,505)	(2,505)	(45)	(2,550)
Purchase non-controlling Interest						(23)	(23)
Increase for capital contribution of non-controlling interest						699	699
Net Income/(loss)				(17,686)	(17,686)	434	(17,252)
<b>Balances at Dec. 31, 2009</b>	<b>54,853</b>	<b>42,780</b>	<b>8,282</b>	<b>219,112</b>	<b>325,027</b>	<b>1,860</b>	<b>326,887</b>
Exchange difference on translation of financial statement				9,170	9,170	155	9,325
Net Income/(loss)				(11,078)	(11,078)	97	(10,981)
<b>Balances at Dec. 31, 2010</b>	<b>54,853</b>	<b>42,780</b>	<b>8,282</b>	<b>217,204</b>	<b>323,119</b>	<b>2,112</b>	<b>325,231</b>
Exchange difference on translation of financial statement				6,944	6,944	214	7,158
Net Income/(loss)				(19,586)	(19,586)	709	(18,877)
<b>Balances at Dec. 31, 2011</b>	<b>54,853</b>	<b>42,780</b>	<b>8,282</b>	<b>204,562</b>	<b>310,477</b>	<b>3,035</b>	<b>313,512</b>

See accompanying notes to the consolidated financial statements

## NatuZZi S.p.A. and Subsidiaries

## Consolidated Statements of Cash Flows

Years ended December 31, 2011, 2010 and 2009

(Expressed in thousands of euros)

	2011	2010	2009
<b>Cash flows from operating activities:</b>			
Net income/(loss)	(18,877)	(10,981)	(17,252)
Adj to reconcile net income/(loss) to net cash provided by op.activities			
Depreciation and amortization	18,999	22,965	26,565
Write off of Fixed Assets	310	454	595
Impairment of long lived Assets	1,036		
One-time termination benefit	5,446		
Employees leaving entitlement	6,668	6,521	6,525
Deferred income taxes	6,205	(313)	3,743
(Gain) /loss on disposal of assets	(28,303)	496	492
Unrealized foreign exchange(gain)/losses	(296)	1,038	(4,409)
Deferred income for capital grants	(543)	(748)	(850)
Change in assets and liabilities:			
Receivables, net	2,876	1,232	16,903
Inventories	(6,183)	(5,791)	10,842
Prepaid expenses and accrued income	(1,262)	78	(157)
Accounts payable	(775)	2,600	(4,766)
Income taxes	(1,615)	(504)	1,910
Salaries, wages and related liabilities	(1,869)	(5,235)	(1,832)
Other liabilities	6,563	(1,778)	3,795
Employees leaving entitlement	(8,338)	(7,674)	(8,637)
Total adjustments	(1,081)	13,341	50,719
Net cash provided by /(used in) operating activities	<b>(19,958)</b>	<b>2,360</b>	<b>33,467</b>
<b>Cash flows from investing activities:</b>			
Property, plant and equipment:			
Additions	(19,733)	(14,006)	(4,191)
Disposals	2,415	1,122	1,137
Chinese relocation compensation	46,691		
Other assets	(1,265)	(3,046)	(4,382)
(Purchase)/Disposal of business, net of cash acquired			(1,040)
Net cash provided by /(used in) investing activities	<b>28,108</b>	<b>(15,930)</b>	<b>(8,476)</b>
<b>Cash flows from financing activities:</b>			
Long-term debt:			
Proceeds	1,000	9,557	3,900
Repayments	(1,890)	(1,124)	(699)
Short-term borrowings	24,074	(678)	(8,941)
Net cash provided by/(used in) financing activities	<b>23,184</b>	<b>7,755</b>	<b>(5,740)</b>
Effect of translation adjustments on cash	1,612	579	(228)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>32,946</b>	<b>(5,236)</b>	<b>19,023</b>
Cash and cash equivalents, beginning of the year	61,094	66,330	47,307

Edgar Filing: NATUZZI S P A - Form 20-F

Cash and cash equivalents, end of the year	94,040	61,094	66,330
<b><i>Supplemental disclosure of cash flow information:</i></b>			
<i>Cash paid during the year for interest</i>	<i>631</i>	<i>155</i>	<i>130</i>
<i>Cash paid during the year for income taxes</i>	<i>3,084</i>	<i>9,146</i>	<i>5,258</i>

F - 6

## Natuzzi S.p.A. and Subsidiaries

## Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

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

The consolidated financial statements include the accounts of Natuzzi S.p.A. ( Natuzzi or the Company ) and of its subsidiaries (together with the Company, the Group ). The Group s primary activity is the design, manufacture and marketing of contemporary and traditional leather and fabric upholstered furniture. The subsidiaries included in the consolidation at December 31, 2011, together with the related percentages of ownership, are as follows:

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

- (1) Manufacture and distribution
- (2) Intragroup leather dyeing and finishing
- (3) Production and distribution of polyurethane foam
- (4) Distribution
- (5) Investment holding
- (6) Transportation services
- (7) Dormant





## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

In June 2011 the Company has set up Natuzzi India set up to grow the Natuzzi market sales in that big potential market.

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

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

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

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

Goodwill	85
Current assets	40
<b>Purchase price</b>	<b>125</b>

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

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

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Goodwill	566
Fixed assets	42
Current assets	358
Current liabilities	(74)
<b>Purchase price</b>	<b>892</b>

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

**2. Basis of preparation**

The financial statements utilized for the consolidation are the financial statements of each Group company at December 31, 2011, 2010 and 2009. The 2011, 2010 and 2009 financial statements have been adopted by the respective Board of Director of the relevant companies.

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

Established accounting principles in the Republic of Italy vary in certain significant respects from generally accepted accounting principles in the United States of America. Information relating to the nature and effect of such differences is presented in note 29 to the consolidated financial statements.

**3. Summary of significant accounting policies**

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

**a) Principles of consolidation**

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

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

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

***b) Foreign currency transactions***

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

***c) Forward and collars exchange contracts***

The Group enters into forward exchange contracts (known in Italian financial markets as domestic currency swaps) and, for a limited number of contracts, into so called "zero cost collars" exchange rate derivative instruments to manage its exposure to foreign currency risks. The Group does not enter into these contracts on a speculative basis, nor is hedge effectiveness constantly monitored. As a consequence of this, forward and collar exchange contracts are not used to hedge any on or off-balance sheet items. Therefore, at December 31, 2011, 2010 and 2009 all unrealized gains or losses on such contracts are recorded in other income (expense), net, in the consolidated statements of operations.

***d) Financial statements of foreign operations***

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

***e) Cash and cash equivalents***

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

***f) Marketable debt securities***

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

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

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

---

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

***g) Accounts receivable and payable***

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

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

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

***h) Inventories***

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

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

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

***i) Property, plant and equipment***

Property, plant and equipment is stated at historical cost, except for certain buildings which were revalued in 1983, 1991 and 2000 according to Italian revaluation laws. Maintenance and repairs are expensed; significant improvements are capitalized and depreciated over the useful life of the related assets. The cost or valuation of fixed assets is depreciated on the straight-line method over the estimated useful lives of the assets (refer to note 10). The related depreciation expense is allocated to cost of goods sold, selling expenses and general and administrative expenses based on the usage of the assets.

***j) Intangible assets and Goodwill***

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

---

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

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

***k) Investment in affiliates***

The affiliate enterprise is Salena S.r.l. in which the Company owns 49% and has a significant influence. This affiliate has interests in real estate. We account for ownership interest under the equity method since we have significant influence but we do not control. With this method, the value of the interest is adjusted to the corresponding fraction of equity.

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

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

***m) Income taxes***

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

***n) Government grants***

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

---

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

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

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

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

At December 31, 2011 and 2010 the deferred income for capital grants shown in the consolidated balance sheet amounts to 9,815 and 10,358, respectively.

The amortization of these grants recorded in net sales of the consolidated statement of operations for the years ended December 31, 2011, 2010 and 2009, amounts to 542, 748 and 953, respectively.

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

***o) Employees' leaving entitlement***

Leaving entitlements represent amounts accrued for each Italian employee that are due and payable upon termination of employment, assuming immediate separation, determined in accordance with applicable Italian labour laws. The Group accrues the full amount of employees' vested benefit obligation as determined by such laws for leaving entitlements. At December 31, 2011 and 2010 employees' leaving entitlement shown in the consolidated balance sheet amounts to 26,472 and 28,412, respectively.

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

The expenses recorded for the leaving entitlement for the years ended on December 31, 2011, 2010 and 2009 were 6,668, 6,521 and 6,525, respectively.

***p) Revenue recognition***

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

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

---

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

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

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

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

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

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

***r) Shipping and handling costs***

Shipping and handling costs sustained to transport products to customers are expensed in the periods incurred and are included in selling expenses. Shipping and handling expenses recorded for the years ended December 31, 2011, 2010 and 2009 were 40,554, 43,844 and 37,249, respectively.

***s) Advertising costs***

Advertising costs are expensed in the periods incurred and are included in selling expenses. Advertising expenses recorded for the years ended December 31, 2011, 2010 and 2009 were 24,332, 28,072 and 31,938, respectively.



Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**t) Commission expense**

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

**u) Warranties**

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

**v) Research and development costs**

Research and development costs are expensed in the period incurred. At December 31, 2011 and 2010 research and development expenses were 7,325 and 7,000 respectively.

**w) Contingencies**

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

**x) Use of estimates**

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

**y) Leases**

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

**z) Earnings (losses) per share**

Basic earnings (losses) per share is calculated by dividing net earnings (losses) attributable to ordinary shareholders by the weighted-average number of ordinary shares outstanding during the period. Diluted earnings (losses) per share include the effects of the possible issuance of ordinary shares under share grants and option plans in the determination of the weighted average number of ordinary shares outstanding during the period. The following table provides the amounts used in the calculation of losses per share:

	2011	2010	2009
Net loss attributable to ordinary shareholders	(19,586)	(11,078)	(17,686)
Weighted-average number of ordinary shares outstanding during the year	54,853,045	54,853,045	54,853,045
Increase resulting from assumed conversion of share grants and options			

Edgar Filing: NATUZZI S P A - Form 20-F

Weighted-average number of ordinary shares and potential shares outstanding during the year	54,853,045	54,853,045	54,853,045
---	------------	------------	------------

F - 15

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**4. Cash and cash equivalents**

Cash and cash equivalents are analyzed as follows:

	2011	2010
Cash on hand	314	248
Bank accounts	93,726	60,846
	94,040	61,094

The following table shows the Group's cash and cash equivalents broken down by country/region:

	2011	2010
China	70,073	18,196
Europe	22,474	35,016
North America	907	7,171
South America	439	626
Other	147	85
	94,040	61,094

The Company anticipates that its existing cash and cash equivalents resources, including availability under its credit facilities (see note 13) and cash flows from operations, will be adequate to satisfy its liquidity requirements through calendar year 2012. If available liquidity is not sufficient to meet the Company's operating and debt service obligations as they come due, the management could pursue alternative financing arrangements or reducing expenditures as necessary to meet the Company's cash requirements throughout 2012.

**5. Marketable debt securities**

Details regarding marketable debt securities are as follows:

	2011	2010
Foreign corporate bonds	4	4
	4	4

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

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

	Cost	Gross unrealized Gains	(Losses)	Fair value
2011				
Foreign corporate bonds	4			4
Total	4			4
2010				
Foreign corporate bonds	4			4
Total	4			4

The contractual maturity of the Group's marketable debt securities at December 31, 2011 is on short term.

**6. Trade receivables, net**

Trade receivables are analyzed as follows:

	2011	2010
North American customers	31,639	35,930
Other foreign customers	44,921	43,766
Domestic customers	26,992	25,486
Trade bills receivable	34	6
Total trade receivables	103,586	105,188
(Allowance for doubtful accounts)	(10,647)	(9,373)
Total trade receivables, net	92,939	95,815

Trade receivables are due primarily from major retailers who sell directly to their customers. Trade receivables due from related parties amounted to 3,078 as at December 31, 2011 (2,597 in 2010). Sales to related parties amounted to 6,637 in 2011 (7,939 in 2010). Transactions with related parties were conducted at arm's length.

As of December 31, 2011, 2010 and 2009 and for each of the years in the three-year period ended December 31, 2011, the Company had customers who exceeded 5% of trade receivables and/or net sales as follows:

Trade receivables	N° of customers	% of trade receivables
2011	2	15%

Edgar Filing: NATUZZI S P A - Form 20-F

2010	2	16%
2009	2	14%

F - 17

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Net sales	N° of customers	% of net sales
2011	2	14%
2010	2	20%
2009	2	17%

In 2011, 2010 and 2009 one customer accounted for approximately 9%, 15% and 11% of the total net sales of the Group, respectively. This customer operates many furniture stores throughout the world.

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

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

Allowance for doubtful accounts	2011	2010	2009
Balance, beginning of year	9,373	9,330	8,615
Charges-bad debt expense	1,695	430	1,859
(Reductions-write off of uncollectible accounts)	(421)	(387)	(1,144)
Balance, end of year	10,647	9,373	9,330

Trade receivables denominated in foreign currencies at December 31, 2011 and 2010 totaled 52,164 and 52,606, respectively. These receivables consist of the following:

	2011	2010
U.S. dollars	28,097	29,799
Canadian dollars	10,758	7,357
British pounds	4,945	5,397
Australian dollars	3,635	4,384
Other currencies	4,730	5,669
Total	52,164	52,606

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**7. Other receivables**

Other receivables are analyzed as follows:

	2011	2010
Receivable from National Institute for Social Security	12,713	16,057
Government capital grants	7,518	7,518
VAT	7,138	8,703
Receivable from tax authorities	2,374	5,069
Advances to suppliers	7,198	5,119
Other	7,929	9,243
	44,870	51,709

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

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

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

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

The Advances to suppliers represents principally advance payment for services and general expenses.

The Other caption primarily includes deposits and certain receivables related to green incentive for photovoltaic investment.

**8. Inventories**

Inventories are analyzed as follows:

	2011	2010
Leather and other raw materials	61,042	47,760
Goods in process	7,783	11,323
Finished products	24,712	28,272
	93,537	87,355





Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

As of December 31, 2011 and 2010 the provision for slow moving and obsolete raw materials and finished products included in inventories amounts to 5,678 and 8,093, respectively.

**9. Prepaid expenses and accrued income**

Prepaid expenses and accrued income are analyzed as follows:

	2011	2010
Accrued income	76	69
Prepayments	2,521	1,265
	2,597	1,334

Prepayments mainly include the rent advance payment on factory building.

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

Fixed assets are listed below together with accumulated depreciation.

2011	Cost or valuation	Accumulated depreciation	Net Book Value	Annual rate of depreciation
Land and industrial buildings	174,108	(59,349)	114,759	0 10%
Machinery and equipment	123,835	(96,647)	27,188	10 25%
Airplane	24,075	(10,112)	13,963	3%
Office furniture and equipment	22,882	(20,504)	2,378	10 20%
Retail gallery and store furnishings	32,506	(29,060)	3,446	25 35%
Transportation equipment	4,830	(4,200)	630	20 25%
Leasehold improvements	18,495	(6,003)	12,492	10 20%
Construction in progress	945		945	
<b>Total</b>	<b>401,676</b>	<b>(225,875)</b>	<b>175,801</b>	

2010	Cost or valuation	Accumulated depreciation	Net Book Value	Annual rate of depreciation
Land and industrial buildings	197,812	(58,860)	138,952	0 10%
Machinery and equipment	117,452	(97,922)	19,530	10 25%
Airplane	24,075	(9,389)	14,686	3%
Office furniture and equipment	24,053	(22,394)	1,659	10 20%
Retail gallery and store furnishings	32,258	(27,324)	4,934	25 35%
Transportation equipment	5,411	(4,695)	716	20 25%
Leasehold improvements	9,381	(5,489)	3,892	10 20%
Construction in progress	11,582		11,582	

Edgar Filing: NATUZZI S P A - Form 20-F

Total	422,024	(226,073)	195,951
-------	---------	-----------	---------

F - 20

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The following table shows the Long lived assets down by country:

	2011	2010
Italy	103,772	108,433
Romania	21,173	22,976
Brazil	16,160	18,388
United States of America	14,784	15,431
China	14,458	24,362
Spain	2,220	3,111
UK	2,000	2,181
Other countries	1,234	1,069
<b>Total</b>	<b>175,801</b>	<b>195,951</b>

The decrease in construction in progress is mainly due to the completion of the construction of the photovoltaic plant by the parent Company.

Land and industrial buildings is impacted by the write-off of the Italsofa Shanghai's assets a consequence of the relocation agreement signed in January 2011 with the Chinese authorities. In April 2011, this agreement has been executed and Italsofa Shanghai relocated its manufacturing process to a new industrial site. All fixed assets that were not transferred to the new industrial site (the industrial building, some machines and equipments, etc.) have been written-off by the Company, and recorded under the line other income/(expense) net of the consolidated statement of operations for the year ended December 31, 2011 resulting in a loss of 18,388 (equivalent to RMB 165 Mln). As a consequence of this relocation, Italsofa Shanghai collected a relocation compensation fund of 46,691 (equal to RMB 420 million), which was recorded as non operating income, under the line other income/(expense) net of the consolidated statement of operations for the year ended December 31, 2011.

The Company in order to improve its worldwide manufacturing efficiency, in 2008 decided to close and try to sell one of the two Brazilian manufacturing plant located in Pojuca State of Bahia, recording an impairment loss of 2,911. As a result of this decision, as of December, 31 2009 the Company reviewed the impairment test, based on a third-party independent appraisal, and determined that the carrying value of this manufacturing plant (net of the 2008 impairment loss already recorded), was less than the fair value less cost to sell. As consequence, no additional impairment loss was recorded in the 2009 consolidated statement of operations. As of December 31, 2009 the carrying value of this manufacturing facility (net of the 2008 impairment loss already recorded) is analyzed as follows: 7,083 for the industrial building and 1,053 for machinery and equipment.

During 2010, the Company formally confirmed the decision to sell this manufacturing plant with a Board of Director resolution. The plant was classified as property, plant and equipment since not all criteria to record it as held for sale had been met. As of December, 31 2010, the Company performed the annual impairment analysis with a new third-party independent appraisal and determined that its carrying value was less than the fair value less cost to sell. As of December 31, 2010 the carrying value (net of the 2008 impairment loss) of this manufacturing plant is analyzed as follows: 8,020 for the industrial building and 1,193 for machinery and equipment. The changes from the 2009 carrying value are primarily due to the foreign exchange translation effect.

---

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

During 2011, the Company, was not able to sell this plant and, at the end of 2011, engaged a third-party independent consulting firm to review the fair market value of Pojuca plant. With this new external appraisal, the management performed the annual impairment analysis and determined that its carrying value as of December, 31 2011 exceeds its fair value. Therefore, as of December 31, 2011 the carrying value of Pojuca plant was reduced to its fair value. This resulted in an impairment loss of 1,036, that was recorded, under the line other income/(expense) net of the consolidated statement of operations for the year ended December 31, 2011(see note 26). The Company has reevaluated its earlier decision to sell the plant, given its current growth plans in Brazil, and is currently not activity marketing the plant for sale.

In Italy, for the same reason, the Company, in 2008 decided to close and try to sell six industrial buildings mainly utilized as warehouses and located in the cities of Altamura and Matera nearby the Group's headquarters in Santeramo. As a result of this decision the Company performed an impairment analysis and recorded an impairment loss of 1,792.

During 2009 the Company sold one of the above industrial buildings (not impaired in 2008), for a cash consideration of 950, close to its carrying value. As of December 31, 2009, the Company performed the annual analysis on the remaining five buildings and determined that their carrying values as of December, 31 2009, net of impairment loss recorded in 2008, were less than the fair value less costs to sell. Company's management estimated the fair value of these industrial buildings based on observable market transactions involving sales of comparable buildings and third party independent appraisals. As of December 31, 2009 the carrying value, net of the 2008 impairment loss, of the five remaining industrial buildings was 9,944.

During 2010 none of the remaining mentioned buildings were sold by the Company and one of them was reactivated as a consequence of demand from the made in Italy production. As of December 31, 2010 the Company, performed an impairment analysis for the remaining four buildings and determined that their carrying values as of December 31, 2010 were less than the respective fair value less costs to sell. Company management estimated the fair value of these industrial buildings based on observable market transactions involving sales of comparable buildings and third party independent appraisals. As of December 31, 2010 the carrying value, net of the 2008 impairment loss, of the four remaining industrial buildings was 5,109.

During 2011 none of the remaining mentioned buildings were sold by the Company. As of December, 31 2011, the Company performed a new impairment analysis and determined that their carrying values as of December 31, 2011 were less than the respective fair value. Company management estimated the fair value of these industrial buildings based on observable market transactions involving sales of comparable buildings and third party independent appraisals. As of December 31, 2011 the carrying value, net of the 2008 impairment loss, of the four remaining industrial buildings is 5,109.

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**11. Intangible assets**

Intangible assets consist of the following, together with accumulated amortization:

	Gross carrying amount	Accumulated amortization	Net book value
2011			
Software	21,592	(17,234)	4,358
Trademarks, patents and other	12,371	(11,670)	701
<b>Total</b>	<b>33,963</b>	<b>(28,904)</b>	<b>5,059</b>

	Gross carrying amount	Accumulated amortization	Net book value
2010			
Software	19,884	(14,345)	5,539
Trademarks, patents and other	12,814	(11,148)	1,666
<b>Total</b>	<b>32,698</b>	<b>(25,493)</b>	<b>7,205</b>

Amortization expense recorded for these assets was 3,714, 3,850 and 4,319 for the years ended December 31, 2011, 2010 and 2009, respectively. Estimated amortization expense for the next five years is 3,340 in 2012, 1,680 in 2013, 18 in 2014, 9 in 2015 and 12 in 2016.

**12. Goodwill**

At December 31, 2011 and 2010 the net book value of goodwill may be analyzed as follows:

	2011	2010
Gross carrying amount	9,136	9,136
Less accumulated amortization	(8,875)	(8,425)
<b>Total, net</b>	<b>261</b>	<b>711</b>

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The changes in the carrying amount of goodwill for the year ended December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Balance, beginning of year	711	2,226	3,403
Increase for new acquisition			651
Reductions for amortization	(450)	(1,515)	(1,828)
Balance, end of year	261	711	2,226

The Goodwill is entirely related to a small operating unit named Italian retail owned stores .

**13. Bank overdrafts**

Bank overdrafts consist of the following:

	2011	2010
Bank overdrafts	24,157	83

Bank overdrafts are payable on demand, and were used by the Parent Company. The increase of the year reflects the parent Company financial supports to some subsidiaries.

The weighted average interest rates on the above overdrafts at December 31, 2011 and 2010 are as follows:

	2011	2010
Bank overdrafts	1.91%	1.27%

Credit facilities available to the Group amounted to 51,682 and 44,777 at December 31, 2011 and 2010, respectively. The unused portion of these facilities, for which no commitment fees are due, amounted to 12,749 and 44,694 at December 31, 2011 and 2010, respectively.

**14. Accounts payable-trade**

Accounts payable-trade totaling 63,453 and 64,317 at December 31, 2011 and 2010, respectively, represent principally amounts payable for purchases of goods and services in Italy and abroad, and include 22,110 and 17,951 at December 31, 2011 and 2010, respectively, denominated in foreign currencies.

**15. Accounts payable-other**

Accounts payable-other are analyzed as follows:

Edgar Filing: NATUZZI S P A - Form 20-F

	2011	2010
Provision for warranties	7,180	8,661
Advances from customers	3,618	7,221
Cooperative advertising and quantity discount	3,891	4,381
Withholding taxes on payroll and on others	1,884	2,636
Other accounts payable	4,843	4,718
Total	21,416	27,617

F - 24

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Other accounts payable represents principally VAT payable due from some foreign subsidiaries.

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

	2011	2010	2009
Balance, beginning of year	8,661	8,706	10,717
Charges to profit and loss	1,355	2,112	227
Reductions for utilization	(2,836)	(2,157)	(2,238)
Balance, end of year	7,180	8,661	8,706

**16. Taxes on income**

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

	2011	2010	2009
IRES (state tax)	27.50%	27.50%	27.50%
IRAP (regional tax)	4.82%	4.82%	4.82%

IRES is a state tax and is calculated on the taxable income determined on the income before taxes modified to reflect all temporary and permanent differences regulated by the tax law. The enacted IRES tax rate for 2011, 2010 and 2009 is 27.50% of taxable income.

IRAP is a regional tax and each Italian region has the power to increase the current rate of 3.90% by a maximum of 1.00%. In general, the taxable base of IRAP is a form of gross profit determined as the difference between gross revenues (excluding interest and dividend income) and direct production costs (excluding labour costs, interest expense and other financial costs). The enacted IRAP tax rate due in Puglia region for 2011, 2010 and 2009 is 4.82% (3.90% plus 0.92%).

Total income taxes for the years ended December 31, 2011, 2010 and 2009 are allocated as follows:

	2011	2010	2009
<b>Current:</b>			
- Domestic	(1,842)	(1,980)	(1,684)
- Foreign	(836)	(5,285)	(4,375)
Total (a)	(2,678)	(7,265)	(6,059)
<b>Deferred:</b>			
- Domestic			
- Foreign	(6,206)	313	(3,743)
Total (b)	(6,206)	313	(3,743)



Edgar Filing: NATUZZI S P A - Form 20-F

Total (a+b)	(8,884)	(6,952)	(9,802)
-------------	---------	---------	---------

F - 25

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Certain foreign subsidiaries enjoy significant tax benefits, such as corporate income tax exemptions or reductions of the corporate income tax rates effectively applicable. The tax reconciliation table reported below shows the effect of such tax exempt income on the Group's 2011, 2010 and 2009 income tax charge.

Consolidated Net income/(loss) before income taxes of the consolidated statement of operations for the year ended December 31, 2011, 2010 and 2009, is analyzed as follows:

	2011	2010	2009
Domestic	(22,553)	(11,414)	(36,319)
Foreign	12,560	7,385	28,869
<b>Total</b>	<b>(9,993)</b>	<b>(4,029)</b>	<b>(7,450)</b>

The effective income taxes differ from the expected income tax expense (computed by applying the IRES state tax, which is 27.5% for 2011, 2010 and 2009, to income before income taxes and non-controlling interest) as follows:

	2011	2010	2009
Expected tax benefit at nominal tax rates	2,748	1,108	2,049
Effects of:			
-Tax exempt income	1,505	1,376	2,570
-Aggregate effect of different tax rates in foreign jurisdictions	1,429	2,183	2,855
- Italian regional tax	(1,796)	(1,951)	(1,304)
- Expiration and write off tax loss carry-forwards	(10,086)	(1,080)	
- Non-deductible expenses	(1,940)	(2,987)	(2,194)
- Provisions for contingent liabilities			(380)
- Depreciation and impairment of goodwill	(5)	(5)	(5)
- Effect of net change in valuation allowance established against deferred tax assets	(1,549)	(5,229)	(13,121)
- Tax effect of unremitted earnings	810	(366)	(271)
<b>Actual tax charge</b>	<b>(8,884)</b>	<b>(6,952)</b>	<b>(9,802)</b>

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The effective income tax rates for the years ended December 31, 2011, 2010 and 2009 were 88.9%, 172.5% and 131.6%, respectively. The related Income tax debt recorded for the years ended December 31, 2011 and 2010 is 1,335 and 2,952, respectively.

\*\*\*

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

	2011	2010
<b><u>Current</u></b>		
Gross deferred tax assets	3,273	11,930
Less: (Valuation allowance)	(1,483)	(10,705)
Net deferred tax assets	1,790	1,225
Deferred tax liabilities	(1,412)	(147)
Net Deferred Tax Assets	378	1,078
<b><u>Non Current</u></b>		
Gross deferred tax assets	72,029	62,658
Less: (Valuation allowance)	(71,617)	(60,848)
Net deferred tax assets	412	1,811
Deferred tax liabilities	(7,318)	(1,811)
Net Deferred Tax Liabilities	(6,906)	
<b><u>Total</u></b>		
Gross deferred tax assets	75,302	74,588
Less: (Valuation allowance)	(73,100)	(71,552)
Net deferred tax assets	2,202	3,036
Deferred tax liabilities	(8,730)	(1,958)
Net Deferred Tax Assets/(Liabilities)	(6,528)	1,078

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities at December 31, 2011 and 2010 are presented below:

	2011	2010
<b>Deferred Tax Assets:</b>		
Tax loss carry-forwards	58,271	58,424
Provision for warranties	2,153	2,649
Allowance for doubtful accounts	3,699	3,394
Unrealized net losses on foreign exchange	355	1,013
Impairment of long-lived assets	2,288	2,177
One-time termination benefits	1,863	562
Inventory obsolescence	1,305	1,585
Goodwill and intangible assets	1,764	1,768
Intercompany profit on inventory	1,078	770
Provision for contingent liabilities	2,139	1,049
Provision for sales representatives	387	386
Other temporary differences		811
Total gross deferred tax assets	75,302	74,588
Less: (valuation allowance)	(73,100)	(71,552)
Net Deferred Tax Assets (a)	2,202	3,036
<b>Deferred Tax Liabilities:</b>		
Unremitted earnings of subsidiaries	(412)	(1,222)
Government Grants	(570)	(570)
Unrealized net gain on foreign exchange	(842)	
Other temporary differences	(6,906)	(166)
Deferred Tax Liabilities (b)	(8,730)	(1,958)
Net Deferred Tax Assets /(Liabilities) (a + b)	(6,528)	1,078

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

The valuation allowance for deferred tax assets as of December 31, 2011 and 2010 was 73,100 and 71,552, respectively. The net change in the total valuation allowance for the years ended December 31, 2011 and 2010 was an increase of 1,549 and a decrease of 5,229, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and the tax loss carry-forwards are utilized.

The Other temporary differences of 6,906 include the deferred tax liability related to the taxable net gain recorded in the Group consolidated financial statements as a consequence of the Chinese relocation (note 26). The transaction has a specific local tax rule. According to local requirements, all tax impacts will be recorded on the Chinese subsidiary tax return upon completion of certain formal and compliance requirements.

During 2011, in Italy, a new tax rule has been adopted for tax losses carry forwards. From 2011 all net losses carried forward no longer expire, with the only limitation being that such loss carry forwards can be utilized to off-set a maximum of 80% of the taxable income in each following

## Edgar Filing: NATUZZI S P A - Form 20-F

year. The new tax rule is applicable also to net losses recorded in previous periods.

Given the cumulative loss position of the Company and of most of the Italian and foreign subsidiaries as of December 31, 2011 and 2010, and despite the new tax rule described above, management has considered the scheduled reversal of deferred tax liabilities and tax planning strategies, in making their assessment. The management after a reasonable analysis as of December 31, 2011 and 2010 has not identified any relevant tax planning strategies prudent and feasible available to reduce the valuation allowance. Therefore, at December 31, 2011 and 2010 the realization of the deferred tax assets is primarily based on the scheduled reversal of deferred tax liabilities except in certain historically profitable jurisdictions.

F - 28

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Based upon this analysis, management believes it is more likely than not that Natuzzi Group will realize the benefits of these deductible differences and net operating losses carry-forwards, net of the existing valuation allowance at December 31, 2011 and 2010.

As of December 31, 2011, taxes that are due on the distribution of the portion of shareholders' equity equal to unremitted earnings of some of the subsidiaries is 412 (1,222 at December 31, 2010). The Group has provided for such taxes as the likelihood of distribution is probable.

As of December 31, 2011 the tax losses carried-forward of the Group total 201,155 and expire as follows:

2012	39
2013	3,215
2014	1,020
2015	1,666
2016	1,208
Thereafter	39,624
No expiration	154,383
<b>Total</b>	<b>201,155</b>

As of December 31, 2011, tax losses carried forward expired for an amount equal to 37,334.

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

Salaries, wages and related liabilities are analyzed as follows:

	2011	2010
Salaries and wages	2,058	2,028
Social security contributions	2,451	4,488
Vacation accrual	3,531	3,393
<b>Total</b>	<b>8,040</b>	<b>9,909</b>

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**18. Long-term debt**

Long-term debt at December 31, 2011 and 2010 consists of the following:

	2011	2010
0.25% long-term debt payable in semi-annual installments with final payment due July 2013	900	1,497
2.25% long-term debt payable in annual equal installments with final payment due May 30, 2015	1,165	1,437
3-month Euribor (360) plus a 1,0% spread long-term debt with final payment due August 2015	9,402	9,000
0.74% long-term debt payable in annual installments with final payment due April 2018	3,056	3,480
<b>Total long-term debt</b>	<b>14,523</b>	<b>15,414</b>
Less: (current installments)	(3,735)	(1,831)
<b>Long-term debt, excluding current installments</b>	<b>10,788</b>	<b>13,583</b>

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

In 2009 the Company obtained a new long term debt whose amount, at December, 31 2011 and 2010 was 3,056 and 3,480, respectively.

Loan maturities after 2012 are summarized below:

2013	3,503
2014	3,271
2015	2,685
2016	440
Thereafter	889
<b>Total</b>	<b>10,788</b>

At December 31, 2011 and 2010 there are no covenants on the above long-term debt. In addition, at December 31, 2011 and 2010 there is no long-term debt denominated in foreign currencies.

Interest expense related to long-term debt for the years ended December 31, 2011, 2010 and 2009 was 295, 116 and 83 respectively. Interest expense is paid with the related installment (quarterly, semi-annual or annual).





Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**19. Other liabilities**

Other liabilities consist of:

	2011	2010
Provision for tax and legal proceedings	12,237	14,244
One-time termination benefits	6,703	2,046
Termination indemnities for sales agents	1,215	1,190
Other provisions	177	1,024
	20,332	18,504

The Group is involved in a number of certain and probable claims (including tax claims) and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters, after the provision accrued, will not have a material adverse effect on the Group's consolidated financial position or results of operations. The changes in the balance of Provision for tax and legal proceedings for the year ended December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Provision for tax and legal proceedings			
Balance, beginning of year	14,244	14,952	11,253
-Increase for new provision	2,492	3,812	3,846
-(Reductions for use)	(4,499)	(4,520)	(147)
Balance, end of year	12,237	14,244	14,952

The One-time termination benefits include the amounts to be paid on the separation date to certain workers and have been determined by the Company based on the current applicable Italian law and regulations for involuntarily termination of employees. During 2011, the Company paid the one-time termination benefits of 789 to the workers terminated pursuant to an individual agreement reached during the first months of 2011. On September, 2011 the Company and the Trade Unions submitted a request to the Italian Ministry of Labor to access for 24 months (starting from October 16, 2011) to the unemployment benefits (Italian law July, 23 1991 n. 223 e D.M. August 20, 2002 n. 31444) granted by a special Social Security procedure called CIGS *Cassa Integrazione Guadagni Straordinaria*. The average number of positions involved in the CIGS program within the Group's Italian facilities for the 2011-2013 period is 1,273 and are currently employed in the Italian headquarters and production sites. On October, 2011 the Italian Ministry of Labor accepted the above request, and admitted the Company to a 24 months layoff period, in order to support the reorganization process of the Company that assumes a surplus of 1,060 employees at the end of the lay-off period (October 15, 2013). Based on the above signed agreement, the Company, at December, 2011 has increased the One-time termination benefits reserve to 6,703 with an addition accrual of 5,446 (for the 1,060 employees to be dismissed) recorded as a non operating expense, under the line other income/(expense) net of the consolidated statement of operations for the year ended December 31, 2011(see note 26).

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The Company has not determined the effective employees interested by the above mentioned lay-off program and, therefore, no notification has been made to terminated employees.

**20. Shareholders equity**

The share capital is owned, as of December 31, as follows:

	2011	2010
Mr. Pasquale Natuzzi*	53.7%	53.5%
Mrs. Anna Maria Natuzzi	2.6%	2.6%
Mrs. Annunziata Natuzzi	2.5%	2.5%
Public investors	41.2%	41.4%
	100%	100%

\* through INVEST 2003 S.r.l.

An analysis of the reserves is as follows:

	2011	2010
Legal reserve	11,199	11,199
Monetary revaluation reserve	1,344	1,344
Government capital grants reserve	29,749	29,749
Majority shareholder capital contribution	488	488
<b>Total</b>	<b>42,780</b>	<b>42,780</b>

The number of ordinary shares issued at December 31, 2011 and 2010 is 54,853,045. The par value of one ordinary share is euro 1.

Italian law requires that 5% of net income of the parent company and each of its consolidated Italian subsidiaries be retained as a legal reserve, until this reserve is equal to 20% of the issued share capital of each respective company. The legal reserve may be utilized to cover losses; any portion which exceeds 20% of the issued share capital is distributable as dividends. The combined legal reserves totaled 11,199 at December 31, 2011 and 2010, respectively.

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

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

The cumulative translation adjustment included in retained earnings of shareholders' equity related to translation of the Group's foreign assets and liabilities at December 31, 2011 was a credit of 1,102 (debit of 5,840 at December 31, 2010).



Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**Non-controlling interest** Non-controlling interest shown in the accompanying consolidated balance sheet at December 31, 2011 is 3,035 (2,112 at December 31, 2010).

**21. Commitments and contingent liabilities**

Several companies of the Group lease manufacturing facilities and stores under non-cancellable lease agreements with expiry dates through 2023. Rental expense recorded for the years ended December 31, 2011, 2010 and 2009 was 18,710 , 15,284 and 15,418, respectively. As of December 31, 2011, the minimum annual rental commitments are as follows:

2012	17,330
2013	17,238
2014	17,531
2015	17,832
2016	18,412
Thereafter	30,272
<b>Total</b>	<b>118,616</b>

Certain banks have provided guarantees at December 31, 2011 to secure payments to third parties amounting to 3,295 (4,686 at December 31, 2010). These guarantees are unsecured and have various maturities extending through December 31, 2015.

On September, 2011 the Company and the Trade Unions submitted a request to the Italian Ministry of Labor to access for 24 months (starting from October 16, 2011) to the unemployment benefits (Italian law July, 23 1991 n. 223 e D.M. August 20, 2002 n. 31444) granted by a special Social Security procedure called CIGS *Cassa Integrazione Guadagni Straordinaria* . The average number of positions involved in the CIGS program within the Group's Italian facilities for the 2011-2013 period is 1,273 and are currently employed in the Italian headquarters and production sites. On October, 2011 the Italian Ministry of Labor accepted the above request, and admitted the Company to a 24-month layoff period, in order to support the reorganization process of the Company that assumes a surplus of 1,060 employees at the end of the lay-off period (October 15, 2013). Based on the above-mentioned agreement, the Company, during the 24-month layoff period, has a formal commitment to make investments (equipment related to the production activities; marketing, sales and distribution network development; research and development; patents; trademarks, training requalification) for a total amount of 25,000. These amounts are not reflected in the table above because it is not possible to determine when this investment will be carried out.

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The Group is also involved in a number of certain and probable claims (including tax claims) and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters, after considering amounts accrued, will not have a material adverse effect on the Group's consolidated financial position or results of operations or cash flows (see note 19).

**22. Segmental and geographical information**

The Group operates in a single industry segment, that is, the design, manufacture and marketing of contemporary and traditional leather and fabric upholstered furniture. It offers a wide range of upholstered furniture for sale, manufactured in production facilities located in Italy and abroad (Romania, Brazil and China).

Net sales of upholstered furniture analyzed by coverings are as follows:

	2011	2010	2009
Upholstered furniture - Leather	403,032	431,089	413,751
Upholstered furniture - Fabric	22,243	29,441	36,805
<b>Subtotal</b>	<b>425,275</b>	<b>460,530</b>	<b>450,556</b>
Others	61,089	58,104	64,796
<b>Total</b>	<b>486,364</b>	<b>518,634</b>	<b>515,352</b>

Within leather and fabric upholstered furniture, the Company offers furniture in the following categories: stationary furniture (sofas, loveseats and armchairs), sectional furniture, motion furniture, sofa beds and occasional chairs, including recliners and massage chairs.

The following tables provide information upon the net sales of upholstered furniture and of long-lived assets by geographical location. Net sales are attributed to countries based on the location of customers.

	2011	2010	2009
<b>Sales of upholstered furniture</b>			
United States of America	94,192	114,113	103,174
Italy	46,151	51,694	53,454
England	32,384	33,814	29,701
Canada	35,580	40,769	28,076
France	21,049	24,121	27,500
Spain	21,556	27,305	27,304
Belgium	19,412	23,251	26,665
Germany	20,719	18,318	24,491
Holland	9,961	10,476	14,371
Australia	12,282	15,157	12,118
Other countries (none greater than 2%)	111,989	101,512	103,702
<b>Total</b>	<b>425,275</b>	<b>460,530</b>	<b>450,556</b>



Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

In addition, the Group also sells minor volumes of excess polyurethane foam, leather by-products and certain pieces of furniture (coffee tables, lamps and rugs) which, for 2011, 2010 and 2009 totaled 61,089, 58,104 and 64,796, respectively.

**23. Cost of sales**

Cost of sales is analyzed as follows:

	2011	2010	2009
Opening inventories	87,356	81,564	92,012
Purchases	211,403	208,738	195,783
Labor	79,148	75,772	78,505
Third party manufacturers	10,305	12,439	10,627
Other manufacturing costs	31,393	30,344	34,380
Closing inventories	(93,537)	(87,356)	(81,565)
<b>Total</b>	<b>326,068</b>	<b>321,501</b>	<b>329,742</b>

The line item Other manufacturing costs includes the depreciation expenses of property plant equipment used in the production of finished goods. This depreciation expense amounted to 9,472 , 11,457 and 14,487 for the years ended December 31, 2011, 2010 and 2009, respectively.

**24. Selling expenses**

Selling expenses is analyzed as follows:

	2011	2010	2009
Salaries	26,950	26,875	27,367
Fairs	2,984	2,927	2,260
Commissions	9,107	10,402	9,020
Freight	39,434	45,796	38,631
Promotion	1,863	1,650	1,505
Advertising	24,333	28,072	31,938
Depreciations	5,367	7,644	7,950
Product repairs	4,046	4,104	4,503
Samples	1,419	1,366	736
Credit insurance cost	611	564	591
Bad debts	1,694	430	1,859
Other commercial insurance cost	580	463	569
Other Freight costs	6,924	4,912	3,885
Rent	13,908	12,989	13,427
Consultancy	765	1,221	946
Utilities	2,583	2,629	2,500
Other	1,722	2,223	1,909

Edgar Filing: NATUZZI S P A - Form 20-F

Total	144,290	154,267	149,596
-------	---------	---------	---------

F - 35



NatuZZi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**25. General and administrative expenses**

General and administrative expenses is analyzed as follows:

	2011	2010	2009
Salaries	17,013	17,059	18,640
Consultancy	4,380	4,631	7,509
Electronic data processing	300	227	399
Mail & Phone	1,382	1,281	1,228
Other	1,877	2,224	2,098
Printing & Stationery	791	719	732
Depreciations	4,160	4,318	4,360
Travel expenses	7,004	6,061	5,586
Cars cost	1,459	1,380	1,382
Directors and auditors fees	1,368	1,363	1,374
Non deductibles and indirect taxes	3,564	3,205	3,277
	43,298	42,468	46,585

**26. Other income /(expense), net**

Other income/(expense), net is analyzed as follows:

	2011	2010	2009
Interest income	1,373	576	482
(Interest expense and bank commissions)	(1,860)	(1,575)	(1,624)
Interest income/(expense), net	(487)	(999)	(1,142)
Gains (losses) on foreign exchange, net	1,042	1,935	6,931
Unrealized exchange gain (losses) on exchange derivative instruments, net	(594)	(888)	(62)
Other, net	17,338	(4,475)	(2,606)
Total	17,299	(4,427)	3,121

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Gains (losses) on foreign exchange, net are related to the following:

	2011	2010	2009
Net realized gains (losses) on exchange derivative instruments	1,933	(3,057)	(3,101)
Net realized gains (losses) on accounts receivable and payable	(1,247)	6,801	2,083
Net unrealized gains (losses) on accounts receivable and payable	356	(1,809)	7,949
<b>Total</b>	<b>1,042</b>	<b>1,935</b>	<b>6,931</b>

Other, net are related to the following:

	2011	2010	2009
Provisions for contingent liabilities	(2,492)	(3,812)	(3,846)
Settlement of INPS contingent liability			(1,080)
Impairment losses of long-lived assets	(1,036)		
One-time termination benefits	(5,446)		
Chinese relocation compensation	46,691		
Expenses for the Chinese relocation	(21,631)		
Write-off of fixed assets	(311)	(454)	(595)
Other, net	1,563	(209)	2,915
<b>Total</b>	<b>17,338</b>	<b>(4,475)</b>	<b>(2,606)</b>

**Provisions for contingent liabilities** The Company has charged to other income (expense), net in 2011, 2010 and 2009 the amount of 2,492, 3,812 and 3,846, respectively, for the estimated probable liabilities related to some claims (including tax claims) and legal actions in which it is involved.

During 2011 the Group has charged to other income (expense), net the amount of 1,358 for the probable tax contingent liabilities related to income taxes and other taxes of the parent company and some foreign subsidiaries. For 2011 the remaining amount of 1,134 of the provisions for contingent liabilities is related to several minor claims and legal actions arising in the ordinary course of business.

During 2010 the Company has charged to other income (expense), net the amount of 1,033 for the probable tax contingent liabilities related to income taxes and other taxes of some foreign subsidiaries. For 2010 the remaining amount of 2,779 of the provisions for contingent liabilities is related to several minor claims and legal actions arising in the ordinary course of business.

During 2009 the Company has charged to other income (expense), net the amount of 2,603 for the probable tax contingent liabilities related to income taxes and other taxes of some foreign subsidiaries. For 2009 the remaining amount of 1,243 of the provisions for contingent liabilities is related to several minor claims and legal actions arising in the ordinary course of business.

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**Settlement of INPS contingent liability** During 2009 and due to the receipt of formal binding assessments for social contributions due to the National Institute for Social Security ( *Istituto Nazionale per la Previdenza Sociale* or INPS ), the Company paid a total amount of 1,558. The Company used the provision of 475 and charged to other income/(expense) net the amount of 1,080.

**Impairment losses of long-lived assets** The Company in October 2008, in order to improve its manufacturing efficiency decided to close and sell a manufacturing plant located in Brazil in Pojuca- State of Bahia. At December 31, 2011 the Company performed the annual impairment analysis with a third-party independent appraisal and determined that the carrying value of such manufacturing plant exceeds its fair value. Therefore, as of December 31, 2011 the carrying value of such manufacturing facility was reduced to fair value. This resulted in an impairment loss of 1,036 recorded under the line other income (expense), net of the consolidated statement of operations for the year ended December 31, 2011.

**One-time termination benefits** On September, 2011 the Company and the Trade Unions submitted a request to the Italian Ministry of Labor to access for 24 months (starting from October 16, 2011) to the unemployment benefits (Italian law July, 23 1991 n. 223 e D.M. August 20, 2002 n. 31444) granted by special Social Security procedure called CIGS *Cassa Integrazione Guadagni Straordinaria* . The average number of positions involved in the CIGS program within the Group's Italian facilities for the 2011-2013 period is 1,273 and are currently employed in the Italian headquarters and production sites. On October, 2011 the Italian Ministry of Labor accepted the above request, and admitted the Company to a 24 months layoff period, in order to support the reorganization process of the Company that assumes a surplus of 1,060 employees at the end of the lay-off period (October 15, 2013). Based on the above signed agreement, the Company, at December, 2011 has increased the One-time termination benefits reserve with an accrual of 5,446 (for the 1,060 employees to be dismissed) recorded as a non-operating expense, under the line other income/(expense) net of the consolidated statement of operations for the year ended December 31, 2011.

**Chinese relocation compensation** On January 26, 2011 Italsofa Shanghai ltd (a Chinese subsidiary) signed an agreement with the Shanghai Municipality and Shanghai n.12 Metro Line Development Co. Ltd to abandon the industrial site and relocate to another industrial site. In April 2011, this agreement has been executed and Italsofa Shanghai relocated its manufacturing process to a new industrial site. As a consequence of the signed agreement Italsofa Shanghai collected a relocation compensation amount of 46,691 (equal to RMB 420 million), which was recorded as non operating income, under the line other income/(expense) net of the consolidated statement of operations for the year ended December 31, 2011.

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**Expenses for the Chinese relocation** As a consequence of the above relocation, all fixed assets owned by Italsofa Shanghai that were not transferred in the new industrial site (the industrial building and some machines and equipments) have been written-off recording a loss of 18.388 (equivalent to RMB 165 Mln). In addition the Chinese subsidiary recorded other extraordinary expenses for employees compensation and fees of 3,243 (equivalent to RMB 28 Mln). The consolidated statement of operations for the year ended December 31, 2011 include under the line other income/(expense) net the cumulative expenses for the Chinese relocation of 21,631.

**Write off of fixed assets** The write off of fixed assets includes the net book value of those fixed assets that refer mainly to damaged items and that were no longer in conformity with the production quality standards. As of December 31, 2011, 2010 and 2009 the write offs of fixed assets amount to 310, 454 and 595, respectively.

**27. Financial instruments and risk management**

A significant portion of the Group's net sales and its costs are denominated in currencies other than the euro, in particular the U.S. dollar. The remaining costs of the Group are denominated principally in euros. Consequently, a significant portion of the Group's net revenues are exposed to fluctuations in the exchange rates between the euro and such other currencies. The Group uses forward exchange contracts (known in Italy as domestic currency swaps) and zero cost collars to reduce its exposure to the risks of short-term declines in the value of its foreign currency denominated revenues. The Group uses such derivative instruments to protect the value of its foreign currency denominated revenues, and not for speculative or trading purposes.

The Group is exposed to credit risk in the event that the counterparties to the domestic currency swaps and zero cost collars fail to perform according to the terms of the contracts. The contract amounts of the domestic currency swaps and zero cost collars described below do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure of the Group through its use of those financial instruments. The amounts exchanged are calculated on the basis of the contract amounts and the terms of the financial instruments, which relate primarily to exchange rates. The immediate credit risk of the Group's domestic currency swaps is represented by the unrealized gains or losses on the contracts. Management of the Group enters into contracts with creditworthy counter-parties and believes the risk of material loss from such credit risk to be remote. The table below summarizes in euro equivalent the contractual amounts of forward exchange contracts and zero cost collars used to hedge principally future cash flows from accounts receivable and sales orders at December 31, 2011 and 2010:

	2011	2010
U.S. dollars	11,493	33,451
Euro	14,264	12,200
Canadian dollars	5,041	12,081
British pounds	6,950	8,838
Australian dollars	3,800	7,149
Swiss francs	984	1,584
Norwegian kroner	481	1,091
Swedish kroner	630	919
Danish kroner		497
Japanese yen	2,452	2,310
<b>Total</b>	<b>46,095</b>	<b>80,120</b>

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The following table presents information regarding the contract amount in euro equivalent amounts and the estimated fair value of all of the Group's forward exchange and zero cost collar contracts. Contracts with net unrealized gains are presented as assets and contracts with net unrealized losses are presented as liabilities.

	2011		2010	
	Contract amount	Unrealized gains (losses)	Contract amount	Unrealized gains (losses)
Assets	17,537	36	40,981	171
Liabilities	28,558	(630)	39,139	(1,059)
<b>Total</b>	<b>46,095</b>	<b>(594)</b>	<b>80,120</b>	<b>(888)</b>

At December 31, 2011, 2010 and 2009, the exchange derivative instruments contracts had a net unrealized income (expense), of (594), (888) and (62), respectively. These amounts are recorded in other income (expense), net in the consolidated statements of operations (see note 26).

Unrealized gains (losses) on forward exchange contracts are determined by using quoted prices in active markets for similar forward exchange contracts.

The fair value of zero cost collars is determined using pricing models developed based on the exchange rates in active markets.

Refer to note 3 (c) for the Group's accounting policy on forward exchange contracts and zero cost collars.

**28. Fair value of financial instruments**

The following table summarizes the carrying value and the estimated fair value of the Group's financial instruments:

	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
<b>Assets:</b>				
-Marketable debts securities	4	4	4	4
<b>Liabilities:</b>				
-Long-term debt	14,523	13,503	15,414	14,149

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Cash and cash equivalents, receivables, payables and bank overdraft approximate fair value because of the short maturity of these instruments.

Market value for quoted marketable debt securities is represented by the securities exchange prices at year-end. Market value for unquoted securities is represented by the prices of comparable securities, taking into consideration interest rates, duration and credit standing of the issuer.

Fair value of the long-term debt is estimated based on cash flows discounted using current rates available to the Company for borrowings with similar maturities.

**29. Application of generally accepted accounting principles in the United States of America**

The established accounting policies followed in the preparation of the consolidated financial statements (Italian GAAP) vary in certain significant respects from those generally accepted in the United States of America (US GAAP).

The calculation of net loss and shareholders' equity in conformity with US GAAP is as follows:

**Reconciliation of net loss:**

	2011	2010 (*)	2009 (*)
Net loss attributable to Natuzzi S.p.A. and subsidiaries under Italian GAAP	(19,586)	(11,078)	(17,686)
Adjustments to reported income:			
(a) Revaluation of property, plant and equipment	28	27	27
(b) Government grants	626	640	610
(c) Revenue recognition	2,599	(1,462)	(2,652)
(d) Goodwill and intangible assets	(5,756)	505	1,505
(e) Translation of foreign financial statements	4,565	2,896	(5,193)
(f) One-time termination benefits	4,657		(2,559)
(g) Impairment of long-lived assets			(12)
Tax effect of US GAAP adjustments (i)	(201)	(398)	(30)
Net loss attributable to Natuzzi S.p.A. and subsidiaries in conformity with US GAAP (ii)	(13,068)	(8,870)	(25,990)
Basic loss per share in conformity with US GAAP (iii)	(0.24)	(0.16)	(0.47)
Diluted loss per share in conformity with US GAAP (iv)	(0.24)	(0.16)	(0.47)

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

- (\*) We have identified certain immaterial errors in our previously issued 20-F on the Tax effect of US GAAP adjustments reported in the reconciliation. The following data reflects amounts previously reported for each line corrected:
- (i) Tax effect of US GAAP adjustments previously reported: (794) in 2010 and 223 in 2009.
- (ii) Net loss attributable to Natuzzi S.p.A. and subsidiaries in conformity with US GAAP previously reported: (9,266) in 2010 and (25,737) in 2009.
- (iii) Basic loss per share in conformity with US GAAP previously reported: (0.17) in 2010 and (0.47) in 2009.
- (iv) Diluted loss per share in conformity with US GAAP previously reported: (0.17) in 2010 and (0.47) in 2009.

**Reconciliation of equity attributable to Natuzzi S.p.A. and Subsidiaries:**

	2011	2010 (*)
Equity attributable to Natuzzi S.p.A. and Subsidiaries in conformity with Italian GAAP	310,477	323,119
(a) Revaluation of property, plant and equipment	(452)	(480)
(b) Government grants	(10,161)	(10,787)
(c) Revenue recognition	(3,558)	(6,157)
(d) Goodwill and intangible assets	977	6,731
(e) Translation of foreign financial statements	4,553	6,933
(f) One-time termination benefits	6,703	2,046
(g) Impairment of long-lived assets	388	388
Tax effect of US GAAP adjustments (i)	(295)	(94)
Equity attributable to Natuzzi S.p.A. and Subsidiaries in conformity with US GAAP (ii)	308,632	321,699

- (\*) We have identified certain immaterial errors in our previously issued 20-F on the Tax effect of US GAAP adjustments reported in the reconciliation. The following data reflects amounts previously reported for each line corrected:
- (i) Tax effect of US GAAP adjustments previously reported: (3,494) in 2010.
- (ii) Equity attributable to Natuzzi S.p.A. and Subsidiaries in conformity with US GAAP previously reported: 318,300 in 2010.

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The condensed consolidated balance sheets as at December 31, 2011 and 2010, and the condensed consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009, which include all the US GAAP differences commented below are as follows:

**Condensed Consolidated Balance Sheets as at December 31, 2011 and 2010**

	Dec. 31, 2011	Dec. 31, 2010 (*)
<b>ASSETS</b>		
Current assets	322,961	289,630
Non current assets	188,015	218,868
<b>TOTAL ASSETS</b>	<b>510,976</b>	<b>508,498</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities	122,831	108,261
Non current liabilities (i)	76,478	76,425
Equity attributable to Natuzzi S.p.A. and Subsidiaries (ii)	308,632	321,699
Non-controlling interest	3,035	2,112
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>510,976</b>	<b>508,498</b>

(\*) We have identified certain immaterial errors in our previously issued 20-F on the Tax effect of US GAAP adjustments reported in the reconciliation. The following data reflects amounts previously reported for each line corrected:

- (i) Non current liabilities previously reported: 79,825 in 2010.
- (ii) Equity attributable to Natuzzi S.p.A. and Subsidiaries previously reported: 318,300 in 2010.

**Condensed Consolidated Statements of Operations Years Ended December 31, 2011, 2010 and 2009**

	2011	2010 (*)	2009 (*)
Net sales	488,321	510,755	506,026
Cost of sales	(333,771)	(321,892)	(333,667)
<b>Gross profit</b>	<b>154,550</b>	<b>188,863</b>	<b>172,359</b>
Selling expenses	(137,270)	(146,035)	(140,021)
General and administrative expenses	(43,298)	(42,468)	(46,585)
Operating income/(loss)	(26,018)	360	(14,247)
Other income /(expenses), net	22,619	(2,175)	(1,248)
Net income/(loss) before income taxes	(3,399)	(1,815)	(15,495)
Income taxes (i)	(8,960)	(6,958)	(10,061)



Edgar Filing: NATUZZI S P A - Form 20-F

Net income /(loss) (ii)	(12,359)	(8,773)	(25,556)
Less: Net income attributable to non-controlling interest	709	97	434
Net loss attributable to Natuzzi S.p.A. and subsidiaries (iii)	(13,068)	(8,870)	(25,990)

(\*) We have identified certain immaterial errors in our previously issued 20-F on the Tax effect of US GAAP adjustments reported in the reconciliation. The following data reflects amounts previously reported for each line corrected:

- (i) Income taxes previously reported: (7,354) in 2010 and (9,808) in 2009.
- (ii) Net loss previously reported: (9,169) in 2010 and (25,303) in 2009.
- (iii) Net loss attributable to Natuzzi S.p.A and Subsidiaries previously reported: (9,266) in 2010 and (25,737) in 2009.

F - 43

## Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The tables below set forth the reconciliation of net sales and operating income (loss) from Italian GAAP to US GAAP for the years ended December 31, 2011, 2010 and 2009:

**Reconciliation of net sales from Italian GAAP to US GAAP**

	2011	2010	2009
Net sales in conformity with Italian GAAP	486,364	518,634	515,352
(b) Government grants (reclassification)	(542)	(748)	(953)
(c) Revenue recognition (adjustment)	7,000	(4,893)	(5,144)
(i) Cost paid to resellers (reclassification)	(4,501)	(2,238)	(3,229)
Net sales in conformity with US GAAP	488,321	510,755	506,026

**Reconciliation of operating loss from Italian GAAP to US GAAP**

	2011	2010	2009
Operating income/(loss) in conformity with Italian GAAP	(27,292)	398	(10,571)
(a) Revaluation prop., plant and equ. (adjustment)	28	27	27
(b) Government grants (adjustment)	626	640	610
(c) Revenue recognition (adjustment)	2,599	(1,462)	(2,652)
(d) Goodwill and intangible assets (adjustment)	156	1,211	1,505
(f) One-time termination benefits	(789)		(2,559)
(g) Impairment of long-lived assets (reclassific.)	(1,036)		
(g) Impairment of long-lived assets (adjustment)			(12)
(h) Write-off of fixed assets (reclassification)	(311)	(454)	(595)
Operating income/(loss) in conformity with US GAAP	(26,018)	360	(14,247)

The differences which have a material effect on net loss and/or shareholders' equity are disclosed as follows:

(a) Certain property, plant and equipment has been revalued in accordance with Italian laws. The revalued amounts are depreciated for Italian GAAP purposes. US GAAP does not allow for such revaluations, and depreciation is based on historical costs. The revaluation primarily relates to industrial buildings. The adjustment to net loss and shareholders' equity represents the reversal of excess depreciation recorded under Italian GAAP on revalued assets.

---

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

**(b)** Under Italian GAAP until December 31, 2000 government grants related to capital expenditures were recorded, net of tax, within reserves in shareholders' equity. Subsequent to that date such grants have been recorded as deferred income and recognized in the consolidated statement of operations as revenue or other income, as appropriate under Italian GAAP (see note 3 n)), on a systematic basis over the useful life of the asset.

Under US GAAP, such grants, when received, are classified either as a reduction of the cost of the related fixed asset or as a deferred credit and amortized over the estimated remaining useful lives of the assets. The amortization is treated as a reduction of depreciation expense and classified in the consolidated statement of operations according to the nature of the asset to which the grant relates.

The adjustments to net loss represent mainly the annual amortization of the pre December 31, 2000 capital grants based on the estimated useful life of the related fixed assets. The adjustments to shareholders' equity are to reverse the amounts of capital grants credited directly to equity for Italian GAAP purposes, net of the amounts of amortization of such grants for US GAAP purposes.

Amortization of deferred income related to grants recognized as revenues under Italian GAAP of 542, 748 and 953 for the years ended December 31, 2011, 2010 and 2009 respectively would be reclassified to depreciation expense and recorded in cost of goods sold under US GAAP, in the period such amounts are recognized.

**(c)** Under Italian GAAP, the Group recognizes sales revenue, and accrued costs associated with the sales revenue, at the time products are shipped from its manufacturing facilities located in Italy and abroad. Most of the products are shipped from factories directly to customers under terms that transfer the risks and ownership to the customer when the customer takes possession of the goods. These terms are delivered duty paid, delivered duty unpaid, delivered ex quay and delivered at customer factory. Delivery to the customer generally occurs within one to six weeks from the time of shipment.

## Natuzzi S.p.A. and Subsidiaries

## Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

US GAAP requires that revenue should not be recognized until it is realized or realizable and earned, which is generally at the time delivery to the customer occurs. Accordingly, the Italian GAAP for revenue recognition differs from US GAAP. The principal effects of this variance on the accompanying consolidated balance sheets as of December 31, 2011 and 2010 and related consolidated statements of operations for each of the years in the three-year period ended December 31, 2011 are indicated below:

	2011 Effects Increase (Decrease)	2010 Effects Increase (Decrease)
<u>Effect of revenue recognition adjustment on</u>		
Trade receivables, net	(16,500)	(23,500)
Inventories	11,062	14,570
<b>Total effect on current assets (a)</b>	<b>(5,438)</b>	<b>(8,930)</b>
Accounts payable-trade	(1,880)	(2,773)
Income taxes		
<b>Total effect on current liabilities (b)</b>	<b>(1,880)</b>	<b>(2,773)</b>
<b>Total effect on shareholders equity (a-b)</b>	<b>(3,558)</b>	<b>(6,157)</b>

	2011	2010	2009
Effect of revenue recognition adjustment on			
Net sales	7,000	(4,893)	(5,144)
Gross profit	3,492	(2,141)	(2,991)
Operating income/(loss)	2,599	(1,462)	(2,652)
Net Income/(loss)	2,599	(1,875)	(2,707)

(d) Under Italian GAAP, the Company amortizes the goodwill arising from business acquisitions on a straight-line basis over a period of five years. In addition, under Italian GAAP, the Company has allocated certain intangible assets, having definite lives and arising from a business acquisition and asset acquisition under the caption goodwill.

Under US GAAP, in accordance with ASC 350, *Intangible, Goodwill and Other*, the Company do not amortize goodwill. The Company annually assesses goodwill impairment at the end of its fiscal year by applying a fair value test. In the first step of testing for goodwill impairment, the Company estimates the fair value of each reporting unit, which we have determined to be the geographic operating segments and compare the fair value with the carrying value of the net assets assigned to each reporting unit. The above U.S. and Italian GAAP goodwill is entirely related to a small reporting unit named Italian retail owned stores. If the fair value is less than its carrying value, then a second step would be performed to determine the fair value of the goodwill. In this second step, the fair value of goodwill is determined by deducting the fair value of a reporting unit's identifiable assets and liabilities from the fair value of the reporting unit as a whole, as if that reporting unit had just been acquired and the purchase price were being initially allocated. If the fair value of the goodwill is less than its carrying value for a reporting unit, an impairment charge would be recorded.

## Natuzzi S.p.A. and Subsidiaries

## Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

The changes in the carrying amount of goodwill, intangible assets and US deferred taxes arising from business and asset acquisitions are as follows:

	Goodwill		Intangibles		US Deferred Taxes (*)	
	US	Italian	US	Italian	Goodwill	Intangible
Balance at Dec. 31, 2008	6,260	3,403	1,864		(117)	(i) (585)
Acquisition of stores	651	651				
Amortization		(1,827)	(322)		(77)	(ii) 100
Balance at Dec. 31, 2009	6,911	2,227	1,542		(194)	(iii) (485)
Impairment of goodwill	(706)					
Amortization		(1,516)	(305)		(80)	(iv) 95
Balance at Dec. 31, 2010	6,205	711	1,237		(274)	(v) (390)
Impairment of goodwill	(5,910)				274	
Amortization		(450)	(296)			95
Balance at Dec. 31, 2011	295	261	941			(295)

(\*) We have identified certain immaterial errors in our previously issued 20-F on the Tax effect on US GAAP adjustments reported in the Reconciliation. The following data reflects amount previously reported for each line corrected:

(i) Deferred taxes previously reported: (585) for Intangible and (1,407) for Goodwill.

(ii) Deferred taxes previously reported: 100 for Intangible and (526) for Goodwill.

(iii) Deferred taxes previously reported: (485) for Intangible and (1,933) for Goodwill.

(iv) Deferred taxes previously reported: 105 for Intangible and (476) for Goodwill.

(v) Deferred taxes previously reported: (380) for Intangible and (2,409) for Goodwill.

Estimated amortization expense of the intangible assets for the next five years is as follows: 295 in 2012, 167 in 2013, 110 in 2014, 110 in 2015 and 110 in 2016.

As part of its 2011 close process, Natuzzi revised its sales growth projections for the Italian retail owned stores as the recovery in the Italian retail furniture market failed to materialize with the strength anticipated, following the crisis started in prior years. In addition the domestic and Eurozone credit crisis experienced in 2011 negatively impacted the Company's results and management's expectations for the economic recovery in Italy where private consumption remains weak. In addition, in 2011, the Italian Government passed significant tax, social security, and other extraordinary measures in order to meet the European Commission and European Financial Stability Facility requirements. Such measures were recognized by the International community as a positive step in the right direction, but also resulted in a negative impact in the medium to short-term growth expectation of consumer demand and the overall market recovery. Further measures with the primary aim to foster the economy are currently being discussed but it will take some time before the final effects of such measures will provide a tangible impact in the market.

As a result of the factors described above and the resulting revisions in the expected level of sales of finished products through its Italian retail owned stores, as well as the related operating income, the Company concluded that the carrying value of the goodwill related to such operating unit as of December 31, 2011 was less than the fair value of the reporting unit based on the step one impairment test required by ASC 350.



Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

The fair value as of December 31, 2011 was determined based on Discounted Cash analyses, which require significant assumptions and estimates about the future operations of the reporting unit. Significant judgments inherent in this analysis include the determination of appropriate discount rates, the amount and timing of expected future cash flows and growth rates. The cash flows employed in our 2011 discounted cash flow analyses were based on 2012-2014 year financial forecasts developed internally by management.

The Company performed the required step two of the impairment test by comparing the implied fair value of goodwill to its carrying amount, which resulted in the impairment charge of 5,910, (706 in 2010). The key inputs that were used in performing the impairment tests related to the estimated long term growth rate of 0.5% (1% in 2010), the weighted average cost of capital equal to 9.67% (9.91% in 2010), and an estimated average growth rate in sales of 2.5% (6% in 2010) for the subsequent years.

Based on that evaluation, on a operating unit basis, for the years ended December 31, 2011, 2010 and 2009 such goodwill was impaired to the extent of 5,910, 706, nil, respectively.

In 2010 Natuzzi performed its annual impairment review of goodwill and an impairment loss of 706 was recorded. The Company determined the implied fair value of the reporting unit on the Unlevered Discounted Cash Flow and compared it with the carrying value of goodwill. An impairment loss arose due, in particular, to the decline in cash flow projections related to the uncertain prospects for full economic recovery in Italy, since private consumption was negatively impacted by a general weakness in the job market, high levels of public indebtedness, and a decreasing level of savings among families. In addition, 2010 discount rate used to discount future cash flow and the expected level of sales of finished products remained substantially unchanged compared to 2009.

The difference between the carrying value of the goodwill under Italian GAAP (261) and US GAAP (295) is attributable to the classification and amortization differences discussed above.

(e) Under Italian GAAP as of December 31, 2011, 2010 and 2009, the financial statements of the foreign subsidiaries expressed in a foreign currency are translated directly into euro as follows: (i) year-end exchange rate for assets, liabilities, share capital and retained earnings and (ii) average exchange rates during the year for revenues and expenses. The resulting exchange differences on translation is recorded as a direct adjustment to shareholders' equity (see note 3 d)).

Under US GAAP as of December 31, 2011, 2010 and 2009 the Natuzzi's foreign subsidiaries financial statements have been translated on the basis of the guidance included in Accounting Standards Codification (ASC) No. 830-20, *Foreign Currency Transactions* (Formerly FASB Statement No. 52). Under US GAAP, foreign subsidiaries are considered to be an integral part of Natuzzi due to various factors including significant intercompany transactions, financing, and cash flow indicators. Therefore, the functional currency for these foreign subsidiaries is the functional currency of the parent, namely the euro. As a result all monetary assets and liabilities are remeasured, at the end of each reporting period, using euro and the resulting gain or loss is recognized in the consolidated statements of operations. For all non monetary assets and liabilities, share capital and retained earnings historical exchange rates are used. The average exchange rates during the year are used for revenues and expenses, except for those revenues and expenses related to assets and liabilities translated at historical exchange rates. The resulting exchange differences on translation are recognized in the statements of operations.

---

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

At December 31, 2011, 2010 and 2009 the US GAAP difference arises due to the requirement to use the local currency as the functional currency under Italian GAAP as compared to US GAAP, which requires that the functional currency be determined based on certain indicators which may, or may not result in the local currency being determined to be the functional currency. Consequently, the Company recorded in the US GAAP reconciliation (a) income of 4,565 for 2011, income of 2,896 for 2010 and loss of 5,193 for 2009, respectively; and (b) an increase in shareholders' equity of 4,553 and 6,993 for 2011 and 2010, respectively.

(f) Under Italian GAAP, the Company during 2008 recognized the cost of one-time termination benefits of 4,605 related to the employees to be terminated on an involuntary basis as indicated in the plan of termination.

During 2011, the Company recognized additional cost of one-time termination benefits of 5,446 related to the employees to be terminated on an involuntary basis at the end of 24 months special Social Security procedure called *CIGS Cassa Integrazione Guadagni Straordinaria*, starting from October 16, 2011 to October 15, 2013. (see note 26).

In accordance with Italian GAAP this cost has been recognized in 2011 and 2008 as in such year the Company has formally decided to adopt the termination plan (approval by the Board of Directors) and is able to reasonably estimate the related one-time termination benefits.

The Company has not determined the effective employees interested by the above mentioned lay-off program and, therefore, no notification has been made to terminated employees. Under Italian GAAP for the recognition of the cost for the termination benefits related to the terminated workers the communication or announcement to third parties of the plan of termination of workers is not relevant.

Accounting Standards Codification (ASC) No. 420, *Exit or Disposal Obligations*, paragraph 8 states that the liability for the one-time termination benefits provided to current employees that are involuntarily terminated under the terms of a benefit arrangement that, in substance, is not an ongoing benefit arrangement or an individual deferred compensation contract is measured and recognized if a one-time arrangement exists at the date the plan of termination meets all the following criteria and has been communicated to the employees: (a) management, having the authority to approve the action, commits to a plan of termination; (b) the plan identifies the number of employees to be terminated, their job classifications or functions and their locations, and the expected completion date; (c) the plan establishes the terms of the benefit arrangement, including the benefits that employees will receive upon termination (including but not limited to cash payments), in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated; (d) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.



---

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Therefore, on the basis of the above discussion, the Italian GAAP for recognition in the consolidated statement of operations for the year ended December 31, 2011 of the one-time termination benefits related to the employees to be terminated involuntarily differs from US GAAP.

Under US GAAP, considering the guidance of ASC 420, the one-time termination benefits has to be recorded in the consolidated statement of operations when the termination plan is communicated to the employees and meets all the criteria indicated in ASC 420. Therefore, under US GAAP the cost of the one-time termination benefits had been reversed out of the consolidated statement of operations for the year ended December 31, 2011.

During 2009 the Company paid one-time termination benefits on the separation date to workers terminated for a cash consideration 2,559 respectively, charged under the line cost of sales under US GAAP in the consolidated statement of operations for the year ended December 31, 2011, 2010 and 2009.

During 2011, the Company paid the one-time termination benefits for (789) to the workers terminated pursuant to an individual agreement reached during the first months. At December, 2011 the Company, as consequence of the new agreement signed with the Italian Ministry of Labor, the Company has increased the one-time termination benefits reserve to 6,703 with an addition accrual of 5,446 for the 1,060 employees to be dismissed in 2013.(see note 26).

The residual difference of equity under Italian GAAP and US GAAP, for an amount of 6,703 is attributable to the 1,060 workers that the Company decided to terminate on an involuntary basis (see notes 19).

(g) The Company in order to improve its worldwide manufacturing efficiency, in 2008 decided to close and try to sell one of the two Brazilian manufacturing plant located in Pojuca State of Bahia, recording an impairment loss of 2,911. As a result of this decision, as of December, 31 2009 the Company reviewed the impairment test, based on a third-party independent appraisal, and determined that the carrying value of this manufacturing plant (net of the 2008 impairment loss already recorded), was less than the fair value less cost to sell. As consequence, no additional impairment loss was recorded in 2009 consolidated statement of operations. As of December 31, 2009 the carrying value of this manufacturing facility (net of the 2008 impairment loss already recorded) is analyzed as follows: 7,083 for the industrial building and 1,053 for machinery and equipment.

During 2010, the Company formally confirmed the decision to sell this manufacturing plant with a Board of Director resolution. The plant was classified as property, plant and equipment since not all criteria to record it as held for sale had been met. As of December, 31 2010, the Company performed the annual impairment analysis with a new third-party independent appraisal and determined that its carrying value was less than the fair value less cost to sell. As of December 31, 2010 the carrying value (net of the 2008 impairment loss) of this manufacturing plant is analysis as follows: 8,020 for the industrial building and 1,193 for machinery and equipment. The changes from the 2009 carrying value are primarily due to the foreign exchange translation effect.

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

During 2011, the Company, was not able to sell this plant and, at the end of 2011, engaged a third-party independent consulting firm to review the fair market value of Pojuca plant. With this new external appraisal, the management performed the annual impairment analysis and determined that its carrying value as of December, 31 2011 exceeds its fair value. No cost to sell have been considered in the evaluation of the 2011 fair value measurement. Therefore, as of December 31, 2011 the carrying value of Pojuca plant was reduced to its fair value. This resulted in an impairment loss of 1,036, that was recorded, under the line other income/(expense) net of the consolidated statement of operations for the year ended December 31, 2011(see note 26). In addition, as of December 31, 2009, 2010 and 2011 the Company, in accordance with its Italian accounting policy, has classified this manufacturing facility under the line property, plant and equipment held and used of the consolidated balance sheet (see note 10) as there is a current expectation that it is more-likely-than not that this asset will be sold in the medium long-term period (more than one year from the balance sheet date).

In accordance with Accounting Standards Codification ( ASC ) No. 360-10, *Impairment or Disposal of Long-Lived* (Formerly FASB Statement No. 144), long lived assets (such as property, plant and equipment) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long lived asset or asset group be tested for possible impairment, an entity first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. Long lived assets or asset group to be disposed of by sale are classified as held for sale in the period in which are met all the six criteria indicated in ASC 360, and are measured at the lower of its carrying amount or fair value. If these six criteria are not met the assets are classified as held and used and measured as such as indicate above. In addition, in the statement of operations the impairment loss is classified as part of operating income.

Therefore, on the basis of the above discussion, as of December 31, 2011, 2010 and 2009 the Italian GAAP for measurement and classification in the consolidated statement of operations of the impairment loss related to the manufacturing facility of Brazil and industrial buildings of Italy differs from US GAAP.

Under Italian GAAP the measurement of the impairment loss of the manufacturing facility of Brazil and industrial buildings of Italy has been determined by the amount by which the carrying amount of the asset exceeds the fair value less costs to sell. Under US GAAP as the carrying value of these assets is not recoverable on an undiscounted cash flow basis, the impairment loss has been measured by the amount by which the carrying value exceeds its fair value. Therefore, at December 31, 2008 the difference between Italian GAAP and US GAAP for the measurement of the impairment losses was 400 and this is due to costs to sell. This amount has been reported in the US GAAP reconciliation for the first time at year ended December 31, 2008. No additional difference between Italian GAAP and US GAAP arose on 2011 impairment test that has not considered the cost to sell in the impairment analysis.

At December 31, 2011 and 2010 the original difference between Italian GAAP and US GAAP is reduced to an amount of 388.

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Under Italian GAAP the impairment losses of the manufacturing facility of Brazil and the industrial buildings of Italy of 1,036 have been classified under the line other income /(expense), net in the consolidated statement of operations for the year ended December 31, 2011 (see note 26). Under US GAAP these impairment losses would be classified as cost of sales and would be included as part of operating loss.

Further, there is no difference between Italian GAAP and US GAAP regarding the classification of the manufacturing facility of Brazil and industrial building of Italy in the consolidated balance sheets as of December 31, 2011, 2010 and 2009 as under both GAAP these assets are classified under the line property, plant and equipment held and used (see note 10).

**(h)** During 2011, 2010 and 2009 the Company under Italian GAAP has recognized the write-off of tangible assets of 311, 454 and of 595, respectively, as part of non operating loss. Under US GAAP such write-off charge would be included as part of operating loss.

**(i)** Under Italian GAAP certain costs paid to resellers are reflected as part of selling expenses. Under US GAAP, in accordance with Accounting Standard Codification (ASC) No. 605-50 Revenue Recognition Customer Payments and Incentive (Formerly EITF 01-09), these costs should be recorded as a reduction of net sales. Such expenses include advertising contributions paid to resellers which amounted at December 31, 2011, 2010 and 2009 to 4,501, 2,238 and 3,229, respectively.

**(j)** Under Italian GAAP, the Company includes its warranty cost as a component of selling expenses in the consolidated statement of operations. Under US GAAP, warranty costs would be included as a component of cost of sales. For the years ended December 31, 2011, 2010 and 2009 warranty cost amounting to 4,046, 4,104 and 4,503, respectively, would be reclassified from selling expenses to cost of sales under US GAAP.

**(k)** Under Italian GAAP the Company includes provisions for contingent tax liabilities under the line other income (expense), net in the consolidated statement of operations. For the years ended December 31, 2011, 2010 and 2009, these income taxes provisions are approximately 658, 392 and 229, respectively. Under US GAAP these amounts would be classified in the line income taxes of the consolidated statements of operations.

**(l)** Under Italian GAAP the Company records a tax contingent liability (income tax exposure) when it is probable that the liability has been incurred and the amount of the loss can be reasonably estimated.

The Company adopted the provisions of ASC No. 740-10, Income Taxes Overall, on January 1, 2007. ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely-than-not for recognition of tax benefits and liabilities on uncertain tax position taken or expected to be taken in a tax return. ASC 740 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. As a result of the implementation of ASC 740 as of January 1, 2007, the Company did not recognize any increase or decrease in the liability for unrecognized tax benefits, in respect of the Italian GAAP.

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

There are no differences between the amounts recognized by the Company under ASC 740 and the amounts recognized under Italian GAAP.

The following table provides the movements in the liability for unrecognized tax benefits for the years ended December 31, 2011 and 2010:

	2011	2010
Balance, beginning of the year	1,552	1,944
Additions based on tax positions related to the current year	23	
Additions for tax positions of prior years	706	87
Reductions related to prior years	(216)	
Reductions due to statute of limitations expiration	(604)	(479)
Settlements	(389)	
<b>Balance, end of year</b>	<b>1,072</b>	<b>1,552</b>

The Company recognized interest and penalties, accrued in relation to the uncertainties in income taxes disclosed above, in other income (expense), net. During the years ended December 31, 2011, 2010 and 2009, the Company recognized approximately 929, 3 and 216 in interest and penalties, respectively. The total provision for the payment of interest and penalties as at December 31, 2011 and 2010 amounted to approximately 786 and 1,715, respectively.

As of December 31, 2011 the Company expects that a possible decrease in amounts accrued for uncertainty in income taxes could occur in the next twelve months for 445.

---

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

Under Italian GAAP the Company includes the provisions for income tax contingent liabilities under the line other liabilities of the non current part of the balance sheet. For the years ended December 31, 2011 and 2010 the above provisions for income tax contingent liabilities amount to 1,858 and 3,268, respectively.

(m) The consolidated statements of cash flows for the years ended December 31, 2011, 2010 and 2009 prepared by the Company under Italian GAAP is in conformity with US GAAP (Accounting Standards Codification ( ASC ) No. 230, *Statement of Cash Flow* (Formerly FASB Statement No. 95)).

**Comprehensive Income** Comprehensive income/(loss) generally encompasses all changes in shareholders' equity (except those arising from transactions with owners). The Company's comprehensive income (loss) under U.S. GAAP does not differ from its US GAAP net income (loss) indicated in Note 29.

**Recently issued Accounting Pronouncements**

Recently issued but not yet adopted U.S. Accounting pronouncements relevant for the Company are as follows:

Presentation of Comprehensive Income (Topic 220) , which revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in ASC 220, Comprehensive income , and requires entities to report components of comprehensive income in either (i) a continuous statement of comprehensive income or (ii) two separate but consecutive statements. Under the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income. The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this ASU should be applied retrospectively and they are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The provisions of ASU 2011-05 are not expected to have a material impact on the Company's consolidated financial statements.

Natuzzi S.p.A. and Subsidiaries

**Notes to consolidated financial statements**

(Expressed in thousands of euros except as otherwise indicated)

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about offsetting Assets and Liabilities . The objective of this update is to provide enhanced disclosures that will enable financial statements users to evaluate the effect or potential effect of netting arrangements on an entity's financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities within the scope of this ASU. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. The amendments in this update are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The provisions of ASU 2011-11 are not expected to have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standard Update No 2011-05 . The amendments in this ASU supersede certain pending paragraphs in ASU 2011-05, to effectively defer the requirement that companies present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements. Companies are still required to present reclassifications out of accumulated other comprehensive income on the face of the financial statements or disclose those amounts in the notes to the financial statements. The provisions of ASU 2011-12 are not expected to have a material impact on the Company's consolidated financial statements.

**30. Subsequent events**

No significant event has occurred after year end.

**SIGNATURE**

The registrant, Natuzzi S.p.A., hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**NATUZZI S.p.A.**

By /s/ Pasquale Natuzzi  
Name: Pasquale Natuzzi  
Title: Chief Executive Officer

Date: April 30, 2012

**Exhibit Index**

- 1.1 English translation of the by-laws (*Statuto*) of the Company, as amended and restated as of January 24, 2008 (incorporated by reference to the Form 20-F filed by Natuzzi S.p.A. with the Securities and Exchange Commission on June 30, 2008, file number 1-11854).
- 2.1 Deposit Agreement dated as of May 15, 1993, as amended and restated as of December 31, 2001, among the Company, The Bank of New York, as Depositary, and owners and beneficial owners of ADRs (incorporated by reference to the Form 20-F filed by Natuzzi S.p.A. with the Securities and Exchange Commission on July 1, 2002, file number 1-11854).
- 4.1 Lease Contract For Customized Standard Factory Building, entered into between Shanghai Yuanchao Electronic Science and Technology Co., Ltd. and Natuzzi China Ltd., dated as of March 22, 2010.
- 8.1 List of Significant Subsidiaries.
- 12.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.