



Natuzzi S.p.A

Annual Report on Form 20-F

2021

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, 2021

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)

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

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

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|--|----------------|---|
| American Depositary Shares, each representing five Ordinary Shares | NTZ | New York Stock Exchange |
| Ordinary Shares, with a par value of €1.00 each* | | New York Stock Exchange* |

*Not for trading, but only in connection with registration of American Depositary Shares

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, 2021: 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 every Interactive Data File required to be submitted 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 such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act. ☐

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (§ 15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

U.S. GAAP ☐ International Financial Reporting Standards as issued ☒ Other ☐
by the International Accounting Standards Board

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

☐ Item 17 ☐ Item 18

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

Yes ☐ No ☒

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this annual report on Form 20-F (the “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, 2021 of U.S.\$ 1.1318. 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 of Natuzzi S.p.A. as at December 31, 2021 and 2020 and for the years ended December 31, 2021, 2020 and 2019 have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”), including interpretations issued by the IFRS Interpretations Committee (“IFRS IC”) applicable to companies reporting under IFRS. The consolidated financial statements and the notes thereto included in Item 18 of this Annual Report are referred to collectively as the “Consolidated Financial Statements”.

All discussions in this Annual Report are in relation to IFRS, 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,” “Natuzzi Group,” “Company,” “Group,” “we,” “us,” and “our,” unless otherwise indicated or as the context may otherwise require, mean Natuzzi S.p.A. and its consolidated subsidiaries.

None of the websites referred to in this Annual Report, including where a link is provided, nor any of the information contained on such websites is incorporated by reference in this Annual Report.

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," "anticipate," "likely," "project," "target," "seek," "goal," "aim," "could," "should," "would," "may," "might," "will," "strategy," "future," "continue," "potential" 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, the Group's execution of its reorganization plans for its manufacturing facilities, significant changes in labor, material and other costs affecting the construction of new plants, significant changes in the costs of principal raw materials and in energy costs, 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 duration, severity and geographic spread of the coronavirus (COVID-19) pandemic and of new variants, actions that may be taken by governmental authorities to contain the COVID-19 pandemic or to mitigate its impact, the potential negative impact of resurgences of COVID-19 cases on the global economy, consumer demand, our supply chain and the Company's financial condition, business operations and liquidity, and the geopolitical tensions and market uncertainties resulting from the Russian invasion of Ukraine and current conflict. 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

Risk Factors

Investing in the Company's American Depositary Shares ("ADSs") involves certain risks. You should carefully consider each of the following risks and all of the information included in this Annual Report.

The COVID-19 pandemic has had, and may continue to have, an adverse impact on our business, results of operations and financial condition — The global spread of COVID-19, which was declared a pandemic by the World Health Organization in March 2020, continues to affect our business and operations. In the first half of 2021, as a result of the continued spread of the COVID-19 pandemic in certain regions in which we operate, including parts of Europe and Asia, local public authorities adopted restrictive measures that resulted in the temporary closure of our business activities. In the second half of 2021, our manufacturing partner in Vietnam suspended its activities to comply with restrictive measures adopted by local authorities and resumed its normal production activities only in December 2021. In addition, in 2021, the COVID-19 pandemic caused significant disruptions to our supply chain, making both the procurement of raw material and the production and shipment of finished products particularly complex. See "—Disruptions of our supply chain have had, and may continue to have, a material adverse effect on our results of operations."

As of the date of this Annual Report, new variants of COVID-19 continue to foster the spread of COVID-19 in all major geographies in which we operate. In China, a recent record-breaking level of new local COVID-19 cases has resulted in further restrictions on operations that have shut down our production plant in Shanghai and some of our points of sales from April 1, 2022 to date. Our plant in Shanghai manufactures upholstery products for North America and the APAC region. In 2021, the sale of such products accounted for 26.2% of the Group's consolidated revenue of upholstery furniture. The operational constraints resulting from the COVID-19 lockdown in Shanghai could have a significant negative impact on the Group's revenue if such restrictions remain in place in the coming months, thereby postponing the return to the normal business activity in the Shanghai region.

Except for China, many countries seem to have equipped themselves to live with the pandemic, limiting lockdowns to particularly critical situations. However, the impact that the spread of COVID-19 cases has on the possibility of adequately planning our production remains significant due to a significant increase in the rate of absenteeism among our staff, due to stay-at-home periods imposed by current regulations in connection with contagions. Against this backdrop, the supply chain disruption that characterized 2021 shows no clear signs of improvements and it might continue to have a negative impact on our industrial and logistics planning for 2022. See "—Disruptions of our supply chain have had, and may continue to have, a material adverse effect on our results of operations."

The remote working policies implemented by many companies around the world and the stay-at-home orders imposed by governmental authorities led in the second half of 2020 to an increase in consumers' demand for home furnishings, which continued through 2021. There is no certainty that this trend will continue in the future. Instead, a shift in consumer spending away from home furnishings toward the consumption of services, such as entertainment and travel, might occur as restrictions relating to the COVID-19 pandemic continue to be lifted around the world and the vaccination campaign by different countries around the globe becomes effective. In addition, discretionary consumer spending may decrease in the future due to other reasons, such as an economic recession or fear of an economic recession, volatility in the stock market and increasingly pessimistic consumer sentiment due to perceived or actual economic and/or health risks, including with regard to new COVID-19 variants and the ongoing conflict in Ukraine, which would adversely affect our business, results of operations and financial condition.

As of the date of this Annual Report, our management continues to apply and improve the stricter procedures introduced at the beginning of the COVID-19 pandemic outbreak to manage liquidity and working capital balances to generate sufficient operating cash flows to meet its obligations as they fall due. See Note 3(f) to the Consolidated Financial Statements.

The ultimate magnitude of the impact of the COVID-19 pandemic (including recent and potential future COVID-19 variants such as Omicron) on our business, results of operations and financial condition will depend on future events outside of our control, including a resurgence of COVID-19 cases, future new closure requirements and other operational restrictions which could affect our operations or the ability of our third-party business partners to meet their obligations to us, the success of containment measures, vaccination campaigns and other actions taken by governments around the world, as well as the overall condition and outlook of the global economy. We cannot at this time predict the ultimate impact of the COVID-19 pandemic on our business, liquidity, results of operations and financial condition beyond what is discussed within this Annual Report, but it may be material and adverse.

The COVID-19 pandemic may also exacerbate many of the other risks described in this “Risk Factors” section, including, but not limited to, those relating to our growth strategy, our supply chain, increased energy costs and labor costs, disruption in operations, loss of key employees, our indebtedness, general economic conditions and our international operations.

Disruptions of our supply chain have had, and may continue to have, a material adverse effect on our results of operations

— Since the first half of 2021, we have been facing difficulties in converting the increased orders received into revenues, mainly due to the supply chain and logistic disruptions caused by the COVID-19 pandemic and the difficulty of our suppliers to back up the increased consumer demand and our production capacity. The supply of components, semi-finished goods and raw materials used for our products has been limited, discontinuous and more expensive than in prior years. Ocean freight capacity issues continue to persist worldwide due to the ongoing global COVID-19 pandemic as there is much greater demand for shipping and reduced capacity and equipment. As a result, we have faced, and may face in the future, significantly higher shipping costs due to increased prices announced by third party shippers as well as extensions in delivery times. Furthermore, we have experienced a high degree of absenteeism, especially in our Italian and Romanian plants, due to the COVID-19 pandemic. Such high degree of absenteeism has also affected our suppliers, thus affecting their production capacity. All the foregoing factors are creating significant delays in order fulfillment and increasing backlog, as we have not been able to produce and ship our products at the incoming rate of orders. As of December 31, 2021, our order backlog (i.e. sales orders received and confirmed by the client) was equal to €114.4 million, an increase of 10.7% as compared to January 1, 2021. If we are unable to reduce our order backlog and increase the speed of order fulfilment, it is possible that some of our customers may begin to cancel existing orders and require refunds of deposits, which could have an adverse impact on our liquidity and results of operations. Further, if our competitors are able to solve the current issues before we do, we face the risk that our customers could move to our competitors for purchases.

Disruptions of our supply chain capabilities may also be caused in the future by trade restrictions and political instability—including as a result of the Russian invasion of Ukraine and current conflict, which is expected to have a material impact on economic activity and inflation through higher energy and commodity prices, the disruption of international commerce and weaker consumer confidence—severe weather, natural disasters, other public health crises terrorism, product recalls, labor supply or stoppages and the financial and/or operational instability of key suppliers and carriers. To the extent we are unable to mitigate the likelihood or potential impact of such events, there could be a material adverse effect on our business, results of operations and financial condition.

The price of our main raw materials and energy costs are difficult to predict — In 2021, 72% of our total upholstered net sales came from leather-upholstered furniture sales. The acquisition of cattle hides represented approximately 19.9% of the total cost of goods sold for the year ended on December 31, 2021. 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.

More generally, changes in prices for raw materials are dependent on a number of factors beyond our control, including: macroeconomic factors that may affect commodity prices; changes in supply and demand; general economic conditions; significant political events; labor costs; competition; import duties, tariffs, anti-dumping duties and other similar costs; currency exchange rates and government regulation; and events such as natural disasters and widespread outbreaks of infectious diseases. Since the second half of 2021, we have been experiencing an increase in the price of our raw materials coupled with supply volatility as certain suppliers are also experiencing material and labor shortages as a result of contagions. We are working to offset these issues through several initiatives, including by expanding our supply base. However, we cannot assure you that the prices of our raw materials will return to historical levels in the future. COVID-19 related issues may continue to cause uncertainty, especially with respect to freight availability. Additionally, the current geopolitical tensions and market uncertainty due to the Russian invasion of Ukraine might have an adverse effect on prices of raw materials, and any resulting repercussions on sales prices to end consumers could slow down the current growth in demand for home furnishings.

Furthermore, energy prices have fluctuated dramatically in the past and, following the Russian invasion of Ukraine, have significantly increased and are likely to continue to increase and experience further volatility in the future as the conflict

progresses. Any significant increase in the price of our main raw materials and energy costs would have an adverse impact on our business, results of operations and financial condition.

We have recently returned to profitability but have a history of operating losses and cannot assure you that we will continue to be profitable in the future; our future profitability, financial condition and ability to maintain adequate levels of liquidity depend, to a large extent, on our ability to overcome operational challenges — We have a history of operating losses having recorded an operating loss of €10.6 million in 2020, €22.5 million in 2019, €25.5 million in 2018 and €24.0 million in 2017. Although we achieved an operating profit of €4.9 in the year ended December 31, 2021, we may not be able to achieve or sustain profitable operations in the future or generate positive cash flows from operations.

Our strategy of expanding our retail network of mono-brand stores, both directly and franchised operated, has required, and might require in the future, significant upfront costs at both the regional and headquarter level. The newly opened mono-brand stores are not fully productive during the first months following their openings and, therefore, investments in the retail and marketing organization are, at the beginning, not adequately returned by sales. While we expect that the newly opened mono-brand stores will progressively improve in productivity to absorb such up-front costs, there is a chance that these investments will not be recouped.

In addition, since 2014, we have been restructuring our operations, including by reducing our Italian workforce. As a result, we may face operational challenges going forward.

Furthermore, during the last ten years, we have incurred aggregate financial obligations in the amount of €50.7 million (€0.3 million, €3.8 million, €3.8 million, €1.4 million, €16.9 million, €4.5 million, €4.5 million, €13.5 million, €1.4 million and €0.6 million for the years 2021, 2020, 2019, 2018, 2017, 2016, 2015, 2014, 2013 and 2012, respectively) in connection with our efforts to reduce redundant workers. See “—We have redundant workers at our Italian operations, which remains an unresolved issue, and have benefited in 2021 and in previous years from temporary work force reduction programs; if we continue to be unable to reduce our redundant workers and/or if such temporary work force reduction programs are not continued; our business, results of operations and liquidity may continue to be impacted or may be impacted at a greater extent.”

Our results of operations and ability to maintain adequate levels of liquidity in the future will depend on our ability to overcome these and other challenges. Our failure to improve profitability in the future could adversely affect the trading price of our ADSs 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, results of operations and financial condition.

We have redundant workers at our Italian operations, which remains an unresolved issue, and have benefited in 2021 and in previous years from temporary work force reduction programs; if we continue to be unable to reduce our redundant workers and/or if such temporary work force reduction programs are not continued, our business, results of operations and liquidity may continue to be impacted or may be impacted at a greater extent — Our Italian operations employ redundant workers. In recent years, the Company has entered into a series of agreements with Italian trade unions pursuant to which government funds have been used to pay a substantial portion of the salaries of such redundant workers, who are subject to either temporary layoffs, as in the case of the *Cassa Integrazione Guadagni Straordinaria* (“CIGS”), or reduced work schedules, as in the case of the Solidarity Facility (as defined below). The use of such temporary work force reduction programs has also resulted in a series of lawsuits brought against the Company.

In May 2017, the Italian Supreme Court (*Corte di Cassazione*) rejected the Company’s appeal of a lawsuit brought by two former employees of the Company relating to the implementation of the CIGS, an Italian temporary lay-off program, ruling in favor of the plaintiffs. As a result of this decision, several additional workers have brought lawsuits against the Company over time for alleged misapplication of the CIGS. Since then, the Company has accordingly increased its provision for legal claims. As of December 31, 2021, provision for legal claims amounted to €9.4 million, of which €8.6 million referred to the probably contingent liability related to the legal proceedings initiated for the alleged misapplication of the CIGS. For additional information see Note 23 to the Consolidated Financial Statements.

In addition, in October 2016, the Company laid off 176 Italian workers as part of an organizational restructuring, 166 of whom were then re-employed as the Bari Labor Court deemed the dismissals to have been carried out improperly. In March 2017, the Company and the Italian institutions representing those workers agreed to extend the scope of an agreement signed by the Company and the Minister of Labor and Social Politics in 2015 to reduce working hours per day (the “Solidarity Facility”) in order to lessen the impact of re-employments in 2018. Pursuant to the Solidarity Facility, a higher number of workers, as compared to the Company’s need, may continue to work at the Company, though with a salary reduction that is less than proportional to the reduction in working hours as a result of government financial support.

In December 2018 and 2019, the Company and the relevant trade unions and Italian authorities agreed to extend the scope of the Solidarity Facility, which was later suspended following the COVID-19 outbreak. Indeed, from March 2020 to June 2021, in agreement with trade unions, the Company adopted certain social safety nets made available by the Italian Government to mitigate the impacts of the COVID-19 pandemic on the cost of labor. As a result, the scope of the Solidarity Facility was extended until November 2021. In November 2021, the Company and the relevant trade unions and Italian authorities agreed to extend the scope of the Solidarity Facility through November 2023.

Additionally, starting from December 2018, the Company and the relevant trade unions and Italian authorities agreed on the use by the Company of CIGS in order to support the Company's reorganization process. From January 1, 2019 until March 2020, the Company benefitted from CIGS for up to 487 workers employed at the plant located in Altamura. From March 2020 to June 2021, in agreement with trade unions, the Company adopted certain social safety nets made available by the Italian Government to mitigate the impacts of the COVID 19 pandemic. As a result, CIGS was extended until February 2022. In February 2022, the Company and the relevant trade unions and Italian authorities signed an agreement allowing the Company to benefit from CIGS for up to 463 workers employed at the plant located in Altamura until mid-February 2023. If these temporary work force reduction programs are not continued in the future, our business, results of operations and liquidity may be significantly impacted.

Furthermore, in 2021, we and the other parties involved agreed to set up an incentive plan for workers who voluntarily terminate their employment relationship. This incentive plan will continue to apply in 2022. If this or other efforts to reduce redundant workers are not successful, the labor cost associated with such redundant workers will continue to have an adverse effect on our business, results of operations and financial condition.

Global economic and geopolitical conditions may affect our business and could significantly impact our business, results of operations and liquidity — Our sales volumes and revenues may be affected by overall general economic conditions. For example, a significant decline in the global economy, or in consumer confidence could have a material adverse effect on our business. Deteriorating general economic conditions, including as a result of resurgences of COVID-19 cases and the spread of new variants and the current conflict in Ukraine, may affect disposable incomes and reduce consumer wealth, thus affecting client demand, which may negatively impact our profitability and put downward pressure on our prices and volumes. Many factors, all of which are generally beyond our control, affect the level of consumer spending in the home furnishing industry, including the state of the economy as a whole, stock market performance, interest and exchange rates, inflation, political uncertainty, the availability of consumer credit, tax rates, unemployment levels and other matters that influence consumer confidence. In general, sales of home furnishing goods tend to decline during recessionary periods when the level of disposable income tends to be lower or when consumer confidence is low. We distribute our products internationally and we may be affected by downturns in general economic conditions or uncertainties regarding future economic prospects that may affect the countries in which we sell a significant portion of our products. In particular, the majority of our current sales are in the European Union ("EU") and in the U.S. If we are unable to further expand in emerging markets, a downturn in mature economies, such as the EU and the U.S., may negatively affect our results of operations and financial performance.

More specifically, there are many risks to the global macro-economic outlook in 2022, including, among other things: geopolitical tensions globally, including with regard to the Russian invasion of Ukraine and current conflict; the ongoing COVID-19 pandemic and uncertainties related to its duration, possible resurgences, the ongoing vaccination campaign and future developments, as described in "—The COVID-19 pandemic has had, and may continue to have, an adverse impact on our business, results of operations and financial condition"; recent inflation and monetary policy uncertainty; political tensions in Europe; unsolved sovereign debt issues in many Southern European countries; threats to globalization by renewed protectionism, including tensions between the U.S. and China regarding trade relations and tariffs; customs duties imposed by Canadian authorities on home furnishings goods imported from China and Vietnam; uncertainties related to the long-term impacts of the UK withdrawal from the EU ("Brexit"); and high levels of government, corporate and consumer indebtedness in various countries (including high levels of indebtedness in emerging markets).

While our operations in Russia and Ukraine are not significant, the Russian invasion of Ukraine in February 2022 and the resulting ongoing conflict are expected to have a material impact, at least in the short term, on the global economic activity and inflation through higher energy and commodity prices, liquidity constraints, the disruption of international commerce and weaker consumer confidence. The extent of these effects will depend on how the conflict evolves and the impact of current and future sanctions imposed as a result thereof.

In the EU, despite measures taken by several governments and monetary authorities to provide financial assistance to certain Eurozone countries and to avoid default on sovereign debt obligations, concerns persist regarding the debt burden of several countries. These concerns, along with the significant fiscal adjustments carried out in several countries, intended to manage sovereign credit risk, have led to further pressure on economic growth and may lead to new periods of recession, especially in light of the COVID-19 pandemic and the current conflict in Ukraine. Furthermore, a resurgence of the sovereign debt crisis in Europe

could diminish the banking industry's ability to lend to the real economy, thus creating a negative spiral of declining production, higher unemployment and a weakening financial sector.

In addition, uncertainties regarding future trade arrangements and industrial policies in various countries create additional macroeconomic risk. Following the UK's withdrawal from the EU on January 31, 2020, on December 24, 2020, the European Union and the UK announced that they had reached a bilateral trade and cooperation agreement governing their future relationship (the "EU-UK Trade and Cooperation Agreement"), which was formally approved by the European Council on December 29, 2020 and by the UK parliament on December 30, 2020. The European Parliament subsequently ratified the EU-UK Trade and Cooperation Agreement, which entered into force on May 1, 2021. Although we believe that Brexit will not have a direct material impact on our operations or tax expense, the UK represented 10.7% of our consolidated revenue in the year ended December 31, 2021, the long-term impact of Brexit remains uncertain and will depend on the effects and implementation of the EU-UK Trade and Cooperation Agreement. In particular, Brexit may result in, among other risks, greater restrictions on imports and exports between the UK and EU countries, significant volatility in global equity markets and currency exchange rates, additional regulatory complexity, including due to divergent national laws and regulations as the UK determines which EU laws to replace or replicate, and further global economic uncertainty. Additionally, Brexit may lead other EU member countries to consider referendums regarding their EU membership. Any of the above could have a material adverse effect on our business, results of operations and financial condition.

Adverse economic conditions may also affect the financial health and performance of our dealers in a manner that will affect sales of our products or their ability to meet their commitments to us. Economic downturn may also affect 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, results of operations and liquidity would likely be adversely impacted.

Our ability to generate the significant amount of cash needed to service our debt obligations and comply with our other financial obligations, and our ability to refinance all or a portion of our indebtedness or obtain additional financing, depend 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 and on our other financial obligations, and to refinance and to fund planned capital expenditure and development efforts will depend on our ability to generate cash. See "—We have recently returned to profitability but have a history of operating losses and cannot assure you that we will continue to be profitable in the future; our future profitability, financial condition and ability to maintain adequate levels of liquidity depend, to a large extent, on our ability to overcome operational challenges." 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 our operations to satisfy our existing and projected debt and other financial obligations, in which case, we may have to undertake alternative financing plans, sell assets, reduce or delay 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 and short-term borrowings 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.

Given the persisting nature of the COVID-19 health crisis, the geopolitical tensions caused by the Russian invasion of Ukraine and the resulting impacts on financial markets and the economy as a whole, there is an enhanced degree of uncertainty regarding our capital position and availability of capital to fund our liquidity requirements. Recognizing the significant threat to the liquidity of financial markets posed by COVID-19, most of the central banks and governments all over the world have taken dramatic actions to provide liquidity to the relevant banking systems and businesses. There can be no assurance that these interventions will be successful and that the financial markets will not experience significant contractions in available liquidity. While we have received financial, tax or other relief and other benefits under and as a result of laws passed by the Italian and other countries' governments, it is not possible to estimate at this time the future availability, extent or impact of any such relief. See "—The COVID-19 pandemic has had, and may continue to have, an adverse impact on our business, results of operations and financial condition." Additionally, the instability due to the geopolitical tensions caused by the Russian invasion of Ukraine and the imposition of sanctions, taxes and/or tariffs against Russia and Russia's response to such sanctions has resulted, and may result in the future, in diminished liquidity and credit availability in the market, which could impair our ability to access capital if needed.

At December 31, 2021, we had €36.1 million of bank overdrafts and short-term borrowings outstanding and €53.5 million of cash and cash equivalents. 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, results of operations and financial condition.

The Company uses a securitization program to manage liquidity risk; should such program be terminated, the Company's ability to manage such risk will be impaired — As a means to manage liquidity risk, in July 2020, the Company renewed its accounts receivables securitization facility (the “Securitization Facility”) with an affiliate of Intesa Sanpaolo S.p.A. (the “Assignee”) for an additional 5-year period. Originally entered into in July 2015, the Securitization Facility allows the Company to assign trade receivables to the Assignee for a maximum amount of €40.0 million, on a revolving basis, retaining substantially all of the risks and rewards (“*pro-solvendo*”) in the assigned trade receivables, in exchange for short-term credit. Therefore, the Securitization Facility continues to provide the Company with an important and stable source of liquidity. Notably, under the Securitization Facility, as renewed, the Company is entitled to assign a wider range of trade receivables, thus adding flexibility to the Company's funding capacity. The Company's ability to continue using this tool to mitigate liquidity risk depends on the assigned receivables meeting certain credit criteria, one such criterion being the continued solvency of the customers owing such receivables. If these criteria are not met, including, for example, because the credit quality of the Company's customers deteriorates, the Securitization Facility may be terminated, thereby depriving the Company of an important tool for managing liquidity risk.

Our operations may be adversely impacted by strikes, slowdowns and other labor relations matters — Many of our employees, including many of the workers at our Italian plants, are unionized and covered by collective bargaining agreements. As a result, we are subject to the risk of strikes, work stoppages or slowdowns and other labor relations matters, particularly in our Italian plants. Any strikes, threats of strikes, slowdowns or other resistance in connection with our reorganization plan, the negotiation of new labor agreements or otherwise could adversely affect our business and impair our ability to implement further measures to reduce structural costs and improve production efficiencies. A lengthy strike that involves a significant portion of our manufacturing facilities could have an adverse effect on our cash flows, results of operations and financial condition.

Additionally, we renegotiate these collective bargaining agreements at routine intervals and may be unable to renew these collective bargaining agreements on the same or similar terms, or at all.

We may not execute our business plan, successfully or in a timely manner, which could have a material adverse effect on our results of operations or on our ability to achieve the objectives set forth in our plans — In March 2022, the Board of Directors updated the business plan for the 2022-2026 period (the “Plan”), which considers among other factors, the potential effects of the ongoing supply-chain disruptions and the current geopolitical uncertainty on our business. The Plan focuses on several cornerstones including, among the others,: a) increased focus on controlled distribution through mono-brand stores, both owned and franchises, in priority markets; b) a rationalization of the business model for the wholesale channel; c) revision of our production structure, including the implementation of the new “Factory 4.0” program as well as any potential collaboration with external industrial partners; d) sale of assets that are no longer in line with our strategy; and e) streamlining our processes and overhead cost reduction.

More generally, the Plan provides for management, administrative and financial measures designed to enable the Company to maintain the profitability within the period covered by the Plan. Following the COVID-19 outbreak, the Plan takes into consideration, at least in the short-term, the disruptive effects of COVID-19 pandemic on both consumer demand and our supply chain, and, more generally, the high degree of uncertainty of the current business and geopolitical scenario.

The profitability of our operations depends on the successful and timely execution of the Plan. Failure to successfully and timely achieve the objectives included in the Plan could result in a failure to reduce costs and improve sales and, hence, generate losses for the Group.

A failure to offer a wide range of products that appeal to consumers in the markets we target and at different price-points could result in a decrease in our future profitability — Our sales depend on our ability to anticipate and reflect consumer tastes and trends in the products we sell in various markets around the world, as well as our ability to offer our products at various price points that reflect the spending levels of our target consumers. While we have broadened the offering of our products in terms of styles and price points over the past several years in order to attract a wider base of consumers, our results of operations are highly dependent on our continued ability to properly anticipate and predict these trends. Our potential inability to anticipate consumer tastes and preferences in the various markets in which we operate, and to offer these products at prices that are competitive to consumers, may negatively affect our ability to generate future earnings.

In addition, with a significant portion of our revenue deriving 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 grow consistently with our internal projections or that it will not decline.

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. Should current economic conditions worsen (including as a result of current geopolitical tensions), the current rate of housing starts decline, or rising inflation persist, consumer confidence and demand for home furnishings could deteriorate, which may have an adverse effect on our business, results of operations and financial condition. Additionally, as restrictions relating to the COVID-19 pandemic start or continue to get lifted around the world, the return of consumer spending patterns in place prior to the pandemic may result in a shift in consumer spending away from home furnishings toward the consumption of services, such as entertainment and travel. See “—The COVID-19 pandemic has had, and may continue to have, an adverse impact on our business, results of operations and financial condition.”

The furniture market is highly competitive — We operate 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. We mainly compete in the upholstered furniture sub-segment of the furniture market. In Europe, the upholstered furniture market is highly fragmented. In the U.S., the upholstered furniture market includes a number of relatively large companies, some of which are larger and have greater financial resources than us. Some of our 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. We also compete with retailers that market products through store catalogs and the internet. In November 2021, we launched our e-commerce service for online sales which is currently active in the U.S. Therefore, we compete with other retailers offering consumers the ability to purchase home furnishings via the internet for home delivery and expect such competition to increase in the future. As a result of the actions and strength of our competitors and the inherent fragmentation in some markets in which we compete, we are continually subject to the risk of losing market share, which may lower our sales and profits. Market competition may also force us to reduce prices and margins, thereby negatively affecting our cash flows, or prevent us from raising 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 and interest rates may adversely affect our results of operations — We conduct a substantial part of our business outside of the Euro-zone and are exposed to market risks stemming from fluctuations in currency and interest rates. In particular, an increase in the value of the Euro relative to other currencies used in the countries in which we operate has in the past, and may in the future, reduce the relative value of the revenues from our operations in those countries, and therefore may adversely affect our operating results or financial position, which are reported in Euro. Additionally, we are subject to currency exchange rate risk to the extent that our costs are denominated in currencies other than those in which we earn revenues. In 2021, about 68% of the payments we received and about 51% of the payments we made were denominated in currencies other than the Euro. We also hold a substantial portion of our cash and cash equivalents in currencies other than the Euro. Therefore, we are exposed to the risk that fluctuations in currency exchange rates may adversely affect our results, as has been the case in recent years.

In addition, foreign exchange movements might also negatively affect the relative purchasing power of our clients, which could also have an adverse effect on our results of operations. Although we seek to manage our foreign currency risk in order to minimize negative effects from rate fluctuations, including through hedging activities, there can be no assurance that we will be able to do so successfully. Therefore, our business, results of operations and financial condition could be adversely affected by fluctuations in market rates, particularly during times of high volatility, such as those currently experienced due to the adverse effects of the ongoing COVID-19 pandemic and of the conflict between Russia and Ukraine on financial markets.

In the normal course of business, we also face risks that are either non-financial or non-quantifiable. Such risks principally include country risk, credit risk and legal risk. For more information about currency and interest rates risks, see “Item 11. Quantitative and Qualitative Disclosures about Market Risk.”

We face risks associated with our international operations — We are exposed to risks arising from our international operations, including changes in governmental regulations, tariffs or taxes and other trade barriers (as has been the case for import duties imposed by the U.S. and Canadian administrations for home furnishings imported from some Asian countries), price, wage and currency exchange controls, political, social, and economic instability in the countries where we operate (including as a result of the Russian invasion of Ukraine), inflation, exchange rate and interest rate fluctuations, extended lead time in ordering and, more

recently, disruptions in supply due to plant shut-downs and shipping delays resulting from surges in COVID-19 cases in other parts of the world. Any of these factors could have a material adverse effect on our results of operations.

Compliance with laws may be costly, and changes in laws could make conducting our business more expensive or otherwise change the way we do business — We are subject to numerous regulations, including labor and employment, customs, truth-in advertising, consumer protection, e-commerce, privacy, health and safety, real estate, environmental and zoning and occupancy laws, and other laws and regulations that regulate the operations in our stores, plants and suppliers or otherwise govern our business. In addition, to the extent we expand our operations as a result of engaging in new business initiatives or product lines or expanding into new international markets, we become subject to further regulations and regulatory regimes. We may need to continually reassess our compliance procedures, personnel levels and regulatory framework in order to keep pace with the numerous business initiatives that we are pursuing, and there can be no assurance that we will be successful in doing so. If the regulations applicable to our business operations were to change or were violated by us or our vendors or buying agents, the costs of certain goods could increase, or we could experience delays in shipments of our goods, be subject to fines or penalties, or suffer reputational harm, which could reduce demand for our products and harm our business and results of operations.

In addition to increased regulatory compliance requirements, changes in laws could make ordinary conduct of our business more expensive or require us to change the way we do business. For example, as a result of the COVID-19 pandemic, central and local authorities around the world, and in some instances mall and shopping center owners, have implemented several different directives that encourage or require changes in our business practices including requirements to close our points of sale and to curtail various aspects of our business operations. The scope and duration of these directives is evolving as the COVID-19 pandemic develops in the different countries in which we operate. See “—The COVID-19 pandemic has had, and may continue to have, an adverse impact on our business, results of operations and financial condition.” In addition, changes in laws related to treatment of employees, including laws related to limitations on employee hours, supervisory status, leaves of absence, mandated health benefits or overtime pay, could negatively impact us by increasing compensation and benefits costs for overtime and medical expenses.

Our past results and operations have significantly benefited from government incentive programs, which may not be available in the future — In the past, we used to benefit from 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 has replaced these incentive programs with an investment incentive program for all under-industrialized regions in Italy, which we are currently benefitting from, that includes grants, research and development benefits. There can be no assurance that we will continue to be eligible for such grants, benefits or tax credits for our current or future investments in Italy. In addition, there can be no assurance that we will benefit from the Next Generation EU package that the European Council approved on July 21, 2020 to mitigate the economic and social impact of the COVID-19 pandemic and make European economies and societies more sustainable.

We have started manufacturing operations in China, Brazil and Romania and in some cases we were granted tax benefits and export incentives by the relevant governmental authorities in those countries. There can be no assurance that we will benefit from such tax benefits or export incentives in connection with future investments.

Increased expectations relating to environmental, social and governance factors may expose us to new risks — The focus from certain investors, customers and other key stakeholders relating to environmental, social and governance (“ESG”) matters, including environmental stewardship, social responsibility, diversity and inclusion, racial justice and workplace conduct, has increased in recent years. As a result, our brand and reputation may be damaged in the event that our corporate responsibility procedures or standards do not meet such increased expectations and/or we do not adapt to and comply with new laws and regulations or changes to legal or regulatory requirements concerning ESG matters. Additionally, in the event that we communicate certain initiatives and goals regarding ESG matters, we could fail, or be perceived to fail, in our achievement of such initiatives or goals, or we could be criticized for the scope of such initiatives or goals. Any failure to meet the expectations of our investors and other key stakeholders or our initiatives are not executed as planned could materially and adversely affect our reputation and financial results.

Climate change, or legal, regulatory or market measures to address climate change, may materially adversely affect our financial condition and business operations — Our manufacturing facilities are located in Italy, Romania, China, and Brazil and are engaged in manufacturing processes that, by using energy, produce greenhouse gas emissions (“GHGs”), including carbon dioxide. Some of such jurisdictions are considering implementing, or have already implemented, legislation on climate change and schemes addressing the regulation of carbon emissions. Such regulations on climate change may not be consistent across these countries. As a result, adaptation to such provisions may cause compliance burdens and costs to meet the regulatory obligations and economic and regulatory uncertainty. Any laws or regulations that are adopted to reduce emissions of GHGs could (i) increase

our costs for raw materials, (ii) increase our costs to operate and maintain our facilities, (iii) increase costs to administer and manage emissions programs, and (iv) have an adverse effect on demand for our products.

Climate change resulting from increased concentrations of GHGs and carbon dioxide could present risks to our future operations from natural disasters and extreme weather conditions, such as hurricanes, tornadoes, wildfires or flooding. Such extreme weather conditions could pose physical risks to our facilities and disrupt operation of our supply chain and may increase operational costs. In particular, our timber inventory could be affected by such weather conditions with the risk of changes in timber growth cycles, fire damage, insect infestation, disease, prolonged drought and natural disasters, causing a reduction in our timber inventory and adversely affecting our raw material sourcing. Climate change may also subject our business to significant increases or volatility in the prices of certain commodities, including but not limited to electronic componentry, fuel, oil, natural gas, rubber, cotton, plastic resin, steel and chemical ingredients used to produce foam.

Furthermore, any adverse contractual disputes arising from climate change-related disruptions, could result in increased litigation, costs and could also have a negative impact on our business and reputation.

Failure to protect our intellectual property rights could adversely affect us — We believe that our intellectual property rights are important to our success and market position. We attempt to protect our intellectual property rights through a combination of patent and trademark laws, as well as licensing agreements and third-party nondisclosure and assignment agreements or confidentiality and restricted use agreements. We believe that our patents, trademarks and other intellectual property rights are adequately supported by applications for registrations, existing registrations and other legal protections in our principal markets. However, we cannot exclude the possibility that our intellectual property rights may be challenged by others or that agreements designed to protect our intellectual property will not be breached, or that we may be unable to register our patents, trademarks or otherwise adequately protect them in some jurisdictions.

We rely on information technology to operate our business, and any disruption to our technology infrastructure could harm our operations — We operate many aspects of our business including financial reporting and customer relationship management through server and web-based technologies. We store various types of data on such servers or with third parties who in turn store it on servers and in the “cloud.” Any disruption to the internet or to our global technology infrastructure or to that of our service providers, including malware, insecure coding, “acts of God,” attempts to penetrate networks, data theft or loss and human error, could have adverse effects on our operations. A cyber-attack to our systems or networks that impairs our information technology systems could disrupt our business operations and result in loss of service to customers. Our ability to keep our business operating effectively depends on the functional and efficient operation of our information, data processing and telecommunications systems, including our design, procurement, manufacturing, inventory, sales and payment process. Due to the political uncertainty following the Russian invasion of Ukraine, there is a possibility that the escalation of tensions could result in cyberattacks that could either directly or indirectly affect our operations. While we have invested and continue to invest in information technology risk management, cybersecurity and disaster recovery plans, these measures cannot fully insulate us from technology disruptions or data theft or loss and the resulting adverse effect on our operations and financial results.

The measures we adopted in response to the COVID-19 pandemic and that may be adopted in the future in response to resurgences of the COVID-19 pandemic, including working-from-home arrangements, have resulted and may result in increased vulnerability to cybersecurity incidents, including breaches of information systems security, which could damage our reputation and commercial relationships, disrupt operations, increase costs and/or decrease net revenues, and expose us to claims from customers, suppliers, financial institutions, regulators, payment card associations, employees and others, any of which could have a material adverse effect on our results of operations and financial conditions.

In addition, we are subject to data privacy and other similar laws in various jurisdictions, which require, among other things, that we undertake costly notification procedures in the event we are the target of a cybersecurity attack resulting in unauthorized disclosure of our customer data. If we fail to implement appropriate safeguards or to detect and provide prompt notice of unauthorized access as required by some of these laws, we could be subject to potential claims for damages and other remedies, which could have a material adverse effect on our results of operations.

We are dependent on qualified personnel — Our ability to maintain our competitive position will depend to some considerable degree upon the personal commitment of our founder and Executive Chairman of the Board of Directors, Mr. Pasquale Natuzzi, as well as on our 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 our results of operations.

Changes in tax laws may affect our results — We are subject to income taxes in Italy and other jurisdictions. Changes in tax laws, regulations, or administrative practices in those jurisdictions could affect our financial position and results of operations.

Recently, certain jurisdictions in which we are subject to income taxes, including Italy and the U.S., have enacted changes in tax laws and procedures in response to the outbreak of COVID-19 and its consequences. For example, in the U.S., the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), enacted on March 27, 2020, introduced substantial changes to the U.S. tax code, including a temporary increase to the limitations on deductibility of business interest expense and temporary waiver of certain limitations on the use of net operating losses, in addition to making other changes. Further changes could be made under the new Presidential administration in the United States. We continue to evaluate the impact of such changes on our U.S. operations and no material impact has arisen for the 2020 and 2021 financial statements.

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 the 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 (as defined below), ADS holders do have the right to give instructions to BNY Mellon, National Association (“BNY” or the “Depositary”), the ADS depositary, as to how they wish such shares to be voted. For these reasons, the Company’s ADS holders may find it more difficult to protect their interests against actions of the Company’s management, board of directors or shareholders than they would if they were shareholders of a company incorporated in the United States.

One shareholder has a controlling stake in the Company — Mr. Pasquale Natuzzi, founder of the Company and Executive Chairman of the Board of Directors, beneficially owns, as of the date of this Annual Report, an aggregate amount of 30,967,521 ordinary shares of the Company (the “Ordinary Shares”), representing 56.5% of the Ordinary Shares outstanding (61.6% 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 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 from time to time (the “Deposit Agreement”), among the Company, the Depositary, and owners and beneficial owners of ADSs, the Natuzzi Family has a right of first refusal to purchase all the rights, warrants or other instruments which BNY 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.

Purchasers of our Ordinary Shares and ADSs may be exposed to increased transaction costs as a result of the Italian financial transaction tax or the proposed European financial transaction tax — On February 14, 2013, the European Commission adopted a proposal for a directive on the financial transaction tax (hereafter “EU FTT”) to be implemented under the enhanced cooperation procedure by 11 member states initially (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovenia, Slovakia and Spain). Following Estonia’s formal withdrawal on March 16, 2016, 10 member states are currently participating in the negotiations on the proposed directive. Member states may join or leave the group of participating member states at later stages and, subject to an agreement being reached by the participating member states, a final directive will be enacted. The participating member states will then implement the directive in local legislation. If the proposed directive is adopted and implemented in local legislation, investors in Ordinary Shares and ADSs may be exposed to increased transaction costs.

The Italian financial transaction tax (the “IFTT”) applies with respect to trades entailing the transfer of (i) shares or equity-like financial instruments issued by companies resident in Italy, such as the Ordinary Shares; and (ii) securities representing the shares and financial instruments mentioned under (i) above (including depositary receipts such as the ADSs), regardless of the residence of the issuer. The IFFT may also apply to the transfer of Ordinary Shares and ADSs by a U.S. resident. The IFFT does not apply to companies having an average market capitalization lower than €500 million in the month of November of the year preceding the year in which the trade takes place. In order to benefit from this exemption, companies whose securities are listed on a foreign regulated market, such as the Company, need to be included on a list published annually by the Italian Ministry of Economy and Finance. The Company has started the relevant procedures to be included in such list by the end of 2022. For so long as the Company is not included in such list, investors in the Ordinary Shares and ADSs may be exposed to increased transaction costs. See “Item 10. Additional Information—Taxation—Other Italian Taxes—Italian Financial Transaction Tax.”

ITEM 4. INFORMATION ON THE COMPANY

Business Overview

History and development of the Company — Founded in 1959 by Pasquale Natuzzi, Natuzzi S.p.A. is one of the most renowned brands in the production and distribution of design and luxury furniture. With a global retail network of 651 mono-brand stores and 563 galleries as of December 31, 2021, and with manufacturing plants in Italy, China, Romania and Brazil to efficiently serve different markets, Natuzzi distributes its collections worldwide. Natuzzi products embody the finest spirit of Italian design and the unique craftsmanship details of the “Made in Italy”, as a predominant part of its production takes place in Italy. Natuzzi has been listed on the New York Stock Exchange since May 13, 1993. For additional information on the Company’s listing on the New York Stock Exchange, see “Item 9. The Offer and Listing—Trading Markets.”

Continuous stylistic research, creativity, innovation, solid craftsmanship, industrial know-how and integrated management throughout the entire value chain are the mainstays that have made Natuzzi one of the few players with global reach in the furniture market. Always committed to social responsibility and environmental sustainability, Natuzzi S.p.A. is ISO 9001 and 14001 certified (Quality and Environment), ISO 45001 certified (Safety on the Workplace) and FSC certified (Forest Stewardship Council). The Company first targeted the U.S. market in 1983 and subsequently began entering other markets. As of December 31, 2021, the Company distributed its products in 110 countries on five continents.

The brand portfolio of the Group includes two main brands: *Natuzzi Italia* and *Natuzzi Editions*. For a detailed description of each brand and its target markets, see “Strategy—The Brand Portfolio Strategy” and “Products” below.

As of December 31, 2021, the Group distributed its branded products as follows:

- **Natuzzi Italia** branded products are distributed through **253** *Natuzzi Italia* stores (of which 37 mono-brand stores directly operated by the Group and) and **136** *Natuzzi Italia* galleries (store-in-store points of sales managed by independent partners, including three *Natuzzi Italia* concessions, i.e., galleries directly managed by the Mexican subsidiary of the Group). The *Natuzzi Re-vive* recliner is included in the *Natuzzi Italia* offering.
- **Natuzzi Editions** branded products are distributed through **326** *Natuzzi Editions* stores, of which five directly operated by the Group, and **427** galleries (including 11 *Natuzzi Editions* concessions managed by the Mexican subsidiary of the Group). *Natuzzi Editions* products are distributed in Italy under the brand **Divani&Divani by Natuzzi**, through additional **72** mono-brand stores, of which 12 directly operated by the Group. *Natuzzi Editions* and *Divani&Divani by Natuzzi* are two brands with different banners and store concepts, but with the same merchandising offer (i.e., same positioning and consumers target).

The Group also offers unbranded products (also referred to as “private label” products in this Annual Report) within a dedicated business unit to meet the specific needs of key accounts globally. The Group intends to focus on fewer selected large accounts selling unbranded products and serve them with a more efficient go-to-market model.

Every year, the Group usually presents its products at the world’s leading furniture fairs, such as *Il Salone del Mobile* in Milan, Italy, *IMM* in Cologne, Germany, *Furniture Market* in High Point, North Carolina, U.S..

In 2021, due to the COVID-19 pandemic restrictions, several furniture fairs were canceled or postponed. Accordingly, our marketing team developed an in-house digital platform to run virtual shows to provide an immersive experience to business partners and introduce new collections. To tell the story of its two brands' evolution, Natuzzi has created a virtual show for *Natuzzi Editions* and a new virtual experience called “Natuzzi Italia Immersive World”, using innovative digital techniques with the presence of real people in completely virtual worlds. In September 2021, *Natuzzi Italia* took part in *Supersalone*, the special event of the *Salone del Mobile*, in Milan, and in London Design Week to preview the new collection.

The *statuto* (or By-laws) of the Company provides that the duration of the Company is until December 31, 2050. The Company, which operates under the trademark “Natuzzi,” is a *società per azioni* (joint stock company) organized under the laws of the Republic of Italy and was incorporated in 1959 by Mr. Pasquale Natuzzi, who is currently Executive Chairman of the Board of Directors 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 or furniture manufacturing.

The Company's principal executive offices are located at Via Iazzitiello 47, 70029 Santeramo in Colle, 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.

The SEC maintains a website (www.sec.gov/edgar.shtml) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The Company's website is www.natuzzi.com.

Organizational Structure

Natuzzi S.p.A. is the parent company (the "Parent Company" or the "Parent") of the Natuzzi Group. As of December 31, 2021, the Company's principal operating subsidiaries were:

| Name | Percentage of 31/12/2021 | Percentage of 31/12/2020 | Share/ quota capital | Ownership registered office | Activity |
|--------------------------------------|-----------------------------|-----------------------------|-------------------------|----------------------------------|----------|
| Italsofa Romania S.r.l. | 100.00 | 100.00 | RON 109,271,750 | Baia Mare, Romania | (1) |
| Natuzzi (China) Ltd | 100.00 | 100.00 | CNY 106,414,300 | Shanghai, China | (1) |
| Italsofa Nordeste S/A | 100.00 | 100.00 | BRL 159,300,558 | Salvador de Bahia, Brazil | (1) |
| Natco S.p.A. | 99.99 | 99.99 | EUR 4,420,000 | Santeramo in Colle, Italy | (2) |
| IMPE S.p.A. | — | 100.00 | EUR 1,000,000 | Bari, Italy | (3) |
| Nacon S.p.A. | 100.00 | 100.00 | EUR 2,800,000 | Santeramo in Colle, Italy | (4) |
| Lagene S.r.l. | 100.00 | 100.00 | EUR 10,000 | Santeramo in Colle, Italy | (4) |
| Natuzzi Americas Inc. | 100.00 | 100.00 | USD 89 | High Point, N. Carolina, USA | (4) |
| Natuzzi Florida LLC | 51.00 | 51.00 | USD 4,955,186 | High Point, N. Carolina, USA | (4) |
| Natuzzi Iberica S.A. | 100.00 | 100.00 | EUR 386,255 | Madrid, Spain | (4) |
| Natuzzi Switzerland AG | 100.00 | 100.00 | CHF 2,000,000 | Dietikon, Switzerland | (4) |
| Natuzzi Services Limited | 100.00 | 100.00 | GBP 25,349,353 | London, UK | (4) |
| Natuzzi UK Retail Limited | 70.00 | 70.00 | GBP 100 | Cardiff, UK | (4) |
| Natuzzi Germany GmbH | 100.00 | 100.00 | EUR 25,000 | Köln, Germany | (4) |
| Natuzzi Japan KK | 93.00 | 100.00 | JPY 28,000,000 | Tokyo, Japan | (4) |
| Natuzzi Russia OOO | 100.00 | 100.00 | RUB 8,700,000 | Moscow, Russia | (4) |
| Natmx S.DE.R.L.DE.C.V | 100.00 | 99.00 | MXN 68,504,040 | Mexico City, Mexico | (4) |
| Natuzzi France S.a.s. | 100.00 | 100.00 | EUR 200,100 | Paris, France | (4) |
| Natuzzi Oceania PTI Ltd | 93.00 | 100.00 | AUD 320,002 | Sydney, Australia | (4) |
| Natuzzi Singapore PTE. LTD. | 93.00 | 100.00 | USD 2,297,207 | Singapore, Republic of Singapore | (4) |
| Natuzzi Netherlands Holding | 100.00 | 100.00 | EUR 34,605,000 | Amsterdam, Holland | (5) |
| Natuzzi Trade Service S.r.l. | 100.00 | 100.00 | EUR 14,000,000 | Santeramo in Colle, Italy | (6) |
| Softaly (Furniture) Shanghai Co. Ltd | — | 96.50 | CNY 100,000 | Shanghai, China | (6) |
| Natuzzi India Furniture PVT Ltd | — | 100.00 | INR 16,200,000 | New Delhi, India | (6) |
| Italsofa Shanghai Ltd | — | 96.50 | USD 5,000,000 | Shanghai, China | (6) |

- (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) Dormant

See "Item 18. Financial Statements" of this Annual Report for further information on the Company's subsidiaries.

Strategy

Over the last several years, the Group has focused on strengthening its brands, expanding its product offering and retail network, and improving its efficiency in both procurement and operations. At the same time, the Group has implemented cost control measures to streamline in particular its headquarters-related costs.

With the aim of positioning its offering toward the medium and high end of the market and at the same time differentiating its brand and product proposition from the low end of the market, where price is the main driver, in 2016 the Group started reorganizing its commercial operations on the basis of two divisions (the Natuzzi branded division and the unbranded division) and two business models (retail and wholesale). In 2019, the Group further developed its sales organization by focusing on the distribution channel, in addition to its two divisions: the retail channel, represented by mono-brand stores operated directly by the Group and by third-parties, and the wholesale channel, consisting primarily of Natuzzi-branded galleries in multi-brand stores as well as mass distributors selling unbranded products.

During 2021, the Group continued the transformation of its business to pursue a positioning of the Natuzzi brand as a life-style brand by further focusing principally on the branded part of its business, which is mainly distributed through the retail channel: in 2021, 87.2% of the Group's furnishings revenue came from the sale of its branded products (compared to 85.4% in 2020 and 80.2% in 2019). In addition, the Group intends to continue to expand its presence in key strategic markets where the Natuzzi brand's awareness is well established, such as the U.S., Greater China and the Rest of APAC, the UK and Italy, in particular.

As a result of such effort, in November 2021, the Group defined a new organizational model, pivoting in particular on the Group's two main brands, *Natuzzi Italia* and *Natuzzi Editions*, rather than on distribution channels. Indeed, the *Natuzzi Italia* and *Natuzzi Editions* brands are increasingly pursuing a distinct but complementary development path both in terms of customer segmentation and distribution strategy and, therefore, require a dedicated organization. (see below "The Brand Portfolio and Merchandising Strategy"). This new organization envisages, in particular, the introduction of two leading roles: a Chief Brand Officer ("CBO") for each of the *Natuzzi Italia* and *Natuzzi Editions* brands. Each CBO is responsible for the performance of the respective brand in terms of both top line and profitability, thus having the overall responsibility for the profit and loss of such brand. Accordingly, the CBOs define the main choices in terms of product merchandising, visual merchandising and marketing, as they have a direct impact on brand positioning and customer experience. In addition, each of the two CBOs interacts cross-functionally with other Group functions, such as R&D, Manufacturing and the Creative Department, as well as with each of the Group's Regional Managers (for the North America; Central and South America; West & South Europe; Emerging Markets; Greater China and the Rest of APAC) with the aim of identifying business trends and opportunities in the different markets.

We are also moving towards the Group's digital transformation with the launch, among other things, of the new Natuzzi global website in November 2021. The release of the new web-based platform is part of a broader omnichannel strategy to fully integrate the digital and physical sides of the business. This first release, launched simultaneously in more than 100 countries, showcases both *Natuzzi Italia* and *Natuzzi Editions* collections through dedicated sections of the website. The new global website has replaced the previous 46 different domains that existed in the different geographies of our business. At its launch, the new platform offers a fully operational e-commerce platform for U.S. consumers focusing initially on the *Natuzzi Italia* collection. We are prioritizing the U.S. market, as we believe that it offers the best potential in the e-business segment, with the goal of gradually extending it to other key markets.

As of the date of this Annual report, the Group's strategy is mainly based on the following drivers:

- **Brand strengthening:** for our *Natuzzi Italia* and *Natuzzi Editions* brands we aspire to the «State of Excellence» which requires to focus on five specific pillars: design, merchandising, marketing, retail and service.
- **Continued development of our core upholstered business** by i) launching a selected number of collections, but meticulously developed following a merchandising approach; ii) exploiting best sellers/iconic products to reinforce the Natuzzi brand uniqueness; iii) focusing on our distinctive characteristics: heritage, comfort, versatility and sustainability.
- **Development of the business outside our historical upholstered segment** by offering new furnishings and accessories collections that will follow the life-style concept, thus further enhancing a full retail experience. We intend to expand our product offering in high potential furnishings categories, such as beds and dining room accessories. For selected accessories and furnishings categories, we will adopt an "asset light model", as suppliers will be directly involved in both production and inventory management.
- **Retail excellence**, by implementing the following levers: focus on best-sellers; "quick program", based on stocked products to expedite the lead time to the final consumer; sales force training and redefinition of the story-telling to highlight the uniqueness of the Natuzzi brand.
- **Fostering of the digital transformation**, by introducing, among others, a new website that has replaced the former existing 46 domains, and offering on-line functionality, at its initial stage, in the U.S. for the *Natuzzi Italia* collection, with the goal of gradually extending it to other key markets.
- **A more flexible and efficient production:** we started the "Factory 4.0" pilot industrial program in one of our plants in Italy. This program, which is inspired by the automotive industry, leverages on innovative technologies and provides for a greater involvement of our vendors in the process, so that everyone in the value chain, including our suppliers, can contribute to identify opportunities to improve and stabilize the overall process flow. Once fine-tuned in our pilot plant, we plan to gradually extend this program to the other Italian plants as well as our plants in China, Romania and Brazil. In addition, we plan to further rely on industrial outsourcing especially for the unbranded production;

- **A new organization to support the brand centricity**, through the introduction of two Chief Brand Officers, one for *Natuzzi Italia* and one for *Natuzzi Editions*, who will act transversally across the functions (R&D, Manufacturing, Supply Chain, Furnishings & Accessories) and different geographic markets.
- **Increase in capital efficiency**, through a rigorous approach to working-capital management, the adoption of an “asset light model”, the disposal of non-strategic assets and an increased focus on cash generation and margins metrics.

More generally, the Company intends to implement actions aimed at developing its business and improving efficiency on the basis of the following three main levers:

- 1) Focus on business development by leveraging on its main brands, *Natuzzi Italia* and *Natuzzi Editions*, through:
 - expanding the Group’s presence in key geographies, such as the U.S., China and the Rest of APAC, the UK and Italy;
 - leveraging on joint ventures to exploit market opportunities in markets we believe have growth potential;
 - extending the Group’s efficient direct-retail model in the U.S. to enhance the productivity of other existing directly operated stores (“DOS”); and
 - expanding the retail network in a manner that fosters the transition to a retail and branded company.
- 2) Focus on margins through:
 - a progressive shift to higher margin Natuzzi branded sales, as compared to unbranded business, to increase the quality of our sales;
 - the enhancement of production efficiency, through the reduction of the industrial complexity and the implementation of innovative technologies and processes in our plants; and
 - a disciplined rationalization of the Group’s overhead structure.
- 3) Focus on capital efficiency through:
 - a more rigorous approach to working-capital management;
 - the adoption of an “asset light model”, as suppliers will be directly involved in both production and inventory management for furnishings and accessories;
 - the disposal of non-strategic assets and
 - an increased focus on cash generation and margins metrics.

For further information about the description of the Group and its branded strategy, please refer to the following link:
<https://www.natuzzigroup.com/en-EN/ir/presentation.html>

In addition to the Natuzzi branded business, which has represented over the last few years, and will continue to represent, according to our current plans, the strategic portion of the business, the Group continues to offer **unbranded** products within a dedicated business unit to meet the specific needs of key accounts globally. This division produces and offers leather upholstery to some of the world’s renowned wholesale distributors in the medium/low end of the market. This market segment is exposed to all competitors offering products at specific low market price ranges, with consequent repercussions on our margins.

The Company intends to focus on fewer selected large accounts selling unbranded products and serve them with a more efficient go-to-market model. During 2021, the Group further refined its approach to managing the unbranded business, as it intends to focus on those customers who meet specific business requirements, along with a continued simplification of its operating model, by further evolving the engineering processes of the relevant product/model platforms, as well as identifying the production allocations to efficiently serve such customers.

In order to enhance efficiency and flexibility in the unbranded production, in 2020, we started an outsourcing program in Vietnam to supply a large portion of Mass Merchants in North America which has had encouraging results so far. This program has

represented a great opportunity to the unbranded division, which has been adversely affected, among the others, by the trade dispute between the U.S. and China and, more generally, by increased price competition. At the same time, the Company continues to explore further external production capacity in low-cost countries to increase its production capacity and flexibility, particularly with regard to its unbranded production. There is no assurance that such additional outsourced production capacity could be implemented and that the relevant efficiency gains expected could be reached in the future. For information on the Company's revision of its industrial footprint as a result of these challenges, see "—Manufacturing."

The Company has taken steps to sell some non-strategic assets and real estate properties in the U.S. and Italy. The sale of these assets should increase the flexibility of our operations and reduce working capital needs. The sale proceeds will be reinvested in the development of our business. Moreover, the Group continued to streamline its overall cost structure, with particular reference to its Italian operations. As part of this strategy, in June 2020, the Company signed a sale agreement with a third party for the disposal of the land located in the "Santeramo in Colle-Iesce" area, just a few miles away from its headquarters. On December 31, 2020, the Company signed a preliminary agreement with a third party for the disposal of the idle industrial real estate complex "Via Dell'Avena" located in the city of Altamura (Bari). The sale contract was finalised in May 2021.

In March 2021, the Company completed the sale of IMPE, a subsidiary dedicated to the production of flexible polyurethane foam. For information on the sale of IMPE, see "— Manufacturing." Furthermore, in March 2021, following a preliminary agreement entered into in December 2020, the Company signed a sale contract with a third party for the disposal of the idle industrial real estate complex "Fornello" located in the city of Altamura (Bari) (see Notes 7 and 8 to the Consolidated Financial Statements).

The Brand Portfolio and Merchandising Strategy — The Group, through its two brands and its unbranded offering, competes in all price segments of the upholstered furniture market with an increasingly important offer of furnishings and accessories. The Group's strategy is to focus on the branded part of the business rather than the unbranded business, the latter of which is characterized by lower margins and faces competition almost entirely based on price.

Precise market segmentation, clear 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 through its different product lines, as described below.

— **Natuzzi Italia** is the Group's luxury furniture brand, targeting an affluent and more sophisticated global consumer. The *Natuzzi Italia* collection is sold mainly through the retail channel in mono-brand stores, concessions and galleries in multi-brand specialized stores and high-end department stores. The offer includes sofas designed and manufactured in Italy at the Company's factories, positioned in the high end of the market, with unique and customized materials, workmanship and finishes thanks to the Natuzzi heritage of fine craftsmanship in the leather sofas segment. The *Natuzzi Italia* product line, which is largely the same across all of our stores globally to best represent the *Natuzzi Italia* brand, includes furnishings and accessories for the living room and beds, bed linens and bedroom furnishings to further expand its product offering.

— **Natuzzi Editions** is the Group's contemporary collection, entirely designed in Italy, which was initially designed specifically for the U.S. market. This collection includes a wide range of leather upholstery products, targeting the medium/medium-high segment of the market and leveraging the know-how and high credibility of the Natuzzi brand in the leather upholstery industry. *Natuzzi Editions* products are strategically almost entirely manufactured at the Group's overseas plants (Romania, China and Brazil) to efficiently serve different geographies and are sold through mono-brand stores and galleries. The retail and merchandising format of *Natuzzi Editions* has evolved over time and now includes also a wider offering of furnishings. *Natuzzi Editions* products are distributed in Italy under the brand **Divani&Divani by Natuzzi**, through both direct-owned stores and franchise stores. The store merchandising of *Natuzzi Editions* is based on a common collection but then tailored to best fit the opportunities of each market. *Natuzzi Editions* and *Divani&Divani by Natuzzi* are two brands with different banners and store concepts, but with the same merchandising offer (i.e., same positioning and consumers target). *Divani&Divani by Natuzzi* is mostly focused on the Italian market where it was first launched, whereas *Natuzzi Editions* is distributed in other countries around the world.

— In addition, the Group operates a key account program through unbranded products to compete in the entry price segments of the market by conducting business mainly through large distributors. Unbranded products are manufactured in the Group's plants located in Romania, China and Brazil.

In April 2022, we also introduced a new business unit to capture and further develop our Furnishing & Accessories business as we believe this is a good opportunity for growth. This unit, which will oversee the entire value chain, will adopt an "asset light" business model, as suppliers will be directly involved in both production and inventory management. The head of this new business unit will report to the CEO and will act in close relation with the CBOs of *Natuzzi Italia* and *Natuzzi Editions* and with the

Group's creative director to ensure coherence of the merchandising proposition with the strategy of each brand, in order to further enhance the retail experience.

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 Natuzzi brand. The high level of recognition of the Natuzzi brand among high-end consumers is the result of investments the Company has made over the past decade in its products, communication, store experience and customer service. This consumer brand awareness encourages the Company to carry on its brand development and further 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 high-end brand.

The Group continued to expand its retail distribution network in various countries despite the COVID-19 containment measures adopted globally in 2021.

During 2021, 47 *Natuzzi Italia* stores were opened, of which 23 in China, five in India, four in Brazil, two in Israel, two in Portugal, two in Russia, two in the U.S. and one in each of Canada, Indonesia, South Korea, Romania, Senegal, Tunisia and Italy.

Natuzzi Editions and the *Divani&Divani by Natuzzi* retail chains are characterized by a medium positioning in the upholstery business. During 2021, 121 *Natuzzi Editions* were opened (of which 101 in China, two in Australia, two in Brazil, two in the UK and one in each of Colombia, Egypt, Romania, Slovakia, Spain, Thailand and Ireland) and seven *Divani&Divani by Natuzzi* stores were opened in Italy.

As national and local governments have restricted travel, conferences, events and gatherings due to the COVID-19 outbreak and due to the need to preserve capital for day-to-day operations, our efforts to expand our business internationally by establishing a new retail presence globally (including, but not limited to, the U.S., China, the UK, Italy and other Western European countries) was negatively impacted during 2021.

Product Diversification and Innovation — The Group has continued to collaborate with the most outstanding international designers to launch the new 2021 *Natuzzi Italia* collection named "The Circle of Harmony - Live the transition". This new *Natuzzi Italia* collection was presented in June 2021 to retail partners in the Chinese market and subsequently during the Milan Design Week in September 2021. This collection was created as a response to a new concept of harmony, intended as balance in living domestic spaces, adapting them to different functions and facilitating the birth of a "new normality" expressed by the motto "Live the Transition". The international designers involved interpreted the brand's DNA and its link with the Mediterranean territory, discussing the issues of functionality, sustainability and well-being.

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. The Group believes that a wider offer of collections will strengthen its relationships with the world's leading distribution chains, which are interested in offering branded packages. The Group has also continued investing in the Natuzzi's style center in Santeramo in Colle, Italy (the "Style Center"), which serves as a creative hub for the Group's design activities.

Manufacturing

In response to recent challenges arisen in the global markets, and in particular the imposition of tariffs by the U.S. on goods imported from China and in 2021 of customs duties imposed by the Canadian authorities on goods imported from China and Vietnam, the Group has started a thorough revision of its industrial footprint.

The first step of this revision process was represented by the downsizing of our Chinese manufacturing plant, which was finalized in July 2020. Following the downsizing, our Chinese plant serves mainly the Asia-Pacific region with regard to our products branded *Natuzzi Editions* only, whereas the production for the unbranded products for the North American market is being gradually shifted from China to Vietnam through outsource agreements with, currently, two different suppliers. In the second half of 2021, our manufacturing partner in Vietnam suspended its activities to comply with restrictive measures imposed by local authorities following the increase in COVID-19 cases locally, and resumed its normal production activities only in December 2021. At the same time, the Company continues to explore further external production capacity in low-cost countries to increase its production capacity and flexibility, particularly with regard to its unbranded production. There is no assurance that such additional outsourced production capacity could be implemented and that the relevant efficiency gains expected could be reached in the future.

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

Our four Italian plants dedicated to the production of upholstered products and our three Italian warehouses are located either at or within 25 kilometers from Santeramo in Colle, where the Group's headquarters is located. Collectively, these sites extend over almost 130,000 square meters. As of December 31, 2021, these sites employed 1,537 workers, the majority of whom were subject to layoff programs. See "Item 6. Directors, Senior Managers and Employees—Employees." With the exception of the South American market, the Italian plants are the exclusive producers of *Natuzzi Italia* products. In 2021, these plants generated about 40% of the Group's total consolidated upholstery revenue.

Our Romanian plant is located in Baia Mare. Extending over 75,600 covered square meters, it has been in operation since 2003. As of December 31, 2021, it employed 1,022 people, of whom 873 were laborers. It produces *Natuzzi Editions* and Unbranded products for the EMEAI market. In 2021, the Romanian plant produced about 26% of the Group's total consolidated upholstery revenue.

Our Chinese plant is located in Shanghai, currently extending over 38,000 square meters following the completion of its downsize from 88,000 square meters occurred in July 2020. The Group has been in operation in China since 2002. As of December 31, 2021, it employed 557 people, of whom 504 were laborers. It manufactures *Natuzzi Editions* and Unbranded products mainly for the Asia-Pacific market. In 2021, our Chinese plant produced about 30% of the Group's total consolidated upholstery revenue.

Our Brazilian plant is located in Salvador De Bahia. Extending over 28,700 square meters, it has been in operation since 2000. As of December 31, 2021, our Brazilian plant employed 253 people, of whom 204 were laborers. Since the end of 2016, in addition to *Natuzzi Editions* and Unbranded products, the Brazilian plant produces *Natuzzi Italia* branded products for the South America market.

As of December 31, 2021, the Group had one additional plant in Italy, located in Udine (Natco S.p.A. ("Natco")), and dedicated to the production of leather. This facility employed 141 workers as of December 31, 2021, of whom 124 were laborers.

On January 8, 2021 the Company and Vita Group ("Vita") entered into an agreement whereby Vita Italy S.r.l., a wholly owned subsidiary of Vita, would acquire IMPE against a payment of €6.1 million, subject to customary purchase price adjustments and warranties (the "IMPE Purchase Agreement"). In March 2021, the Company completed the transaction contemplated by the IMPE Purchase Agreement and Vita Italy S.r.l. acquired the entire share capital of IMPE. Such transaction is part of the Company's strategy to review its value chain and streamline the Group's manufacturing processes, focusing on value-added activities within its Italian factories. See Note 7 to the Consolidated Financial Statements.

Our production operations retain many characteristics of hand-crafted production coordinated through a management information system that identifies each component of every piece of furniture by means of a bar-code system and facilitates its automatic transit and traceability through the different production phases up to the warehouse.

Beginning in 2013, we reviewed our sofa production model, under which sofas were traditionally assembled in a department-based factory (or "Isle Production" model), with a view toward implementing moving line-based manufacturing processes, with the aim to improve efficiency, quality and lead time. The moving line production model improves job area ergonomics by splitting products into lighter pieces at individual phases and also coordinates workers by ensuring that they work at a similar pace. The finished product tends to be of higher quality and produced more quickly. The new moving lines were gradually introduced in all of the Group's production facilities. The Group integrated the following production phases in the moving line production process within our plants: (a) direct integration with wood and foam suppliers to serve each plant according to daily needs ("just in time" supplying) with the advantage of reducing the stock level for semi-finished goods; and (b) leather cutting and sewing.

At the end of October 2021, we started the Factory 4.0 pilot industrial program in a new plant located within a 21 kilometer radius of Santeramo in Colle. This program, which is inspired by the automotive industry, leverages on innovative technologies and provides for a greater involvement of our vendors in the process, so that everyone in the value chain, including our suppliers, can contribute to identify opportunities to improve and stabilize the overall process flow. This plant currently manufactures *Divani&Divani by Natuzzi* products. Once fine-tuned in our pilot plant, we plan to gradually extend this program to the other Italian plants as well as our plants in China, Romania and Brazil. For additional information on the Factory 4.0 program, see "Item 4. Information on the Company—Innovation".

Raw Materials — The principal raw materials used in the manufacture of the Group's products are hides (mainly cattle hides), fabrics, polyurethane foam, polyester fiber and wood. In 2021, the overall cost of raw materials used in the manufacture of the Group's products was slightly lower compared to 2020.

The Group purchases hides from slaughterhouses and tanneries located mainly in Italy, Brazil, India, Germany, other countries in South America and Europe. The hides purchased by the Group are divided into several categories, with hides in the lowest categories being purchased mainly in South America and India. The hides in the middle categories are purchased in Europe or South America and hides in the highest-quality categories are purchased in Italy, Germany and the UK.

The supply of cattle hides is principally dependent upon the consumption of beef, rather than on the demand for leather.

The prices for cattle hides increased during 2021. The current situation is quite uncertain, and due to the volatile nature of the hides market, there can be no assurance that current prices will remain stable. To the contrary, given the supply chain disruptions caused by the current COVID-19 situation and conflict in Ukraine (which, among other things, makes it difficult for our facilities in Europe to receive raw materials through the Black Sea trade route) it is likely that such prices will continue to increase and the provisions of raw materials will be difficult. See “Item 3. Key Information—Risk Factors—The COVID-19 pandemic has had, and may continue to have, an adverse impact on our business, results of operations and financial condition”, “Item 3. Key Information—Risk Factors—Disruptions of our supply chain have had, and may continue to have, a material adverse effect on our results of operations” and “Item 3. Key Information—Risk Factors—The price of our main raw materials and energy costs are difficult to predict.”

The Group also purchases fabrics and microfibers to be used in coverings. Most fabrics are purchased in Italy from a dozen suppliers which provide the product at the finished stage. Microfibers are purchased in Italy, South Korea and China through suppliers. Fabrics and microfibers are generally purchased every week from suppliers on the basis of orders specifying the quantity (in linear meters) and the delivery date.

In 2021 the Group purchased the chemicals for the production of polyurethane foam from major chemical companies located in Europe (including Germany, Italy and the UK) and the polyester fiber filling for its cushions from several suppliers located mainly in Indonesia, 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. See “Item 3. Key Information—Risk Factors—The price of our main raw materials and energy costs are difficult to predict.” The polyurethane foam prices increased significantly in 2021 compared to 2020. This trend has not yet reversed as of the date of this Annual Report.

The Group also offers a collection of home furnishing accessories (tables, lamps, rugs, home accessories and wall units in different materials). Most of the suppliers are located in Italy, while some hand-made products (such as rugs) are made in India. Before any items are introduced into our collection, they are tested in accordance with European and world safety standards. In the design phase particular attention is paid to the choice of innovative technological solutions that add value to the product and ensure long lasting quality.

Supply-Chain Management

The Logistics Department is responsible for monitoring logistics solutions to ensure their effectiveness. In addition, in order to improve access to supply chain information across the Group, the Logistics Department uses a portal that allows it and other departments (such as the Customer Service and Sales Department) to monitor the movement of goods through the supply chain.

Production Planning (Order Management, Warehouse Management, Production, Procurement) — The Group’s commitment to reorganizing procurement logistics is aimed to:

- develop a logistic-production model to customize the level of service to customers; and
- optimize the level of the size of the Group’s inventory of raw materials and/or components. A procedure is being implemented to continuously monitor global finished products inventories in order to determine which in-stock goods are not being sold as part of our existing collections (as a result of being phased-out) and to enable the different commercial branches to promote specific sales campaigns of these goods.

The Group also plans its procurement of raw materials and components as follows:

- (i) **“On demand”** for those materials and components (which the Group identifies by code numbers) that require a shorter lead time to complete the order 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 around the world, while maintaining a high level of service and minimizing inventory size. “On demand” procurement of raw materials and components eliminates the risk that these materials and components would become obsolete during the production process; and

(ii) “**Upon forecast**” for those materials and components that require a long lead time to complete the order. The Group uses a forecasting methodology that balances the Group’s desire to maintain low inventory levels with the Sales Department’s need for flexibility in fulfilling orders.

Lead times can be longer than those mentioned above when a large number of unexpected orders are received. Delivery times vary depending on the location of unloading (transportation times vary greatly depending on the distance between the final destination and the production plant).

Load Optimization and Transportation — The Group delivers goods to customers via common carriers. 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 or rail. In 2021, the Group shipped 6,153 containers overseas and approximately 4,636 fully loaded mega-trailers trucks.

With the aim of decreasing costs and safeguarding product quality, the Group uses a software to manage load optimization.

The Group mainly relies 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.

In addition, in 2021, the COVID-19 outbreak caused supply chain and logistics disruptions. The supply of components, semi-finished goods and raw materials used for our products has been limited and discontinuous and we have faced, and may face in the future, higher shipping costs due to increased prices announced by third party shippers as well as extensions in delivery times. Furthermore, the current conflict in Ukraine is contributing to additional supply chain disruptions. See “Item 3. Key Information—Risk Factors—The COVID-19 pandemic has had, and may continue to have, an adverse impact on our business, results of operations and financial condition”, “Item 3. Key Information—Risk Factors—The price of our main raw materials and energy costs are difficult to predict” and “Item 3. Key Information—Risk Factors—Disruptions of our supply chain have had, and may continue to have, a material adverse effect on our results of operations.”

Products

Products are mainly designed in the Company’s Style Center, but the Group also collaborates with international designers for the conception and prototyping of certain products in order to enhance brand visibility, especially with respect to the *Natuzzi Italia* product line.

New models are the result of a constant information flow from the market, in which preferences are analyzed, interpreted and turned into a brief for designers in terms of style, function and price point. Designers draw the sketches of new products in accordance with the guidelines they are provided and, through collaboration with the prototype department, approximately 70 new sofa models are generally introduced each year. The diversity of customer tastes and preferences, as well as the Group’s inclination to offer new solutions, results in the development of products that are increasingly personalized. More than 100 highly qualified employees conduct the Group’s R&D efforts from its headquarters in Santeramo in Colle, Italy.

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 *Natuzzi Italia* collection stands out for its choice of high-quality materials and finishes, as well as for the creativity and details of its design. As of January 31, 2022, this product line offered 72 models of sofas, armchairs and beds offered in a wide range of covers and colors. This collection also includes a selection of additional furniture pieces (such as wall units, coffee tables, tables, chairs, lamps and carpets) and accessories (including vases, mirrors, magazines racks, trays and decorative objects) to offer a complete suite of furnishings and with the aim of enabling the Group to develop a “lifestyle” brand.
- The *Natuzzi Editions* and the *Divani&Divani by Natuzzi* collection consisted of 144 models overall as of January 31, 2022. This vast range of models covers all styles from casual/contemporary to more traditional, suitable for all markets from Europe to Americas to Asia. This collection focuses on leather and offers 13 leather types available in 107 colors. In addition, a collection of 18 fabric articles available in 127 colors was added to the line.
- The **unbranded** collection consisted of 68 models as of January 31, 2022, including exclusive models for key accounts. The products are mainly offered in top grain leather, but are also available in a bonded leather.

The Group operates in accordance with strict 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. Further, the Group has obtained the ISO 45001 certification for management systems of occupation health and safety.

Innovation

Since the end of 2020, the Group has invested time and capital to design and innovate processes and products in an effort to reach a higher degree of efficiency, quality and service level. Decisions on new products are made through a well-defined phase-gate process with explicit, fact-driven criteria, such as product life cycle, forecast, market segment, reduction in complexity of the existing portfolio. Accurate and granular data are available on product costs and financial sustainability of the business at every stage in the value chain (development through manufacturing, distribution, and support). Standardized development tools (such as product life-cycle management) allow for seamless global collaboration between the R&D department and the Group's industrial footprint. The Group's global innovation and product development department, by pooling engineers with a different background into cross-functional product and process teams and interacting with suppliers, aims at integrating processes ("concurrent engineering") to enable for a quicker product cycle and a more efficient product development. Concurrent engineering (CE) is a work methodology emphasizing the parallelization of tasks within a process (i.e., performing tasks concurrently), which is sometimes called "simultaneous engineering" or "integrated product development" (IPD), as it uses an integrated product team approach. It is an approach used in product development in which different functions of design and manufacturing engineering and other functions in the process are integrated to reduce the time required to bring a new product to market.

An open innovation network across the business allows to work with external entities (e.g., research institutions, universities, innovation hubs) to rapidly source new ideas which can be transferred into practical products. Once a new idea is applied to projects, this is protected by means of a specific patent.

The Company pays particular attention to the comfort of its products and its certification. The evaluation process is based on an ergonomic-principle conformity check (gap analysis), which includes carrying-out several tests selected according to the required evaluation type and performed in the corresponding ergonomic reference areas. The Company carries out several types of ergonomic evaluations, including tests performed or supervised by experts (certified European ergonomists), CAD 3D virtual seating evaluations and simulations, and tests with real users selected to represent the final users' categories (e.g., through biomechanical analysis, usability/distraction tests, interviews, focus groups). Based on the specific product type and request, users are asked to interact with the tested products by performing representative tasks of a physical (biomechanical interaction) or cognitive nature (cognitive ergonomics). Such evaluations are carried out to determine the compliance of products with ergonomic principles and requirements established by the sector technical standards, and may result in an ergonomic certification. This new evaluation process has allowed to come up with the highest certification as Human Centred Design: Product & Organization according to (ISO 9241-210) and (ISO 9241-220).

The innovation along the R&D processes and products has been deployed and successfully integrated with the entire value-added chain, with suppliers, production and customers through the experimentation of an innovative production and process model named "Factory 4.0". The Factory 4.0 operational model was studied since 2020 as a proprietary production model aimed at reducing production costs and was based on a "bespoke cellular production principle" that evolved the moving line production model. Such Factory 4.0 manufacturing model leverages on a more advanced technological clustering of industrial processes in order to more efficiently manage the complexity arising from the manufacturing of different families of products (also referred to as the "factories in the factory" system).

This new cellular manufacturing system is an evolved form of lean production and utilizes the same basic principles but in a mixed model environment, so as to efficiently manage the make-to-order production complexity. The basic underlying principle is that rather than having workers grouped by single process within the same production line, workers are grouped into separated production value streams for each product family. Cellular manufacturing principles are applicable in a wide range of volume and product mixes, thus resulting in a more flexible production environment. Cellular manufacturing methodologies include the clustering of processes and machines that are needed to completely finish a product family. The goal is, therefore, to improve value stream efficiencies. This new production concept allows to facilitate the production flow, reduce part travel, reduce buffer inventories and waste in general. Cellular manufacturing focuses at first identifying the value-added activities of the process, then mapping the value stream, implementing process flow, creating a pull system, and finally creating quality through continuous improvement.

In parallel, an extraordinary complexity and variety reduction project was launched in order to support this new factory model, that remains flexible and dynamic in order to manage the residual complexity. The new factory model is supported by digital systems according to 4.0 technologies permitting to put together men, machines and systems as a network. All the assembly processes and materials handling technology are real-time ready. The assembly, sewing, packing and cutting department are completely digitalized. Employees work with monitors and personal pad. Workstations and processes were virtually tested and designed ergonomically. All the warehouses and picking zone are equipped with a digitalized logistics and visual management “Andon” systems, the required materials for assembly in a so-called pick zone use (“pick-to-light” systems), advanced transport and handling systems are in use to speed efficiency of internal logistics system. A real-time monitoring approach was designed and implemented into the Factory 4.0 as resulting data now can be collected and evaluated using big data technology at the end of the shift. The findings are utilized to improve existing production processes, thus avoiding loss of efficiency and take action in a predictive manner. This helps to increase business operating times and improve quality.

Networking not only happens inside the Factory 4.0 but also all-round the supply chain from suppliers, production and customers. In coordination with our suppliers, we are going to integrate their systems with the Natuzzi SAP system (“Systems, Applications, Products in Data Processing”) and manufacturing execution system (MES) in order to trace arrivals, avoid shortage and enables early detection of discrepancies in the supply chain and thus a quicker reaction time. This new approach has been paving the way for a co-makership with them.

All this 2020-2021 innovation activities in products, processes and technologies have been enabling the Company to increase business competitiveness, reduce costs, improve quality and increase service level.

R&D expenses, which include labor costs for the R&D department, design and modeling consultancy expenses and other costs related to the R&D department, were €3.3 million in 2021, €3.1 million in 2020 and €3.7 million in 2019.

Advertising

Natuzzi’s marketing mission continues to capitalize on our brand’s core values of harmony, quality and craftsmanship, combining design with innovation, and a commitment to social responsibility. We amplify these values through our brand’s dynamic story. Told through our predominant Mediterranean, Italian, modern lifestyle, this brand story honors our history as a quintessential Italian brand while allowing us to promote a broad yet curated product range that results in a combination of product value and personalized experience.

By adopting a fresh, ever-evolving creative approach that is increasingly driven by digital strategies, we have continually reinvigorated our brand, enhancing its desirability and visibility. Our vertically integrated approach allows us to manufacture most of the products we sell in our own plants, and in this way we believe we have great control over the quality of our products, the service we provide, and flexibility in make-to-order, thus supporting an exceptional breadth of styles and custom options.

Our combination of creative and analytics-driven strategies enables us to drive new and repeat customer traffic, both to our approximately 500 stores worldwide and to our new website, natuzzi.com. Using our fully integrated customer relationship management system, we create personalized customer journeys, targeted communications and retargeting campaigns. We develop persuasive, aspirational and relevant messaging, and we convey it through a variety of media, including direct mail, geo-targeted TV and VOD (video on demand), radio, digital and social channels and email marketing. We also launched an aggressive and targeted digital communications strategy in 2021 that encouragingly increases our prospecting contacts each year. Taken together, these strategies allow us to constantly expand and update our client base while maintaining existing relationships.

We launched a totally new redesigned digital platform that for the first time includes both brand lines to enhance the user experience across the Natuzzi universe. New technologies and effective user experience solutions contribute to the growth of our digital key performance indicators.

Along with the new digital platform, we also launched a new e-commerce channel for Natuzzi Italia products in the U.S. market to amplify the brand’s potential and make it more accessible to customers. Our e-commerce strategy is to generate business by combining technology with excellent personal service. We consider our website an extension of our retail stores and not a separate segment of our business. We expect most of our customers to use the internet for inspiration and as the beginning of their shopping process to view products and their prices. Since most of our products are customizable, we encourage our website customers to get personal help from our interior design professionals, either in person or online. This complimentary direct contact with one of our knowledgeable interior design professionals, whether remotely or in-person, represents an additional service we provide our

website customers. This enhances the online experience and leads to internet customers becoming customers of our network of retail stores.

Particularly as a result of the increased focus on online shopping and virtual merchandising platforms during the COVID-19 pandemic, we continue to strategically focus on digital touchpoints through our ongoing implementation of conversion rate optimization updates. We also invest in targeted search engine optimization and paid search marketing for both national and local markets, driving both referral traffic to our website and physical traffic to our stores. In addition, improved on-site search capabilities, expanded online appointment booking capabilities, and product listing and display page enhancements continue to elevate our users' experience. We continue to promote brand visibility on various social media platforms, placing greater emphasis on visual and video-driven content. Both paid social media campaigns and organic social media presence have helped us grow our social following and take a more prominent place in the cultural conversation.

Our website traffic, as expected, increased dramatically due to the COVID-19 pandemic as people spent more time in their homes. However, as the fiscal year progressed, we saw a shift in traffic from our website to our stores. In this evolving global scenario, we are continuing to invest in our digital platform and trade marketing to meet our business partners through innovative virtual events. This is supporting the launch of new product collections by creating a positive impact on sales performance and partner engagement. There is no certainty that this trend of increased demand for home furnishings due to the COVID-19 pandemic will continue in the future. Instead, a shift in consumer spending away from home furnishings toward the consumption of services, such as entertainment and travel, might occur as restrictions relating to the COVID-19 pandemic continue to be lifted around the world and the vaccination campaign by different countries around the globe becomes effective. See "Item 3. Key Information—Risk Factors—The COVID-19 pandemic has had, and may continue to have, an adverse impact on our business, results of operations and financial condition."

We plan to further invest in our digital footprint, including our website, in order to enhance our customer experience, expanding a customized and engaging approach to products. We are also continually improving our customers' journey from the time they visit our website to the delivery of their purchase or their visit to our points of sale by boosting our engagement tools. We view the combination of online and in-store traffic in a holistic fashion whereby our customer generally experiences our brand on our website before visiting a store in person. Our online traffic continues to increase each year and our marketing teams remain focused on enhancing our digital outreach strategies to further drive more traffic and keep our brand relevant in today's social media-oriented world.

Retail Development

The Group is still focused on expanding its retail distribution network internationally in its most important markets, by opening new stores and closing/relocating those store that have not met the expected revenue goals.

Nevertheless, as national and local governments have restricted travel, conferences, events and gatherings due to the COVID-19 outbreak and due to the need to preserve capital for day-to-day operations, our efforts to expand our business internationally by establishing a new retail presence globally (including, but not limited to, the U.S., China, the UK, Italy and other Western European countries) was negatively impacted during 2021.

During 2021, 47 *Natuzzi Italia* stores were opened, of which 23 in China, five in India, four in Brazil, two in Israel, two in Portugal, two in Russia, two in the U.S. and one in each of Canada, Indonesia, South Korea, Romania, Senegal, Tunisia and Italy.

During 2021, 121 *Natuzzi Editions* were opened (of which 101 in China, two in Australia, two in Brazil, two in the UK and one in each of Colombia, Egypt, Romania, Slovakia, Spain, Thailand and Ireland) and 7 *Divani&Divani by Natuzzi* stores were opened in Italy.

Despite the challenging times, Natuzzi has fully accomplished the Development Plan for 2021. A strong focus in terms of new store openings was given to the Chinese market, mostly with regard to the *Natuzzi Editions* brand, and in general to the Asian Pacific market. Indeed, in Australia, the Company decided to invest directly by opening two *Natuzzi Editions* stores and three additional stores are also expected to be opened in 2022, which will consolidate a strong presence of our brands in the Australian retail market.

In Italy, the opening of seven new *Divani& Divani by Natuzzi* franchised operated stores is evidence of a higher degree of confidence of local investors towards the retail chain, while India, the Middle East as well as North Africa are showing an increasing interest towards the *Natuzzi Italia* brand.

Markets

The Group markets its products internationally and in Italy. Historically, the distribution of the Group's product has been through the wholesale channel, which still represents a significant portion of the entire business.

The Group continues in its effort to expand its retail distribution through Natuzzi mono-brand stores, both directly operated and franchises. In 2021, retail sales accounted for 49.2% of our consolidated upholstered and home furnishings revenue, compared to 43.0% in 2019 (pre-pandemic).

The following tables show the number of Group stores (both directly operated and franchises) as of December 31, 2021 according to our principal geographic areas.

| STORES | | Natuzzi Italia | Natuzzi Editions | Divani&Divani by Natuzzi | TOTAL |
|-------------------------------|---------------------------------------|-------------------|---------------------|-----------------------------|------------|
| Americas⁽¹⁾ | | | | | |
| | United States and Canada | 16 | 2 | — | 18 |
| | Other Americas | 18 | 44 | — | 62 |
| | Total Americas | 34 | 46 | — | 80 |
| EMEI | | | | | |
| | West & South Europe (excluding Italy) | 37 | 20 | — | 57 |
| | Italy | 4 | — | 73 | 77 |
| | Middle East, Africa and India | 28 | 4 | — | 32 |
| | Other EMEI | 31 | 9 | — | 40 |
| | Total EMEI | 100 | 33 | 73 | 206 |
| Asia-Pacific | | | | | |
| | China ⁽²⁾ | 98 | 242 | — | 340 |
| | Other Asia-Pacific | 20 | 5 | — | 25 |
| | Total Asia-Pacific | 118 | 247 | — | 365 |
| TOTAL | | 252 | 326 | 73 | 651 |

⁽¹⁾ Includes the United States, Canada, Central and South America (including Brazil) (collectively, the “Americas”).

⁽²⁾ Includes 24 Natuzzi stores directly operated by Natuzzi Trading (Shanghai) Co., Ltd., which is 49% owned by the Company, following the agreement with the Kuka group. See “3. Asia-Pacific Region” below.

In addition, as of December 31, 2021, there were three *Natuzzi Italia* and eight *Natuzzi Editions* concessions (galleries or store-in-store points of sale), all directly managed by the Company's Mexican subsidiary.

The following tables show the Group's consolidated revenue of upholstery sofas, beds and home furnishings, broken down by geographic market and branded/unbranded business for each of the years indicated therein and in millions of Euro.

| | 2021 | | 2020 | | 2019 | |
|-------------------------------|--------------|---------------|--------------|---------------|--------------|---------------|
| Americas⁽¹⁾ | 157.4 | 38.0% | 98.3 | 31.4% | 135.5 | 36.7% |
| Natuzzi brand ⁽²⁾ | 136.3 | 32.9% | 86.9 | 27.7% | 105.1 | 28.5% |
| Unbranded | 21.1 | 5.1% | 11.4 | 3.7% | 30.4 | 8.2% |
| EMEI | 183.9 | 44.5% | 152.8 | 48.7% | 169.4 | 46.0% |
| Natuzzi brand ⁽²⁾ | 154.6 | 37.4% | 122.4 | 39.0% | 131.1 | 35.6% |
| Unbranded | 29.3 | 7.1% | 30.4 | 9.7% | 38.3 | 10.4% |
| Asia-Pacific | 72.4 | 17.5% | 62.4 | 19.9% | 63.9 | 17.3% |
| Natuzzi brand ⁽²⁾ | 69.8 | 16.9% | 58.3 | 18.6% | 59.4 | 16.1% |
| Unbranded | 2.6 | 0.6% | 4.1 | 1.3% | 4.5 | 1.2% |
| Total | 413.7 | 100.0% | 313.5 | 100.0% | 368.8 | 100.0% |

⁽¹⁾ Includes the United States, Canada, Central and South America (including Brazil).

⁽²⁾ The “Natuzzi” brand includes the following lines of product: *Natuzzi Italia*, *Natuzzi Editions* and *Divani&Divani by Natuzzi*. Net sales under the “Natuzzi” brand also includes net sales of beds sold under the *Natuzzi Italia* line.

The following tables show the number of seats sold broken down by geographic market and branded/unbranded business for each of the years indicated therein:

| | 2021 | | 2020 | | 2019 | |
|-------------------------------|----------------|---------------|----------------|---------------|------------------|---------------|
| Americas⁽¹⁾ | 355,963 | 36.4% | 228,844 | 27.9% | 370,141 | 36.3% |
| Natuzzi brand ⁽²⁾ | 266,193 | 27.2% | 177,752 | 21.7% | 235,043 | 23.1% |
| Unbranded | 89,770 | 9.2% | 51,092 | 6.2% | 135,098 | 13.2% |
| EMEA | 475,071 | 48.6% | 452,959 | 55.3% | 515,136 | 50.6% |
| Natuzzi brand ⁽²⁾ | 329,595 | 33.7% | 284,852 | 34.8% | 296,208 | 29.1% |
| Unbranded | 145,476 | 14.9% | 168,107 | 20.5% | 218,928 | 21.5% |
| Asia-Pacific | 146,993 | 15.0% | 137,784 | 16.8% | 133,363 | 13.1% |
| Natuzzi brand ⁽²⁾ | 135,338 | 13.8% | 118,757 | 14.5% | 111,932 | 11.0% |
| Unbranded | 11,655 | 1.2% | 19,027 | 2.3% | 21,431 | 2.1% |
| Total | 978,027 | 100.0% | 819,587 | 100.0% | 1,018,640 | 100.0% |

(1) Includes the United States, Canada, Central and South America (including Brazil).

(2) The “Natuzzi” brand includes the following three lines of product: *Natuzzi Italia*, *Natuzzi Editions* and *Divani&Divani by Natuzzi*. Net sales under the “Natuzzi” brand also includes net sales of beds sold under the *Natuzzi Italia* line.

In 2021, the demand for the Group’s products recovered after a year marked by COVID-19 related lockdown. In 2021, revenue increased across the main geographic areas compared to both 2020, and the pre-pandemic levels of 2019.

In 2021, revenue increased despite the disruptions in the supply chain that emerged for most of the year and globally through a limited availability of shipping containers and raw materials, thus limiting the delivery of our products and, consequently, the level of consolidated revenue in 2021.

During 2020 and 2021, the Group’s sales performance in all main regions and across its brands was negatively affected by the spread of the COVID-19 pandemic and by the restrictive measures adopted by many governments, as well as by the disruptive effects of the COVID-19 pandemic on the supply chain system during the second half of 2020 and throughout 2021. See “Item 3. Key Information—Risk Factors—The COVID-19 pandemic has had, and may continue to have, an adverse impact on our business, results of operations and financial condition” and “Item 3. Key Information—Risk Factors—Disruptions of our supply chain have had, and may continue to have, a material adverse effect on our results of operations.”

In 2021, net sales of upholstery sofas, beds and home furnishings (“main business”) were €413.7 million, up 32.0% compared to 2020, as a result of a 34.8% increase of the Natuzzi branded sales and a 15.5% increase in net sales of unbranded products. The Group’s strategy is to increase the portion of revenue represented by the Natuzzi branded sales, mainly through the expansion of its retail network, and, at the same time, to focus on fewer selected large accounts selling unbranded products to serve them with a more efficient go-to-market model.

For additional information on the results of our operations in 2021 as compared to 2020, see “Item 5. Results of Operations.”

1. The Americas

In 2021, net sales of leather and fabric-upholstered furniture and beds as well as home furnishings in the U.S. and the rest of the Americas (including Brazil) were €157.4 million, up 60.1% compared to 2020, and the number of seats sold increased by 55.5%, to 355,963 in 2021.

Net sales of our Natuzzi branded products were €136.3 million, up 56.8% compared to 2020, and net sales of unbranded products were €21.1 million, up 85.1% compared to the prior year.

The Group’s strategy for the Americas is to continue to focus on the branded business mostly through the opening of mono-brand Natuzzi stores in addition to Natuzzi galleries, mainly in the U.S., and at the same time to focus on fewer selected large unbranded distributors in an effort to serve them with a more efficient go-to-market model.

Over the last few years, our unbranded business has been affected by difficult retail conditions experienced in the North American market, resulting in a reduction of their points of sale, and, more generally, by increased price competition in the low segment of the market. In addition, the unbranded division, which has been entirely served by our operations in Asia, has been negatively

affected by tariffs imposed by the U.S. customs authorities on goods manufactured in China and, more recently, by Canadian customs authorities on goods manufactured in China and Vietnam.

In light of the tariffs imposed by the U.S. on goods imported from China, since December 2019, the Company has started outsourcing in Vietnam part of its unbranded production for some key accounts in the U.S. The Company intends to gradually increase its outsourced production in Vietnam to serve most of its mass-merchant distributors located in the US. In addition, the Group is leveraging on its global footprint to mitigate the negative effects from customs duties imposed by Canadian authorities. See “—Manufacturing.”

The Group’s principal customers are major distributors. The Group advertises its products to distributors and, recently, to end-consumers in the U.S., Canada, Central and South America (excluding Brazil) both directly and through the use of various marketing tools. The Group also relies on its network of sales representatives and on furniture fairs held at its High Point, North Carolina, to promote its products.

Natuzzi Americas maintains offices in High Point, North Carolina 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 31, 2022, the High Point North Carolina operation had 36 employees. In addition, Natuzzi Americas has six independent sales representatives.

Our commercial activities in Brazil and South America are overseen from our Salvador de Bahia facility. The Group’s commercial structure for the South American region has been reinforced over the years by an increase in personnel, from 12 representatives in 2012 to 18 as of the end of 2021. 2021 sales in Brazil were €14.2 million, up from €8.6 million in 2020, when Brazil was particularly hit by a critical sanitary situation, due the COVID-19 pandemic. As a result of the focus to the Brazilian and more generally South American high-end consumer market, the Group currently distributes a *Natuzzi Italia* “made in Brazil” collection, entirely manufactured in Brazil and dedicated exclusively to the South American market.

In 2016, the Group acquired seven *Natuzzi Italia* stores all located in Florida. In December 2016, the Company established a new trading subsidiary located in Mexico, Natmx S.de.R.L.de.C.V. (“NATMX”). In January 2017, NATMX signed an agreement with the owners of Muebleria Standard. Under the agreement, NATMX acquired the three existing *Natuzzi Italia* stores located in Mexico City-Altavista, Guadalajara and Monterrey. In addition to the directly operated stores, as of March 31, 2022, NATMX sells our products in Mexico through 11 directly managed concessions (three under the *Natuzzi Italia* brand and eight under the *Natuzzi Editions* brand) in Palacio de Hierro, a high-end retailer having shopping malls in excellent locations throughout Mexico.

In June 2017, the Company opened its new North American retail store in West Palm Beach, Florida. During 2018, the Company opened four new directly operated stores in the USA, namely one in Chicago, one in Los Angeles-Costa Mesa, one in Paramus – New Jersey and one in Philadelphia (within the King of Prussia Mall). In 2019, one *Natuzzi Italia* store was opened in the Sarasota and the Fort Lauderdale store, initially opened in 2016, was relocated. These new stores are part of the strategy announced in 2016 to open Company managed stores in high traffic and prime retail locations, showcasing the new store design, merchandising concept and overall Natuzzi consumer experience.

As of December 31, 2021, there were 15 *Natuzzi Italia* stores in the Americas (12 in the U.S. and three in Mexico) directly managed by the Group.

As of the same date, there were also 19 *Natuzzi Italia* stores operating in the Americas that are owned by local franchisees (eight in Brazil, three in the USA, two in Venezuela, one in each of Argentina, Bolivia, Canada, Colombia, Panama and Paraguay). Furthermore, as of the same date, there were 46 *Natuzzi Editions* franchise stores, of which 37 were located in Brazil, two in each of the U.S., Peru and Uruguay, and one in each of Argentina, Colombia and Ecuador.

2. EMEAI

In 2021, net sales of leather and fabric-upholstered furniture and beds as well as home furnishings in Europe (including Italy), the Middle East, Africa and India (collectively, “EMEAI”) were €183.9 million, up 20.4% compared to 2020, with the number of seats increasing by 4.9% to 475,071 in 2021. Natuzzi branded sales amounted to a total of €154.6 million in 2021 (up 26.3% from 2020), and unbranded products net sales decreased by 3.6% to €29.3 million.

2a) West & South Europe (excluding Italy). The Group sells its products in West & South Europe (outside Italy) mainly through stores (franchises or directly operated stores). As of December 31, 2021, 57 stores were operating in Europe: 37 were under the *Natuzzi Italia* name (15 in the UK, 12 in Spain, three in each of France and Switzerland, two in each of the Netherlands and

Portugal). As of the same date, there were 20 *Natuzzi Editions* stores of which 17 located in the UK, two in Spain, and one in Ireland. Of these stores, as of December 31, 2021, the Group directly owned 21, of which 18 were operated under the *Natuzzi Italia* name (10 in Spain, four in the UK, three in Switzerland, and one in France) and three were operated under the *Natuzzi Editions* name, of which two in the UK and one in Spain.

2b) Italy. Since 1990, the Group has sold its upholstered products in Italy principally through the *Divani&Divani by Natuzzi* franchise network of furniture stores. As of December 31, 2021, there were 73 *Divani&Divani by Natuzzi* stores (of which 12 directly operated by the Company), and four *Natuzzi Italia* stores, all directly operated by the Company.

2c) Middle East, Africa and India. As of December, 2021, the Group had a total of 28 *Natuzzi Italia* stores in the Middle East, Africa and India: six in each of India and Israel, three in the United Arab Emirates, two in Saudi Arabia, and one in each of Algeria, Bahrain, Egypt, Ivory Coast, Kuwait, Lebanon, Pakistan, Qatar, Senegal, Sri Lanka and Tunisia. In addition, three *Natuzzi Editions* stores were operating in Egypt and one in Israel. All of these stores are operated by franchise partners.

2d) Other EMEAI. As of December 31, 2021, 40 stores were operating in the remaining part of EMEAI: 31 were under the *Natuzzi Italia* name (six in Turkey, four in each of Czech Republic and Russia, two in each of Bosnia and Ukraine, and one in each of Azerbaijan, Croatia, Cyprus, Greece, Hungary, Latvia, Malta, Poland, Romania, Serbia, Slovakia, Slovenia and Uzbekistan). As of the same date, there were nine *Natuzzi Editions* of which four in the Czech Republic and one in each of Croatia, Romania, Serbia, Slovakia and Turkey.

In January 2012, following the worsening of the European Union's diplomatic relations with Iran and Syria, the Company decided to cease all business relations with these two countries. No impairment issue arose following the cessation of business relations with those two countries. The Group has had no sales in Iran or Syria since 2016. Our prior interests and activities in Iran or Syria were not a material investment risk, either from an economic, financial or reputational point of view. The Group has not had, nor does it plan to have, any commercial contacts with the governments of Iran or Syria, or with entities connected with such governments.

The Group has never generated sales in Sudan, North Korea or Cuba.

3. Asia-Pacific Region

In 2021, net sales of leather and fabric-upholstered furniture and beds as well as home furnishings in the Asia-Pacific region were €72.4 million, up 16.0% compared to 2020, and the number of seats sold increased by 6.7%, to 146,993 in 2021. In 2021, Natuzzi branded sales increased by 19.7% to €69.8 million, and unbranded sales decreased by 36.6% to €2.6 million compared to 2020 also as a result of lockdown measures in place in the first part of 2021.

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.

The Group's commercial part of the business throughout the Asia-Pacific region was run by Natuzzi Trading (Shanghai) Co., Ltd. until July 27, 2018. On that date, the Company announced the completion of the transactions (the "Closing") contemplated by the joint venture agreement, signed in March 2018, between the Company and Kuka Furniture (Ningbo) co., Ltd. ("Kuka"). As a result of the Closing, the Company's wholly-owned Chinese subsidiary, Natuzzi Trading (Shanghai) Co., Ltd. ("Trading Co.") became a joint venture in which each of the Company and Kuka currently owns a 49% and a 51% stake, respectively. See Note 11 to the Consolidated Financial Statements.

This joint venture is aimed at expanding the Company's retail network in Mainland China, Hong Kong and Macau (the "Territory"). Trading Co. will distribute the *Natuzzi Italia* and *Natuzzi Editions* branded products through a network of single-brand directly operated stores and franchise stores in the Territory, as well as through online stores.

In April 2021, the Company announced that it had entered into a preliminary and non-binding agreement (the "Preliminary Agreement") with Truong Thanh Furniture Corporation ("TTF"), a company incorporated under the laws of the Republic of Vietnam and which engages in production and distribution of furniture, to form a partnership aimed at strengthening the Natuzzi Group's operations in the APAC region excluding Greater China (the "Rest of the APAC Territory"). Under the Preliminary Agreement, TTF intended to acquire up to a 20% stake in Natuzzi Singapore PTE. LTD ("Natuzzi Singapore"), which was incorporated by the Company in the Republic of Singapore in April 2020 and became operating in 2021. Natuzzi Singapore engages in sales and distribution of furniture and upholstery products under the trademarks of the Group in the Rest of the APAC Territory. At the time of the Preliminary Agreement, Natuzzi Singapore was 93% controlled by Natuzzi S.p.A., while the

remaining 7% stake was owned by Mr. Richard Tan, the head of Natuzzi industrial operations in Asia since their inception in 2001, as well as a minority shareholder of one of the Group's subsidiaries in China. In March 2022, TTF obtained all applicable authorizations by the relevant Vietnamese authorities and acquired a 20% stake in Natuzzi Singapore, for a total cash consideration of \$5.4 million (equivalent to €4.9 million) to Natuzzi Singapore. As a result of the above transaction, Natuzzi S.p.A. TTF and the other minority shareholder, Mr. Richard Tan, own 74.4%, 20% and 5.6% of the share capital of Natuzzi Singapore, respectively. In addition, Natuzzi S.p.A. maintains the majority of the board members of Natuzzi Singapore.

As of December 31, 2021, 118 *Natuzzi Italia* franchise stores were operating in the Asia-Pacific market: 96 in China, six in Taiwan, five in Australia, four in South Korea, two in Hong Kong, and one in each of Indonesia, Philippines, Singapore, Thailand and Vietnam. In addition, as of the same date, the Group had 245 franchise *Natuzzi Editions* stores, of which 241 located in China, two in Thailand, and one in each of Hong Kong and Malaysia. In addition, in 2021, two *Natuzzi Editions* stores directly operated by the Group were opened in Australia. Following the execution of this joint venture in China, the 11 *Natuzzi Editions* directly operated stores were transferred to Trading Co. The Group also maintains galleries in the Asia-Pacific region under the *Natuzzi Italia* and *Natuzzi Editions*.

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 55% of its sales and obtains credit insurance for about 81% of this amount; about 9% of the Group's sales are commonly made to customers on a "cash against documents" and "cash on delivery" basis; lastly, about 36% of the Group's sales are supported by a "letter of credit" or "payment in advance". See Note 30(C) to the Consolidated Financial Statements. In July 2020, the Company renewed the Securitization Facility with the Assignee for an additional 5-year period. Originally entered into in July 2015, the Securitization Facility allows the Company to assign trade receivables to the Assignee for a maximum amount of €40.0 million, on a revolving basis, retaining substantially all of the risks and rewards ("*pro-solvendo*") in the assigned trade receivables, in exchange for short-term credit, thereby continuing to provide the Company with an important and stable source of liquidity. Notably, under the Securitization Facility, the Company is entitled to assign a wide range of trade receivables, thus adding flexibility to the Company's funding capacity.

Incentive Programs and Tax Benefits

Historically, the Group has benefited 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 provides tax benefits, capital grants and subsidized loans. 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. See "Item 3. Key Information—Risk Factors—Our past results and operations have significantly benefited from government incentive programs, which may not be available in the future."

In 2013, the Company took part in a temporary association of companies (*Associazione Temporanea di Imprese*) ("ATI"), under a program called "MAIND," which aimed to share research, development and training expenses related to eco-innovative materials and advanced technologies for the manufacturing and construction industries. Since 2013, we have received approximately €0.4 million from the Italian government under this program. This program ended in 2019.

In September 2015, the Company presented to the Italian Ministry of Economic Development (Ministero dello Sviluppo Economico, the "Ministry") a €49.7 million investment program for industrial development consisting of six programs, including a research and development program and the upgrade of its Italian facilities located in the regions of Puglia and Basilicata. In 2015, the Company formally requested that the grant from the Ministry be €37.3 million from public incentives. On September 23, 2015, the Company entered into a formal agreement (the "Development Contract") with the Ministry and the governments of Puglia and Basilicata reflecting this investment. On January 23, 2017, following its review of such program, the Ministry reduced the amount of investments from €49.7 million to €37.8 million, according to the following allocation: €27.6 million to upgrade the Italian plants located in Puglia and Basilicata and €10.2 million for innovation, research and development expenses. Consequently, grants from public incentives were reduced from €37.3 million to €26.9 million (€11.0 million as a capital grant and €15.9 as subsidized loan). The Company began the planned investment activity in 2016. Specifically, it invested €5.0 million in 2016 and €2.0 million in 2017. In January 2018, the Ministry issued a decree for the Company to sign. Following the unfavorable judgement by the Labor Court of Bari, which required the Company to re-employ 166 workers, the Company decided not to sign the decree because it considered that the conditions set out in the decree, including the obligation not to fire workers for a 10-year period, were too onerous. On March 5, 2019, the Company presented to the Ministry of Economic Development an updated document concerning

the Development Contract. In July 2019, the Ministry issued a decree which valued the Company's investment program at €45.7 million, of which €33.9 million considered eligible for public incentives, and granted the Company: (i) a €4.3 million capital grant and a €12.7 million subsidized loan for the upgrade of the Italian facilities in Puglia and Basilicata and (ii) a €5.9 million capital grant and a €1.2 million subsidized loan for innovation, research and development expenses, for a total of €24.1 million in grants from public incentives. In December 2019, the Company received €7.2 million from the Ministry, equivalent to 30% of the total grants, of which €3.0 million as a capital grant and €4.2 million as a subsidized loan. By signing the decree, the Company undertook to carry out the research and development program and the upgrade of the Italian facilities in Puglia and Basilicata by December 31, 2020. On July 31, 2020, the Company presented a first set of the expenditure documentation relating to such investment program. Following the COVID-19 outbreak, the Company requested an extension of the deadline to March 31, 2022. In March 2022, the Company presented to the Ministry a revised program with a new set of investments aimed at improving the flexibility of the industrial processes in its Italian plants located in the regions of Puglia and Basilicata, through the introduction of the "4.0" technologies together with a new workflow organization based on "cellular manufacturing". According to such revised program, the total amount of investments is €34.4 million (including €8.3 already invested by the Company), of which €25.3 million is for the upgrade of the Italian plants in Puglia and Basilicata and €9.1 million for innovation, research and development expenses. The amount in grants from public incentives has not changed (i.e., €24.1 million, of which €7.2 million already received in December 2019). In 2021 and in 2022 up to the date of this Annual Report, the Company has not collected any further grant from the Ministry. The Company has requested an extension of the deadline to December 31, 2023. As of the date of this Annual Report, the Ministry has not yet provided the Company with an official response.

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. The Group's sales and results may be materially affected by exchange rate fluctuations. For additional information see "Item 3. Key Information—Risk Factors—Fluctuations in currency exchange rates and interest rates may adversely affect our results of operations" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk".

Trademarks and Patents

The Group's products are sold mainly under the *Natuzzi Italia*[®] and *Natuzzi Editions*[®] trademarks. These trademarks and certain other trademarks, such as *Divani&Divani by Natuzzi*[®] and *Natuzzi Re-vive*[®], have been registered in all jurisdictions in which the Group has a commercial interest, such as Italy, the EU and elsewhere. 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. Currently, the Group has approximately 960 certificates of design registrations referring to single and multiple applications for a total of 1,500 models (the same model may be registered in more than one country and/or jurisdiction, resulting in about 15,500 registrations related to 1,500 models in several countries) and five patents (registered and 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.

In 2013, the Natuzzi Group launched *Re-vive*[®], an innovative armchair that was the result of a collaborative effort between Natuzzi's Style Center and the Formway Design Studio of Wellington, New Zealand. The *Re-vive*[®] recliner combines style and comfort, Italian artisan expertise and innovative New Zealand design. This innovative armchair is internationally protected by several patents covering both its shape and all of its components. In particular, the design patent was filed in 40 countries, while the mechanism patent was filed in eight countries.

As for the distribution of the products that are manufactured in the Group's plants and identified under various names (*Natuzzi Italia*[®], *Natuzzi Editions*[®], *Divani&Divani by Natuzzi*[®] and *Natuzzi Re-vive*[®]), the Group has entered into business agreements under the form of sale licenses (product supply and brand usage licenses) with its customers (distributors and retailers).

Furthermore, the Group has supply agreements in place with large wholesalers for the supply of Unbranded products that are manufactured by the Group's industrial plants outside of Italy.

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 “—Environmental Regulatory Compliance,” “Item 10. Additional Information—Exchange Controls” and “Item 10. Additional Information—Taxation.”

Environmental Regulatory Compliance

The Group, to the best of its knowledge, operates all of its facilities in compliance with all applicable laws and regulations.

The Group places environmental sustainability among the priority commitments of its business activities. Since 2003, in compliance with this commitment, the Group has implemented an environmental management system, certified ISO 14001, integrated with a quality management system, certified ISO 9001. Through such systems, the Group is committed to offering high value products and services, operating in respect of the environment and complying with all applicable laws and regulations.

Below are the main commitments made by the Group in relation to environmental sustainability:

- 1) constant monitoring of the environmental impact of the Group's business activities through:
 - implementation of programs aimed at reducing energy and raw material consumption; and
 - economic evaluation of the use of the best technologies available on the market to minimize pollution;
- 2) prioritizing the recovery and recycling of the waste generated rather than its disposal, protecting soil and subsoil from potential spills; managing temporary industrial waste storage areas such as mastics and solvents; separate collection to facilitate waste recovery and disposal;
- 3) raising awareness and training its employees on the issue of environmental sustainability;
- 4) promoting the adoption of correct environmental behaviour by its suppliers, giving priority to those who offer the greatest guarantee of sharing Natuzzi's corporate policy;
- 5) maintaining an open and constructive dialogue with public administration bodies and with individual territorial in the areas in which the Group operates.

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 March 31, 2022 are set forth below:

| Country | Location | Size (approximate square meters) | Function | Production Capacity per day | Unit of Measure |
|---------|--------------------------------|--|--|-----------------------------------|--------------------|
| Italy | Santeramo in Colle (BA) | 28,000 | Headquarters, prototyping, showroom (Owned) | N.A. | N.A. |
| Italy | Santeramo in Colle (BA) | 2,000 | Experimental laboratory: Leather cutting, Sewing, Assembling wooden parts for frame, product assembly (Owned) | 100 | Seats |
| Italy | Santeramo in Colle, Jesce (BA) | 28,000 | Sewing and product assembly (Owned) | 800 | Seats |
| Italy | Matera La Martella | 38,000 | General warehouse of sofas and accessory furnishing (Owned) | N.A. | N.A. |
| Italy | Matera, Jesce | 12,500 | Leather cutting, Sewing, Assembling wooden parts for frame, product assembly (Owned) | 350 | Seats |
| Italy | Graviscella | 8,000 | Leather cutting, Sewing, Assembling wooden parts for frame, product assembly (Owned) | 160 | Seats |
| Italy | Laterza (TA) | 12,000 | Leather and fabrics Warehouse, Leather and fabrics cutting, (Owned) | N.A. | N.A. |
| Italy | Laterza (TA) | 10,500 | Sewing, Assembling wooden parts for frame, product assembly (Owned) | 500 | Seats |
| Italy | Laterza (TA) | 19,000 | Semi-finished products and accessories Warehouse (Owned) | N.A. | N.A. |
| Italy | Pozzuolo del Friuli (UD) | 21,000 | Leather dyeing and finishing (Owned) | 11,000 | 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, product assembly, manufacturing of wooden frames, polyurethane foam shaping, fiberfill production and wood and wooden product manufacturing (Owned) | 1,300 | Seats |
| China | Shanghai | 38,000 | Leather cutting, sewing and product assembly, manufacturing of wooden frames, polyurethane foam shaping, fiberfill production (Leased) | 1,200 | Seats |
| Brazil | Salvador de Bahia – Bahia | 28,700 | Leather cutting, sewing and product assembly, manufacturing of wooden frames, polyurethane foam shaping, fiberfill production (Owned) | 195 | Seats |

On March 1, 2021, the Company completed the sale of IMPE to Vita Italy S.r.l., a wholly-owned subsidiary of Vita.

The Group believes that its production facilities are suitable for its production needs and are well maintained.

Capital Expenditures

The following table sets forth the Group's capital expenditures for the three-year period ended December 31, 2021:

| | Year ending December 31, (millions of Euro) | | |
|-------------------|--|------|------|
| | 2021 | 2020 | 2019 |
| Land and plants | 1.1 | 0.4 | 0.6 |
| Equipment | 5.9 | 2.2 | 3.6 |
| Intangible assets | 1.5 | 0.8 | 0.9 |
| Total | 8.5 | 3.4 | 5.1 |

Capital expenditures in the last three years have been made primarily to make improvements in property, plant and equipment and to expand our retail network. In 2021, capital expenditures were primarily made to make improvements to the Group's existing industrial and retail facilities, in particular in Australia and the U.S., and to develop our e-commerce, the "Natuzzi customer experience" configurator and our 3D digital platform.

As of March 31, 2022, the Company spent €1.2 million on capital expenditures since January 1, 2022. The Group expects that capital expenditures in 2022 will be around €16.5 million mainly related to the expansion of our retail network and the upgrade of the Italian factories. Capital expenditures in 2022 are expected to be financed mainly through long-term borrowings and cash flow generated by operations. For information on potential impacts of the COVID-19 pandemic on our capital expenditures plans, see "Item 3. Key Information—Risk Factors—The COVID-19 pandemic and the current conflict in Ukraine have had, and may continue to have, an adverse impact on our business, results of operations and financial condition."

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

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 IFRS and are 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 "Forward Looking Information."

The consolidated financial statements of Natuzzi S.p.A. as at and for the years ended December 31, 2021 and 2020 have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), including interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to companies reporting under IFRS.

Non-GAAP Financial Measures

We monitor and evaluate our operating and financial performance using several non-GAAP financial measures including: Adjusted EBITDA and Net Financial Position.

We believe that these non-GAAP financial measures provide useful and relevant information regarding our performance and our ability to assess our financial performance and financial position. They also provide us with comparable measures that facilitate management's ability to identify operational trends, as well as make decisions regarding future spending, resource allocations and other operational decisions. While similar measures are widely used in the industry in which we operate, the financial measures we use may not be comparable to other similarly titled measures used by other companies nor are they intended to be substitutes for measures of financial performance or financial position as prepared in accordance with IFRS.

Adjusted earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA)

Management has presented the performance measure Adjusted EBITDA because it monitors this performance measure at a consolidated level and it believes that this measure is relevant to an understanding of the Group's financial performance. Adjusted EBITDA is calculated by adjusting profit or loss from continuing operations to exclude the impact of taxation, net finance income/(costs), depreciation, amortisation, government grants only related to depreciation of property, plant and equipment (PPE) and share of profit of equity-method investees.

Adjusted EBITDA is not a defined performance measure in IFRS. The Group's definition of Adjusted EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

The following tables show the reconciliation of Adjusted EBITDA to profit or loss for the years ended December 31, 2021, 2020 and 2019 (amounts in thousands of euro).

| | 2021 | 2020 | 2019 |
|---|---------------|---------------|------------|
| Profit/(loss) for the year | 4,385 | (24,906) | (33,680) |
| Income tax expense | 4,389 | 4,341 | 2,335 |
| Profit/(loss) before tax | 8,774 | (20,565) | (31,345) |
| Adjustments for: | | | |
| - Addition (subtraction) of net finance income/(costs) | (331) | 11,415 | 9,868 |
| - Addition (subtraction) of share of profit/(loss) equity-method inv. | (3,561) | (1,455) | (1,011) |
| - Addition of depreciation | 20,281 | 23,258 | 24,196 |
| - Addition of amortisation | 1,090 | 907 | 917 |
| - Subtraction of government grants only related to PPE | (1,306) | (1,241) | (1,626) |
| Adjusted EBITDA | 24,947 | 12,319 | 999 |

In applying IFRS 16, in relation to the leases that were classified as operating leases, the Group recognises depreciation and interest costs, instead of operating lease expense. In relation to those leases, the Group recognised €11.7 million of depreciation charges and €2.6 million of additional interest costs from leases in 2021 (€13.4 million and €2.6 million, respectively, in 2020).

Adjusted EBITDA is presented by management to aid investors in their analysis of the performance of the Group and to assist investors in the comparison of the Group's performance with that of other companies.

Net Financial Position

Net Financial Position is defined as “Cash and cash equivalents,” less “Bank overdrafts and short-term borrowings,” less “Current portion of long-term borrowings,” less “Non-current portion of long-term borrowings,” less “Current portion of lease liabilities,” less “Non-current portion of lease liabilities.”

As of December 31, 2021, 2020 and 2019 our Net Financial Position was as reported in the following tables (amounts in thousands of euro):

| | 2021 | 2020 | 2019 |
|--|-----------------|-----------------|-----------------|
| Cash and cash equivalents | 53,472 | 48,187 | 39,799 |
| Bank overdrafts and short-term borrowings | (36,147) | (30,812) | (24,170) |
| Current portion of long-term borrowings | (3,862) | (7,124) | (4,321) |
| Non-current portion of long-term borrowings | (13,577) | (9,302) | (14,091) |
| Net Financial Position before lease liabilities, positive (negative) | (114) | 949 | (2,783) |
| Current portion of lease liabilities | (10,546) | (10,456) | (11,314) |
| Non-current portion of lease liabilities | (46,592) | (43,137) | (46,053) |
| Net Financial Position | (57,252) | (52,644) | (60,150) |

The Net Financial Position from the fiscal year ended on December 31, 2021, 2020 and 2019 was affected in a significant way by the adoption of IFRS 16 “Leases” accounting standard starting from January 1, 2019.

We believe our Net Financial Position provides useful information for investors because it gives evidence of our consolidated position either in terms of net indebtedness or net cash by measuring our capital resources based on cash and cash equivalents and the total level of our financial indebtedness.

Results of Operations

Summary — In 2021, our results of operations were characterized by increased revenue and a return to profitability, despite the disruptions caused by the COVID-19 pandemic, including supply chain complications that have affected the whole industry during most of 2021 and resulted in low availability of raw materials and semi-finished goods as well as shipping shortages and delays, which have limited our ability to keep pace with continued growing demand. See “Item 3. Key Information—Risk Factors—The COVID-19 pandemic has had, and may continue to have, an adverse impact on our business, results of operations and financial condition” and “Item 3. Key Information—Risk Factors—Disruptions of our supply chain have had, and may continue to have, a material adverse effect on our results of operations.”

In 2020, results of operations were adversely affected by the disruption caused by the COVID-19 pandemic, due to temporary closure of points of sales and factories as well as interruptions in the supply chain.

In the last few years, the Group has started a thorough reorganization process covering its industrial, sales and service operations. In 2018 and 2019 the Company invested resources to set up its retail and marketing organization worldwide, develop its retail distribution channel and restructure its overhead costs.

The following table sets forth selected financial highlights of the Group for the years ended December 31, 2019, 2020 and 2021.

| | 2021 | 2020 | 2019 |
|--|--|--------|--------|
| | (millions of euro, except for percentages) | | |
| Consolidated Statement of Profit or Loss Data: | | | |
| Revenue | 427.4 | 328.3 | 386.9 |
| YoY % change in Revenue | 30.2% | -15.1% | -9.7% |
| Branded sales on main business* | 87.2% | 85.4% | 80.2% |
| * Sales of upholstered and other home furnishings products | | | |
| | | | |
| Gross Profit | 153.8 | 103.2 | 115.0 |
| Gross Margin | 36.0% | 31.4% | 29.7% |
| | | | |
| Operating Profit/(Loss) | 4.9 | (10.6) | (22.5) |
| Operating Margin | 1.1% | -3.2% | -5.8% |
| | | | |
| Adjusted EBITDA | 24.9 | 12.3 | 1.0 |
| Adjusted EBITDA margin | 5.8% | 3.8% | 0.3% |
| | | | |
| Group's Cash and cash equivalents (as at Dec. 31) | 53.5 | 48.2 | 39.8 |

For a description of how Adjusted EBITDA is computed, see “—Non-GAAP Financial Measures” above and Note 41 to the Consolidated Financial Statements.

The Company intends to continue to pursue its vision and strategy for the future by focusing on some key cornerstones including: i) a confirmed focus on controlled distribution through single-brand stores, both owned and franchised, in priority markets; ii) a review of the Group's production allocation, including the collaboration with external industrial partners located in low-cost countries; iii) the disposal of certain assets no longer in line with the strategic development adopted by the Group; and iv) a generalized streamlining of processes and costs.

2021 Compared to 2020

The Consolidated Financial Statements have been prepared on a going concern basis, which assumes that the Group will be reasonably able to meet its obligations as they fall due within one year from the date of the approval of these consolidated financial statements. The Board of Directors reasonably expects that management's plans, together with the cash equivalents, order backlog and unused credit facilities as of December 31, 2021, will be sufficient to enable the Group to meet its obligations. As of December 31, 2021, the Group's cash and cash equivalents amounted to €53.5 million (€48.2 as of December 31, 2020), while the unused portion of the credit facilities available to the Group (for further details, see Note 25 to the Consolidated Financial Statements) amounted to €14.9 million (€23.9 million as of December 31, 2020).

Revenue for 2021, including sales of leather and fabric-upholstered furniture, home furnishings accessories and other sales (mainly sales of leather and other raw materials sold to third parties), were €427.4 million, up 30.2% from €328.3 million in 2020. This increase was mainly due to the robust demand for our products, despite the supply chain disruptions experienced for most of 2021, and the weak revenue performance in 2020, mainly due to the negative impacts of the COVID-19 outbreak.

Sales of upholstery furniture and home furnishing accessories (“main business”) were €413.7 million, up 32.0% compared to 2020, as a result of a 34.8% increase in sales in the Natuzzi branded products (*Natuzzi Italia*, *Natuzzi Editions* and *Divani&Divani by Natuzzi*) and a 15.2% increase in sales in the unbranded products.

Other sales (sales of polyurethane foam and other raw materials to third parties) were €13.6 million in 2021, compared to €14.8 million in 2020.

To provide a better understanding of the different growth drivers of our operating model, invoiced sales from our main business (upholstered and other home furnishings sales) are hereafter described according to the main dimensions of the Group's business:

- A. Branded/Unbranded Business
- B. Distribution channels

A. Branded/Unbranded business

The Group operates in the branded business (with the *Natuzzi Italia*, *Natuzzi Editions* and *Divani&Divani by Natuzzi brands*) and the unbranded business, the latter with collections dedicated to the large-scale distribution.

A1. Branded business.

Within the branded business, Natuzzi is pursuing a dual-brand strategy that focuses on the *Natuzzi Italia* and *Natuzzi Editions* brands. See “Item 4. Information on the Company—Strategy—The Brand Portfolio and Merchandising Strategy.”

In 2021, Natuzzi’s branded invoiced sales amounted to €360.8 million, an increase of 34.8% compared to 2020. In 2021, invoiced branded sales represented 87.2% of our main business, compared to 85.4% in 2020. The following is the contribution of each brand to 2021 invoiced sales:

- *Natuzzi Italia* invoiced sales amounted to €157.0 million, an increase of 36.3% compared to 2020;
- *Natuzzi Editions* invoiced sales (including sales from “*Divani&Divani by Natuzzi*” in Italy) amounted to €203.8 million, an increase of 33.7% compared to 2020.

A2. Unbranded business.

Invoiced sales from our unbranded business amounted to €52.9 million, an increase of 15.2% compared to 2020. The Group’s strategy is to focus on fewer selected large accounts and serve them with a more efficient go-to-market model.

In 2021, unbranded sales, particularly those from the Americas, which are entirely served by our operations in Asia, were negatively impacted by shipping container shortages and limited availability of certain raw materials as a result of the pandemic-related supply-chain disruptions, and also by a tight lock-down that impacted our outsourced operations in Vietnam, which are dedicated to the production of unbranded products, for most of the second half of 2021. Our operations in Vietnam have fully resumed in December 2021.

Over the last years, the unbranded division has also been negatively affected by the trade dispute between the U.S. and China and, more generally, by rising price competition. In light of the tariffs imposed by the U.S. on goods imported from China, the Company has started to outsource in Vietnam part of its unbranded production for some key accounts in the U.S. The Company expects to serve most of its mass-merchant distributors located in North America through such Vietnamese outsourced production.

In addition, over the years the unbranded performance has been affected by the severity of the crisis faced by brick-and-mortar distributors, particularly evident in the U.S., which have been struggling with a shift to online shopping. Therefore, some of the Company’s historical partners have been restructuring their retail assets, resulting in a reduction of their points of sales.

As part of the general review of the Group’s manufacturing footprint, the Company continues to explore further external production capacity in low-cost countries to increase its production capacity and flexibility, particularly with regard to its unbranded production.

B. Distribution

As of December 31, 2021, the Group distributed its branded collections in 110 countries through 1,214 points of sales, of which 54 DOS and 11 concessions directly operated by the Group, in addition to 597 franchise mono-brand Natuzzi stores and 552 Natuzzi galleries operated by third parties. See “Item 4. Information on the Company—Markets” for further information regarding our distribution network.

In 2021, sales generated by the points of sales directly operated by the Group (DOS and concessions) were €68.4 million, up 25.9% compared to 2020, mainly as a result of the strong performance of our DOS located in the U.S. and the UK.

In 2021, invoiced sales from franchise mono-brand Natuzzi stores amounted to €135.3 million, an increase of 31.7% compared to 2020.

In 2021, we added 103 new mono-brand stores, of which two DOS in Australia and 101 franchise operated stores (FOS) globally, of which 84 located in China, three in each of Italy and India, and one in each of the U.S., UK and other countries.

The Group also sells its products through the wholesale channel, consisting primarily of Natuzzi-branded galleries in multi-brand stores as well as mass distributors selling unbranded products. In 2021, invoiced sales from the wholesale channel amounted to €210.0 million, an increase of 34.2% compared to 2020.

Cost of Sales in 2021 was €273.6 million (or 64.0% as a percentage of revenue), as compared to €225.1 million (or 68.6% of revenue) in 2020.

In 2021 and 2020, the Group continued to implement its program aimed at reducing its redundant workforce. See “Item 3. Key Information—Risk Factors—We have redundant workers at our Italian operations, which remains an unresolved issue, and have benefited in 2021 and in previous years from temporary work force reduction programs; if we continue to be unable to reduce our redundant workers and/or if such temporary work force reduction programs are not continued; our business, results of operations and liquidity may continue to be impacted or may be impacted at a greater extent.”

In 2021, the Group accounted for labor-related costs of €1.6 million, of which €0.8 million for its incentive program to reduce the redundant workforce at the Italian plants and €0.8 million for the accrual made for legal proceedings risks.

In 2020, the Group accounted for labor-related costs of €6.6 million, of which €1.0 million for the incentive program to reduce the redundant workforce at the Italian plants, €4.1 million for the accrual made for legal proceedings risks and €1.5 million for labor-related costs in connection with the downsize of the Group’s Chinese factory, which was completed in July 2020.

Gross Profit. During 2021, the Group’s consolidated gross margin was equal to 36.0%, compared to 31.4% in 2020, mainly due to higher operating leverage and better brand mix (i.e., higher sales of Natuzzi branded products compared to lower-margin unbranded sales), despite the industry-wide increase in costs of raw materials for most of 2021. Gross margin also benefited from the adoption of price increases we applied in the second part of 2021 to mitigate such inflationary environment.

In 2021, the Group benefited from the adoption of COVID-related temporary measures granted by the Italian public authorities to lower labor costs (see Note 40 to the Consolidated Financial Statements) and lower fixed costs resulting from the downsizing of its Chinese manufacturing plant, which was completed in the second half of 2020, and the sale of its former subsidiary, IMPE, completed in March 2021.

Selling expenses, administrative expenses, impairment on trade receivables and other income/expenses in 2021 were €148.9 million (or 34.8% on revenue) compared to €113.8 million (or 34.7% on revenue) in 2020.

In 2021, selling expenses as a percentage of revenue increased to 28.5% from 25.7% in 2020, mainly due to an increase in shipping and handling costs, which, when expressed as a percentage of revenue, increased from 8.8% in 2020 to 12.8% in 2021 almost entirely as a result of the significant increase in carriage tariffs, especially for the Far East – North America routes.

Furthermore, in 2021 selling expenses increased by €3.7 million in connection with customs duties applied to products manufactured in China and delivered to the U.S., as well as to products manufactured in China and Vietnam and delivered to Canada.

In 2021 and 2020, the Group benefitted from the adoption of temporary COVID-19 rent concessions and COVID-19 grants obtained from certain governments. Specifically, the Group recognised rent concessions of €1.5 million as a reduction of the selling expenses for the year ended December 31, 2021 (€1.8 million recognized in 2020), and received €0.3 million as COVID-19 grants from certain governments (€1.5 million in 2020).

In 2021 and 2020, the Group also benefitted from the adoption of COVID-related temporary measures granted by Italian public authorities to lower labor costs (see Note 40 to the Consolidated Financial Statements).

In 2021, the Group accrued €0.1 million on trade receivables, compared to €1.8 million in 2020. See Note 30 to the Consolidated Financial Statements.

Selling expenses for 2021 also include impairment losses for non-financial assets related to some of our retail operations in Europe for a total amount of €1.2 million (compared to a total impairment of €2.4 million in 2020). The recoverable amount of these cash generating units (CGUs) was based on their value in use, determined by discounting the future cash flows to be generated from the continuing use of these CGUs. The carrying amount of such CGUs was determined to be higher than its recoverable amount and an impairment loss of €1.2 million was recognised in profit or loss for the year ended December 31, 2021.

For further details, see Notes 34 and 35 to the Consolidated Financial Statements.

Operating Result. The Group reported an operating profit of €4.9 million in 2021 compared to an operating loss of €10.6 million in 2020 due to the factors described above. Furthermore, as indicated in Note 40 to the Consolidated Financial Statements, during 2021 and 2020, the Group benefitted from the salary and wage subsidy programs introduced by the governments of Italy and other countries as part of support measures extended to manufacturers in response to the COVID-19 pandemic and resulting loss of revenue. Support measures adopted by the Italian government allowed the Group to pay temporarily laid off workers and employees a reduced salary or wage from March 2020 to December 31, 2021. Such benefits amounted to approximately to €7.0 million and €13.6 million for the years ended December 31, 2021 and 2020, respectively, and were recorded as a reduction in the labor costs included in the cost of sales, selling expenses and administrative expenses.

Net finance income/(costs). The Group had net finance income of €0.3 million in 2021 as compared to net finance costs of €11.4 million in 2020. Net finance costs of 2021 include:

- finance income of €0.2 million (€0.3 million in 2020);
- finance costs of €6.8 million (€7.8 million in 2020);
- net exchange rate gains of €1.9 million (net exchange rate losses of €3.9 million in 2020); and
- gain from disposal and loss of control of a subsidiary of €5.0 million (nil in 2020). See Note 7 to the Consolidated Financial Statements.

The Group recorded net exchange rate gains of €1.9 million in 2021, as compared to net exchange rate losses of €3.9 million in 2020. The net exchange rate gains in 2021 primarily reflected the following factors:

- net realized losses of €1.4 million in 2021 (compared to a net realized gains of €0.3 million in 2020) 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 forward rate contracts to hedge its price risks against unfavorable exchange rate variations);
- net realized gains of €4.6 million in 2021 (compared to net realized losses of €2.8 million in 2020), resulting from the difference between invoice exchange rates and collection/payment exchange rates;
- net unrealized losses of €0.5 million in 2021 (compared to net unrealized gains of €0.5 million in 2020), resulting from the mark-to-market evaluation of domestic currency swaps;
- net unrealized losses of €0.1 million in 2021 (compared to net unrealized losses of €1.5 million in 2020) on trade receivables and payables; and
- net unrealized losses of €0.7 million in 2021 (compared to net unrealized losses of €0.4 million in 2020), from the translation of non-monetary assets for those subsidiaries adopting Euro as their functional currency.

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

Profit/(loss) before tax and Income tax expense. In 2021, the Group reported a profit before tax of €8.8 million and income tax expense of €4.4 million (for a tax rate of 50.0%), compared to a loss before tax of €20.6 million and income tax expense of €4.3 million in 2020. For additional information about the Group's income tax expense, see Note 38 to the Consolidated Financial Statements.

Profit/(loss) for the year. As a result of the above-mentioned factors, the Group reported a profit of €4.4 million in 2021, as compared to a loss of €24.9 million in 2020. On a per-ordinary share basis, the Group had a profit of €0.07 in 2021, as compared to a loss of €0.45 in 2020.

2020 Compared to 2019

Please refer to the Company's annual report on Form 20-F filed with the SEC on April 30, 2021.

Liquidity and Capital Resources

Our business has relied on cash flows from operations as well as borrowings under our credit facilities as our primary sources of liquidity. Our liquidity may be adversely affected by the continuing spread of COVID-19 and relevant supply-chain disruption as well as the recent conflict in Ukraine. See “Item 3. Key Information—Risk Factors—The COVID-19 pandemic and has had, and may continue to have, an adverse impact on our business, results of operations and financial condition”, “Item 3. Key Information—Risk Factors—Disruptions of our supply chain have had, and may continue to have, a material adverse effect on our results of operations”, “Item 3. Key Information—Risk Factors—The price of our main raw materials and energy costs are difficult to predict” and “Item 3. Key Information—Risk Factors—Global economic and geopolitical conditions may affect our business and could significantly impact our business, results of operations and liquidity”.

In response to the impact of COVID-19, we have been implementing a number of measures to minimize cash outlays, including, among others, managing workforce costs, delaying non-priority capital expenditures and minimizing discretionary expenses. We continue to negotiate with third parties to whom we have payment obligations. We plan to utilize our credit facility, and we may pursue other sources of capital that may include other forms of external financing, or the disposal of non-strategic assets in order to increase our cash position and preserve financial flexibility in response to the international uncertainty resulting from COVID-19 and relevant supply-chain disruption. See Notes 3(f) and 44 to the Consolidated Financial Statements.

In the ordinary course of business, our use of funds is for the payment of operating expenses, working capital requirements and capital expenditures. 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.

In 2021, the Group reported an operating profit of €4.9 million, compared to operating loss of €10.6 million in 2020.

As of December 31, 2021, the Group’s cash and cash equivalents amounted to €53.5 million, its long-term borrowings amounted to €17.4 million, including the current portion of €3.9 million, and its bank overdrafts and short-term borrowings amounted to €36.1 million. Furthermore, as of December 31, 2021, the unused portion of credit facilities available to the Group, for which no commitment fees are due, amounts to €14.9 million. Such unused portion is related to a non-recourse factoring agreement for export-related trade receivables (€10.2 million), borrowings to be secured with trade receivables (€2.0 million) and bank overdrafts (€2.7 million). See Note 25 to the Consolidated Financial Statements.

As of December 31, 2021, the Group’s Net Financial Position was negative at €57.2 million, compared to a negative net financial position of €52.6 million at the end of 2020. See Notes 17, 19, 20 and 25 to the Consolidated Financial Statements.

Although we had €53.5 million in cash and cash equivalents as at December 31, 2021, €9.9 million of this amount is located at our Chinese subsidiaries. If management intends to move this cash from China by way of a dividend distribution, a withholding tax of 10% and the income taxes in Italy (equal to 24.0% on 5% of the dividends distributed) would have to be paid.

Management believes that the Group’s plans to recover efficiency and competitiveness and the actions to mitigate the adverse effects of COVID-19 and supply chain disruptions, combined with the cash and cash equivalents and unused credit facilities as at December 31, 2021 will be sufficient to fund working capital needs, capital expenditures and other contractual obligations as they fall due within one year from the date of the approval of the consolidated financial statements as at December 31, 2021. See Note 3(f) to the Consolidated Financial Statements.

Cash Flows — The Group’s cash and cash equivalents, net of bank overdraft, were €52.2 million as of December 31, 2021 compared to €46.1 million as of December 31, 2020. The most significant changes in the Group’s cash flows between 2021 and 2020 are described below.

In 2021, net cash provided by operating activities was €0.5 million (in 2020, €12.3 million of net cash provided by operations) as a result of:

- a profit for the period of €4.4 million;
- adjustments for non-monetary items of €18.6 million, of which depreciation and amortization of €21.4 million;
- €13.3 million of cash used due to higher working capital to support the increased demand for the Group’s products, mainly due to €16.0 million used for inventory and €5.8 million used for trade and other receivables, partially offset by

€13.1 million of trade and other payables. In addition, during 2021, the Group used €0.3 million of cash to pay one-time termination benefits and €0.9 million of cash in connection with the employees' leaving entitlement;

- interest and taxes paid of €9.2 million.

During 2021, €7.0 million of cash was provided by investing activities, mainly due to €4.5 million deriving from the sale of a land in High Point (NC), USA and of two idle buildings near the Company's headquarters, and €5.5 million deriving from the sale of one of the Group's Italian subsidiaries, partially offset by €5.0 million invested in capital expenditures, mainly for machinery and equipment, leasehold improvements and software. In addition, in 2021, the Company received €1.7 million as dividend distribution from the equity-accounted investees located in China.

Cash used in financing activities in 2021 was €2.0 million (compared to €5.6 million of cash used in financing activities in 2020), mainly due to long-term borrowing proceeds of €5.9 million, €4.8 million of long-term borrowing repayments, €10.1 million of payment of lease liabilities and €6.2 million of short-term borrowings proceeds. In addition, the Group received €1.3 million as capital contribution by a non-controlling interest into the Group's subsidiary Natuzzi Singapore PTE. LTD. See Note 2 to the Consolidated Financial Statements.

As a result, as of December 31, 2021, Cash and cash equivalents in the statement of cash flows was €52.2 million, compared to €46.1 million as of December 31, 2020.

As of December 31, 2021, the Group's long-term contractual cash obligations and commercial commitments (whose amounts are gross and undiscounted and include contractual interest payments) amounted to €121.5 million, of which €54.0 million comes due in 2022.

In particular, as of December 31, 2021, gross and undiscounted amount related to the Group's bank debt, amounted to €55.7 million, of which €40.9 million comes due in 2022. The Group's undiscounted value of total bank debt represented 67.6% of Equity attributable to the Owners of the Company as of December 31, 2021 (66.1% as of December 31, 2020). See Note 30 to the Consolidated Financial Statements.

Furthermore, as of December 31, 2021, gross and undiscounted amount related to the Group's lease liabilities amounted to €65.9 million, of which €13.1 million comes due in 2022. The Group's undiscounted value of lease liabilities represented 80.0% of Equity attributable to the Owners of the Company as of December 31, 2021 (84.3% as of December 31, 2020). See Notes 20 and 30 to the Consolidated Financial Statements.

See "Contractual Obligations and Commitments" below.

The Group's discounted value of long-term borrowings represented 21.2% of Equity attributable to the Owners of the Company as of December 31, 2021 (22.1% as of December 31, 2020) (see Note 19 to the Consolidated Financial Statements). During 2021, the Company made all installment payments related to its long-term-borrowings.

The Group's uses of funds are expected to be the payment of operating expenses, working capital requirements, capital expenditures and restructuring of operations. See "Item 4. Information on the Company—Products" and "Item 4. Information on the Company—Innovation" for a description of our research and development activities. See "Item 4. Incentive Programs and Tax Benefits" for a description of certain government programs and policies related to our operations. See "Item 4. Capital expenditure" for a description of our capital expenditures. See also "Item 3. Key Information—Risk Factors—The COVID-19 pandemic has had, and may continue to have, an adverse impact on our business, results of operations and financial condition", "Item 3. Key Information—Risk Factors—Disruptions of our supply chain have had, and may continue to have, a material adverse effect on our results of operations", Item 3. Key Information—Risk Factors—The price of our main raw materials and energy costs are difficult to predict" and "Item 3. Key Information—Risk Factors—Global economic and geopolitical conditions may affect our business and could significantly impact our business, results of operations and liquidity" for a discussion of the impact of the COVID-19 pandemic, supply chain disruptions, increases in the price of raw materials and energy costs and the current conflict in Ukraine on 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 to credit at the Company level, with the liquidity of certain 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 participating in the arrangement. Under this arrangement, cash is transferred to subsidiaries as needed

on a daily basis to cover the subsidiaries' cash requirements, but any positive cash balance at subsidiaries 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, 2021, the undiscounted Group's long-term borrowings consisted of €19.5 million (including €4.8 million of the current portion of such debt) and its short-term borrowings consisted of €36.1 million outstanding under its existing lines of credit, comprised entirely of bank overdrafts and short-term borrowings. The undiscounted lease liabilities amounted to €65.9 million (including €13.1 million as current portion).

The Group maintains cash and cash equivalents in the currencies in which it conducts its operations, principally Euros, Chinese Yuan, U.S. dollars, New Romanian Leu, British pounds and Canadian dollars.

The following table sets forth the contractual obligations and commercial commitments of the Group as of December 31, 2021 (the amounts are gross and undiscounted and include contractual interest payments):

| | Payments Due by Period (thousands of euro) | | | | |
|---|--|------------------|---------------|---------------|---------------|
| | Total | Less than 1 year | 1-2 years | 2-5 years | After 5 years |
| Contractual Obligations | | | | | |
| Long-term borrowings | 19,503 | 4,755 | 5,935 | 6,006 | 2,807 |
| Bank overdrafts and short-term borrowings | 36,147 | 36,147 | — | — | — |
| Total Debt | 55,650 | 40,902 | 5,935 | 6,006 | 2,807 |
| Leases liabilities ⁽¹⁾ | 65,854 | 13,130 | 12,760 | 25,659 | 14,305 |
| Total Contractual Cash Obligations | 121,504 | 54,032 | 18,695 | 31,665 | 17,112 |

⁽¹⁾ Lease liabilities relate to the Group's lease contracts for buildings of its retail stores, warehouses, factory facilities and vehicles. See Notes 9 and 20 of the Consolidated Financial Statements.

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, 2021, the Group had accrued an aggregate employee's leaving entitlement of €15.6 million. In addition, as of December 31, 2021, the Company had accrued an aggregate sales agent termination indemnity of €0.9 million. See Notes 21 and 23 of the Consolidated Financial Statements. These amounts are not reflected in the tables above.

In addition, in light of the extraordinary challenges imposed by COVID-19 on the Group, on February 28, 2020, the Parent's majority shareholder entered into an agreement with it setting forth its undertaking, should the Parent so request, to make advance payments of up to €15.0 million to satisfy the subscription price of a future rights issue. On February 28, 2020, the Parent requested an initial payment of €2.5 million which it received on March 2, 2020. In December 2021, the Parent's management decided that the share capital increase will no longer take place. Therefore, as at December 31, 2021, the amount of €2.5 million to be paid back to the majority shareholder has been included in the caption "Other payables" of the statement of financial position. See Note 27 to the Consolidated Financial Statements.

As at December 31, 2021, within the provision for legal claims, €8.6 million (€12.3 million as at December 31, 2020) refers to the probable contingent legal liability related to legal procedures initiated by 154 workers against the Company for the misapplication of the social security procedure called CIGS (*Cassa Integrazione Guadagni Straordinaria*). According to the CIGS procedure, the Company pays a reduced salary to the worker for a certain period of time based on formal agreements signed with the trade unions and other public social parties. In particular, these 154 workers are claiming in the legal procedures that the Company applied CIGS during the period from 2004 to 2016 without foreseeing any time rotation. In May 2017, the Company received from the Italian Supreme Court of Justice ("*Corte di Cassazione*") an adverse verdict for the above litigation related to only two workers. Based on this unfavorable verdict, the Company, with the support of its legal counsel, has assessed that the liability for legal procedures initiated by all 154 workers is €8.6 million as of December 31, 2021. See Note 23 to the Consolidated Financial Statements.

The Group is involved in a number of claims (including tax claims) and legal actions arising in the ordinary course of business. As of December 31, 2021, the Group had accrued total provisions relating to these contingent liabilities in the amount of €9.6 million. See "Item 8. Financial Information—Legal and Governmental Proceedings" and Note 23 to the Consolidated Financial Statements.

Off-Balance Sheet Arrangements — As of December 31, 2021, neither Natuzzi S.p.A. nor any of its subsidiaries was a party to any off-balance sheet arrangements.

Research and Development

For a description of the Company's research and development policies, see "Item 4. Products" and "Item 4. Innovation." See also "Item 4. Incentive Programs and Tax Benefits" for a description of certain government programs and policies related to our operations.

Trend information

The recovery of the global economy is subject to a number of factors, most of which remain uncertain.

Global economic activity, after growing at a sustained pace in 2021 despite supply-chain disruptions through most 2021, has started to show signs of slowing down since the beginning of the year, mostly due to the spread of Omicron and other variants of the coronavirus and, subsequently, Russia's invasion of Ukraine. Inflation has risen almost everywhere, continuing to reflect the increases in energy prices, supply bottlenecks and the recovery in demand, mostly in the United States.

More recently, the resurgence of COVID-19 contagions in parts of the Chinese provinces, Shanghai included, and the related strict lockdown measures imposed by, among others, Shanghai authorities since late March 2022 have been impacting the Group's manufacturing, logistics and commercial operations in China, as they have resulted in the closure of our manufacturing plant and of some of the Natuzzi points of sales in China, thus blocking our ability to deliver finished products to customers and produce new products. As a consequence of such restrictions, some key customers and supply-chain partners are also experiencing similar challenges and are therefore unable to deliver raw material and industrial components to us or receive our products that we manufactured. In an effort to reduce the impacts of such restrictions, and depending on their duration, the Group has been defining a contingency plan that takes into consideration the potential transfer of part of its Chinese production both to other Group's plants and external outsourcers.

Following the invasion of Ukraine by the Russian army, much of the international community responded quickly by imposing sanctions on Russia that are unprecedented in severity and scope. The short-term effects of the conflict on global financial markets have been significant and volatility remains high in many market segments. Prices of commodities, especially of energy products, for which Russia holds a considerable share of the global market (such as crude oil and natural gas), have risen further. Consequently, the conflict in Ukraine is exacerbating downside risks to the global economic prospects and upside risks to inflation, as indicated by the most important central banks of Western countries. Such conflict could also have a negative impact on specific sectors, including banking and financial services, aerospace and defense, airline companies, navigation, transportation, information technology, agriculture, luxury goods and tourism as a result of the sanctions imposed against Russia.

Considering the current evolution of the contagion of coronavirus, with particular reference to China, and the uncertainties from the developments of the war in Ukraine, in terms of its duration and intensity and the related inflationary pressure on raw material and energy prices, it is difficult to determine the likely extent of the economic and social effects of the pandemic on international markets and, consequently, on the Group's results for the rest of the current year.

Total Group's order flow through the first 15 weeks of 2022 — The robust trend in order backlog (sales orders received and confirmed by the client) that characterized 2021 has continued during the first part of 2022. Total sales orders received and confirmed by our clients during the first 15 weeks of 2022 was up 24.4% compared to the same period of 2021, as a result of an increase of 50.4% for *Natuzzi Italia* products, an increase of 21.9% for *Natuzzi Editions* products, an increase of 22.4% for *Divani&Divani by Natuzzi* products, partially offset by a decrease of 21.1% for unbranded products.

In view of the global dynamics of the contagion and the uncertainties related to its duration, intensity and lockdown measures, as is currently the case in the Shanghai province, also given the inhomogeneous speed of the vaccine coverage in different countries, and the recent invasion of Ukraine by the Russian army and its developments, it is not possible to determine the likely extent of the economic and social effects stemming from these events and, consequently, on the Group's business for the entire 2022.

Critical Accounting Estimates

Use of Estimates — The accounting policies used by the Group to prepare its financial statements are described in Note 4 to the Consolidated Financial Statements. The application of certain significant accounting 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."

Impairment of property, plant and equipment and right-of-use assets — Management reviews property, plant and equipment and right-of-use assets (herewith also "non-financial assets" or "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. The Company analyzes its overall valuation and performs an impairment analysis of its non-financial assets in accordance with IAS 36 "Impairment of Assets".

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGUs"). Recoverability of assets or CGUs to be held and used is measured by a comparison of the carrying amount of an asset or a CGU to the recoverable amount, which is the higher of its value in use, determined using a discounted cash flow method, and its fair value less cost to sell. Discounted cash flow is significantly impacted by the estimates of the annual sales growth rate, the weighted average cost of capital rate and the long-term growth rate. If the carrying value of an asset or CGU is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the asset or CGU exceeds its estimated recoverable amount.

Assets not in use/to be disposed of are reported at the lower of their carrying amount and their fair value less cost to sell. Estimated fair value is generally determined through various valuation techniques including quoted market values and third-party independent appraisals, as considered necessary.

In 2021, the Company performed the impairment assessment of property, plant and equipment and right-of-use assets included in several cash generating units (CGUs), such as the Italian upholstered furniture plant CGU and certain directly operated retail stores CGUs that presented indicators of impairment. The Company performed the impairment assessment in accordance with its accounting policy discussed above and in further details in Note 4(i) to the Consolidated Financial Statements. Further, the significant assumptions used by the Company in estimating the value in use for such CGUs were the annual sales growth rates used to estimate the forecasted revenue for the years 2022-2026, the weighted average cost of capital rates and the long-term growth rates, all of which were determined at CGU level, including the possible adverse effects deriving from persisting supply-chain disruptions and the geopolitical tensions following the invasion of Ukraine by the Russian army. Such significant assumptions involved a high degree of subjectivity by management and reasonably possible changes to these assumptions had a significant effect on the value in use. Specifically, such assumptions are based on the Company's future business performances and other forward-looking assumptions that entail significant judgments by management and are heavily impacted by several external events. Finally, cash flow projections for the years 2022-2026 have been derived from the business plan approved by the Board of Directors and forecasts have been developed taking into consideration the track records of actual results reported by the Company.

The significant assumptions that were used in performing the 2021 impairment test for the Italian upholstered furniture plant CGU and certain directly operated retail stores CGUs are as follows:

— Italian upholstered furniture plant: weighted average cost of capital rate 8.89%, long-term growth rate 1.50%, annual sales growth rate 2.62% (average of next five years).

— Directly operated retail stores CGUs located in US: weighted average cost of capital rate 7.47%, long-term growth rate 1.96%, annual sales growth rate 8.36% (average of next five years).

— Directly operated retail stores CGUs located in Italy: weighted average cost of capital rate 8.89%, long-term growth rate 0.73%, annual sales growth rate 3.38% (average of next five years).

— Directly operated retail stores CGUs located in Spain: weighted average cost of capital rate 7.99%, long-term growth rate 0.89%, annual sales growth rate 4.31% (average of next five years).

— Directly operated retail stores CGUs located in UK: weighted average cost of capital rate 7.47%, long-term growth rate 1.60%, annual sales growth rate 7.30% (average of next five years).

As of December 31, 2021, the Company recorded an impairment loss for its property, plant and equipment and right-of-use assets of €1.2 million. See Notes 8 and 9 to the Consolidated Financial Statements.

The following tables show a breakdown of property, plant and equipment based on the cash generating units in which they are included (amounts in thousands of Euro).

| | 31/12/21 | 31/12/20 |
|---------------------------------------|---------------|---------------|
| Italian upholstered furniture plant | 34,704 | 32,401 |
| Romanian upholstered furniture plant | 19,627 | 20,626 |
| Brazilian upholstered furniture plant | 2,978 | 3,048 |
| Chinese upholstered furniture plant | 2,215 | 2,654 |
| Others | 23,530 | 26,577 |
| Total | 83,054 | 85,306 |

Instead, the following tables show a breakdown of right-of-use assets based on geographical location of the cash generating units (mainly directly operated retail stores) in which they are included (amounts in thousands of Euro).

| | 31/12/21 | 31/12/20 |
|--------------------------|---------------|---------------|
| United States of America | 15,853 | 14,643 |
| Italy | 11,977 | 9,671 |
| Spain | 4,809 | 5,382 |
| United Kingdom | 7,625 | 9,274 |
| China | 4,076 | 5,484 |
| Others | 6,415 | 4,559 |
| Total | 50,755 | 49,013 |

The deterioration of the macroeconomic environment, worsening of the current conflict in Ukraine and possible future lockdown measures to mitigate the effect of the pandemic, could affect our Italian upholstered furniture plant CGU and certain directly operated retail stores CGUs.

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 recognised to the extent that it is probable that future taxable profits will be available. 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 probable 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 carried-forward are utilized. Estimating future taxable income requires estimates about matters that are inherently uncertain and requires significant management judgment, and different estimates can have a significant impact on the outcome of the analysis.

In 2021, because some domestic companies and some of foreign subsidiaries realized significant pre-tax losses and were in a cumulative loss position, management did not consider it probable that the deferred tax assets of those companies would be realized in the scheduled reversal periods (see Note 38 to the Consolidated Financial Statements). In making its determination that a deferred tax asset was required, management considered the scheduled reversal of deferred tax liabilities and tax planning strategies but was unable to identify any relevant tax planning strategies available to recognise the deferred tax assets.

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.

Provisions — The Group makes estimates and judgements in relation to the provisions for legal claims, service warranties and one time termination benefits for certain employees. Provisions for legal claims, service warranties and one time termination benefits for certain employees are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the

likelihood of an outflow with respect to any item included in the same class of obligations is small. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Actual results related to such provisions may differ significantly from the estimates, due to, among other things, uncertainty, lack or limited availability of information and variation in economic inputs.

Fair value of Natuzzi Trading (Shanghai) Co. Ltd. —Following the transaction occurred with Kuka, as disclosed in Note 11 to the Consolidated Financial Statements, the Company has lost control over its former subsidiary Natuzzi Trading (Shanghai) Co. Ltd. In accordance with IFRS 10, the Company has recognized the 49% retained interest in its former subsidiary at its fair value, which was estimated utilizing a third-party independent appraiser, by applying a discounted earnings technique. Such fair value is therefore based on significant inputs that are not observable in the market. Actual results related to such fair value may differ significantly from the estimate, due to, among other things, uncertainty of the significant assumptions (i.e. forecasted sales), lack of historical information and variation in economic inputs.

New Accounting Standards under IFRS

The standards, amendments and interpretations issued by the International Accounting Standards Board ("IASB") that will have mandatory application in 2022 or subsequent years are listed below.

In May 2017 the IASB issued IFRS 17 "Insurance Contracts" which establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued as well as guidance relating to reinsurance contracts held and investment contracts with discretionary participation features issued. IFRS 17 is effective on or after January 1, 2023 with early adoption allowed if IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" are also applied. The IASB issued certain amendments to such standard in June 2020. Natuzzi's management does not expect any material impact from the adoption of such standard.

In January 2020 the IASB issued amendments to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current" to clarify how to classify debt and other liabilities as current or non-current, and in particular how to classify liabilities with an uncertain settlement date and liabilities that may be settled by converting to equity. These amendments are effective on or after January 1, 2023. The Group does not expect any material impact from the adoption of these amendments.

In May 2020, the IASB issued certain amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", specifically related to "Onerous contracts - Cost of Fulfilling a Contract". These amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments are effective for annual reporting periods beginning on or after 1 January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. Earlier application is permitted. The Group does not expect any material impact from the application of these amendments.

In May 2020, the IASB issued an amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards". Such amendment simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of the IFRS after its parent. The amendment is effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The Group does not expect any impact from the application of this amendment.

In May 2020, the IASB issued amendments to IAS 16 "Property, Plant and Equipment". These amendments provide guidance on the accounting for sales proceeds and related production costs of items produced in the process of making an item of property, plant and equipment available for its intended use. Under the amendments, an entity recognises proceeds from selling items before the related item of property, plant and equipment is available for use in profit or loss, together with the costs of producing those items. IAS 2 "Inventories" is applied in identifying and measuring these production costs. The amendments also clarify that testing whether an item of property, plant and equipment functions properly means assessing its technical and physical performance rather than its financial performance. No disclosure requirements have been added to IAS 16 for sales of items that are an output of a company's ordinary activities: the disclosure requirements of IFRS 15 "Revenue from Contracts with Customers" and IAS 2 will apply in such cases. The amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The Group does not expect any impact from the application of this amendment.

In May 2020, as part of its process to make non-urgent but necessary amendments to IFRS Standards, the IASB issued the “Annual Improvements to IFRS Standards 2018–2020”. These amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The Group does not expect any material impact from the applications of such amendments.

In May 2020, the IASB issued amendments to “IFRS 3 — Business combinations” to update a reference in IFRS 3 to the “Conceptual Framework for Financial Reporting” without changing the accounting requirements for business combinations. These amendments are effective on or after January 1, 2022. The Group does not expect any material impact from the adoption of these amendments.

In July and May 2020, the IASB issued amendments to IAS 1 “Presentation of Financial Statements”. These amendments clarify the following in relation to the classification of liabilities as current or non-current: (i) the right to defer settlement for at least 12 months after the reporting period must have substance and exist at the reporting date – i.e. the requirement for the right to be “unconditional” has been removed; (ii) the classification of liabilities is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and (iii) settlement of a liability includes transferring an entity’s own equity instruments to the counterparty. If a liability has any conversion options that involve a transfer of an entity’s own equity instruments, then these generally affect the liability’s classification as current or non-current, unless these conversion options are recognised as equity under IAS 32. The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. The Group does not expect any material impact from the application of these amendments.

In February 2021, the IASB issued amendments to IAS 1 “Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies” which require companies to disclose their material accounting policy information rather than their significant accounting policies and provide guidance on how to apply the concept of materiality to accounting policy disclosures. These amendments are effective on or after January 1, 2023. The Group does not expect any material impact from the adoption of these amendments.

In February 2021, the IASB issued amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates” which clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. These amendments are effective on or after January 1, 2023. The Group does not expect any material impact from the adoption of these amendments.

In May 2021, the IASB issued amendments to IAS 12 “Income taxes”. These amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g., leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest comparative period presented. Such amendments apply for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted. The Group does not expect any material impact from the application of these amendments.

In December 2021, the IASB published an amendment to IFRS 17 “Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information”. This amendment adds a new transition option to IFRS 17 (the “classification overlay”) to alleviate operational complexities and one-time accounting mismatches in comparative information between insurance contract liabilities and related financial assets on the initial application of IFRS 17. It allows presentation of comparative information about financial assets to be presented in a manner that is more consistent with IFRS 9 “Financial Instruments”. The amendment is effective on or after January 1, 2023. Natuzzi’s management has concluded that such standard is not applicable to the Group.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

As of the date of this Annual Report, the Board of Directors consists of seven members, who were elected at the Company's annual general shareholders' meeting held on May 7, 2021 for a three-year period.

Following the Company's annual general shareholders' meeting, the Board of Directors approved a new governance set up with the goal to strengthen the Company's competitive position in the global luxury furniture market and to increase the efficiency of the Company's operating model. The Board of Directors appointed Mr. Antonio Achille as the Company's CEO.

As of the date of this Annual Report, the directors and senior executive officers of the Company are as follows:

| Name | Age | Position within the Company |
|---------------------------|-----|--|
| Pasquale Natuzzi | 82 | Executive Chairman of the Board of Directors and Chief Omnichannel Commercial Officer |
| Antonio Achille | 50 | CEO, Executive Director; ad interim roles: Chief Operations Officer, Global Retail Excellence Director, Regional Manager West & South Europe |
| Antonia Isabella Perrone | 53 | Non-executive Director |
| Marco Caneva | 53 | Non-executive Director |
| Giuseppe Antonio D'Angelo | 57 | Non-executive Director |
| Alessandro Musella | 52 | Non-executive Director |
| Pasquale Junior Natuzzi | 32 | Chief Brand Officer Natuzzi Italia, Chief Creative Officer and Regional Manager Emerging Markets, Executive Director |
| Cosimo Bardi | 47 | Chief Brand Officer Natuzzi Editions |
| Giuseppe Cacciapaglia | 54 | Chief Accounting Officer |
| Pirluigi Binetti | 47 | Chief Auditor |
| Pierangelo Colacicco | 53 | Chief Technology & Digital Innovation Officer |
| Mario de Gennaro | 56 | Chief HR, Organization & Legal Officer |
| Umberto Longobardo | 56 | Chief Quality & Customer Care Officer |
| Domenico Ricchiuti | 46 | Chief Product Development & Process Innovation |
| Matteo Sambugaro | 36 | Chief Strategic Planning & Transformation Officer |
| Giovanni Tucci | 51 | Global Key Account Director |
| Ottavio Milano | 56 | Regional Manager Central & South Americas |
| Jason Camp | 52 | Regional Manager North Americas |
| Mina Ciccarone | 48 | Regional Manager APAC – Greater China, Hong Kong & Macau |

Pasquale Natuzzi is the Executive Chairman of the Board of Directors. He founded the Company in 1959. He 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. He has creative skills and is directly involved with brand development and product styling. He takes care of strategic partnerships with existing and new accounts. From the end of 2019, he has also been the Chief Omnichannel Commercial Officer.

Antonio Achille is the Chief Executive Officer and an executive director. He is also the ad interim Chief Operations Officer, Regional Manager for West & South Europe and Global Retail Excellence Director. He joined the Company from McKinsey where he was Senior Partner and Global Head of the Luxury Sector. For 25 years, he has been supporting international groups on strategy, digital, retail, organization, supply chain, growth acceleration and operational improvement. In his role as CEO, he focuses on the execution of all the activities required to foster the Natuzzi Group's growth and to enhance its margin generation.

Antonia Isabella Perrone is a non-executive director of the Company. In 1998, she was appointed sole director of a company in the agricultural-food sector, wholly owned by the Natuzzi Family. She joined the 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.

Marco Caneva is a non-executive director of the Company. Since 2010, he has been a director at large IT-focused companies, such as Phase Motion Control, FOS Group, BaoSteel Italia, an Italy-based joint venture controlled by Chinese giant BaoSteel, and Aurora Imaging Technology. He also served as director on the boards of several other companies, including, Italmatch Chemicals and Gruppo Partecipazioni Industriali S.p.A, the holding company of Pirelli & C. S.p.A., as well as Chairman of the board of Paramed, an Italy-based MRI manufacturer, and its U.S. subsidiary. He started his professional career working in the investment banking department of Goldman Sachs and, from 2009 to 2017, he served as Chief Investment Officer of Hofima S.p.A. In 2017, he founded Calit Advisors, a financial advisory and investment firm based in Italy, Ireland and California.

Giuseppe Antonio D'Angelo is a non-executive director of the Company. He is also Executive Vice President of Anglo-America & CIS 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). He earned his Bachelor 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.

Alessandro Musella is a non-executive director of the Company. He is a partner at the law firm BonelliErede, where he focuses on corporate compliance, corporate governance and digital innovation. He is also a non-executive director of Global Assistance S.p.A. and a former member of the Supervisory Board of Equens Worldline SE. He is a member of the Italian bar and holds a law degree from the University of Genoa.

Pasquale Junior Natuzzi is the Chief Brand Officer *Natuzzi Italia*, the Chief Creative Officer, the Regional Manager Emerging Markets and an executive director. He is responsible for defining the Group's strategy with regard to style and creativity and the development of new products (also as a result of collaborations with internationally well-known designers), managing the transformation of the Company from a furniture player to a lifestyle brand. He is a member of the National Council of Assarredo, the Italian Association representing furniture companies, and oversees FederLegnoArredo Sustainability Task Force (design, sustainability, and synergies for the leadership of the Italian wood/furniture sector). He is the son of Pasquale Natuzzi.

Cosimo Bardi is the Chief Brand Officer *Natuzzi Editions*. He is responsible for the positioning and performance of the *Natuzzi Editions* brand and the customer experience. He joined the Group in 2004 and built his professional career in roles of ever-increasing responsibility. In 2016 he was Chief Style & Merchandising Officer and focused on achieving strategic goals of the Natuzzi brand through the definition and management of the Natuzzi product range. From 2018 to 2021, he was Global Merchandising & Business Development Wholesale Channel Director.

Giuseppe Cacciapaglia is the Chief Accounting Officer of the Company. He joined the Group in 1996 and has covered several relevant roles in the last 25 years. Before being appointed as the Global Financial Statement and Tax Director of the Company in 2017, he was Chief Financial Officer of Natuzzi China and Chief Internal Audit Officer of the Company.

Pierluigi Binetti is the Chief Auditor of the Group. He joined the Group in June 2020 and is responsible for providing assurance to the Board of Directors and the Audit Committee that the Group's processes and internal controls are effective and properly designed to mitigate key business risks. In addition, he is responsible for providing assurance over design and effectiveness of key controls relevant for SOX. During his professional career, he has covered different roles in providing assurance services in primary audit firms, mainly in KPMG S.p.A.

Pierangelo Colacicco is the Chief Technology & Digital Innovation Officer of the Group. He is responsible for upgrading the Group's mindset from traditional to digital through the discovery, adoption and implementation of innovative technologies that make processes simpler while improving customer satisfaction and making the brand more competitive. From 2014 to 2018, he was Chief Information Officer (CIO), Process and Organization Director, and from 2007 to 2014 he was CIO of the Group. He joined the Company's HR & Organization department in 1994. In 1996, he served as a software specialist in the IT department. From 2000 to 2007, he was the IT manager for all sales and distribution processes.

Mario de Gennaro is the Chief HR, Organization & Legal Officer of the Group. He joined the Company in September 2021. Mario has a broad experience in the whole human resources field. He has had several leadership roles in multinational companies such as Unilever, Cementir, ILVA and SEDA Packaging Group.

Umberto Longobardo is the Chief Quality & Customer Care Officer of the Group. He joined the Company in January 2017 and is responsible for the worldwide quality and customer care departments that include order management, credit collection and claims management. He started his career in Nuovo Pignone S.p.A. (General Electric) as Plant Quality Manager, then served as Plant Manufacturing & Maintenance Manager in 2001. He formerly worked at Indesit S.p.A., where he held positions of increasing responsibility such as Plant Quality Control Manager, Plant Operations Manager and Returns Manager. In 2008, he joined Gucci Logistics S.p.A. - Kering Group, a global Luxury Group representing Gucci, Bottega Veneta, Saint Laurent, Stella McCartney and other companies. He developed his career in the field of Quality Management and After Sales, including worldwide Quality & After Sales Service Director. He holds a degree in Mechanical Engineering.

Domenico Ricchiuti has been the Chief Product Development & Process Innovation of the Group starting from March 2020. He joined the Group in 2009 as Total Quality and Lean Manager and built his professional career in roles of ever-increasing responsibility in process and product improvement projects. In 2018, he became Product Development and Innovation Director for

all product categories with the goal of coordinating all the processes and activities related to product innovation, development, and industrialization.

Matteo Sambugaro is the Chief Strategic Planning & Transformation Officer. He is responsible for managing the Transformation Team's activities with the goal of coordinating and ensuring the implementation of the initiatives defined into the multi-year Transformation Plan. He joined the Group in January 2019 as Senior Professional Strategy & Business Plan Execution, after over nine years of experience in strategy consulting, of which 8 years at Roland Berger, one of the most prestigious strategy consulting firms worldwide. In his career Matteo has worked on more than 30 projects for multinational companies in the United States, Germany, Italy, Austria and the Netherlands. He holds a master's degree in Statistics and Management. He studied at the University of Padova (Italy), Aarhus Business School (Denmark) and HAAS School of Business at the University of California Berkeley (United States).

Giovanni Tucci is the Global Key Account Director of the Group. He joined the Group in January 2013 in the same business division for the sole EMEA region and then obtained global responsibilities in 2016. He brings many years of experience in marketing, merchandising and sales in both the automotive and wholesale furniture industries to the Group. He currently focuses on restructuring sales and margins at worldwide level with the largest global retailers and wholesalers, through an evolved global manufacturing proposal. He holds a bachelor's degree in Economics and Business Administration and also achieved flying CPL licenses as part of his aeronautical career.

Ottavio Milano is the Regional Manager Central & South Americas. He joined the Group in 1992 and has worked with the Natuzzi Group for over twenty years. He has held roles of increasing responsibility as Controlling Director, General Manager of Natco S.p.A., CEO of Italsofa Nordeste S.A. and Chief Commercial Officer of South Americas.

Jason Camp is the Regional Manager North Americas. He has over 20 years of experience in the furniture industry. He has worked at Bassett Furniture as Senior Vice President Retail and at Restoration Hardware, where he held roles of ever-increasing responsibility until becoming Chief Merchandising Officer Omnichannel.

Mina Ciccarone is the Regional Manager APAC - China, Hong Kong & Macau. She joined the Group in 1997. She is responsible for achieving business goals for the Region and the Rest of APAC. She also supports the Company in its commercial relationship with the management of the joint venture in China in order to meet the sales objectives that are defined with our joint venture partner. In addition, she helps to ensure the satisfaction of our joint venture management and partner and the implementation of the Group's retail operating model.

Compensation of Directors and Officers

As a matter of Italian law and under our By-laws, the compensation of executive directors, including the CEO, is determined by the board of directors, after consultation with the board of statutory auditors, within a maximum amount established by the Company's shareholders. The Company's shareholders determine the base compensation for all members of the board of directors, including non-executive directors. Compensation of the Company's executive officers (for performing their role as such) is determined by the CEO. None of our directors or senior executive officers is party to a contract with the Company that would entitle such persons to benefits upon the termination of service as a director or employee.

Aggregate compensation paid by the Group to the directors and officers was approximately €3 million in 2021.

The base compensation recognized in 2021 to each member of the Board of Directors as member of the Board of Directors is set forth below:

| Name | Base Compensation |
|---------------------------|-------------------|
| Pasquale Natuzzi | € 80,000.00 |
| Antonio Achille | € 215,831.00 |
| Pasquale Junior Natuzzi | € 25,000.00 |
| Antonia Isabella Perrone | € 25,000.00 |
| Marco Caneva | € 27,500.00 |
| Giuseppe Antonio D'Angelo | € 30,000.00 |
| Alessandro Musella | € 27,500.00 |

For the year 2021, approximately 61 directors and managers around the world were selected to participate in the management by objectives (“MBO”) incentive system. The Company, however, due to the COVID-19 pandemic, decided to suspend the payment of any form of bonus linked to the MBO system.

Statutory Auditors

During 2021, the Company’s statutory auditors received approximately €0.1 million in compensation in the aggregate for their services to the Company and its Italian subsidiaries. At the Company’s annual general shareholders’ meeting on April 29, 2019, the following individuals were elected to the Company’s board of statutory auditors for a three-year term. The board consists of three members, one of which is the chairman, and two alternates. None of our statutory auditors is party to a contract with the Company that would entitle such person to benefits upon the termination of service as a statutory auditor.

| Name | Position |
|--------------------------|-----------------|
| Giuseppe Pio Macario | Chairman |
| Francesco Campobasso | Member |
| Andrea Venturelli | Member |
| Aurelio Franco Colasanto | Alternate |
| Vito Passalacqua | Alternate |

We are subject to Rule 10A-3 (“Rule 10A-3”) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which requires, absent an exemption, that a listed company maintain an audit committee composed of members of the issuer’s board of directors that meet certain independence requirements.

The Company relies on an exemption from the Rule 10A-3 requirements provided by Rule 10A-3(c)(3) of the Exchange Act 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.

Employees

The following table illustrates the breakdown of the Group’s employees by qualification and location for the periods indicated:

| Qualification | As of December 31 | | | Change | Change |
|----------------------|--------------------------|--------------|--------------|------------------|------------------|
| | 2021 | 2020 | 2019 | 2021/2020 | 2020/2019 |
| Top managers | 40 | 43 | 46 | (3) | (3) |
| Middle managers | 203 | 202 | 202 | 1 | — |
| Clerks | 804 | 823 | 874 | (19) | (51) |
| Laborers | 3,215 | 3,278 | 3,493 | (63) | (215) |
| Total | 4,262 | 4,346 | 4,615 | (84) | (269) |

| Location | As of December 31 | | | Change | Change |
|-----------------|--------------------------|--------------|--------------|------------------|------------------|
| | 2021 | 2020 | 2019 | 2021/2020 | 2020/2019 |
| Italy | 2,181 | 2,250 | 2,278 | (69) | (28) |
| Outside Italy | 2,081 | 2,096 | 2,337 | (15) | (241) |
| Total | 4,262 | 4,346 | 4,615 | (84) | (269) |

In 2021, 26 workers have voluntarily left the Company.

Starting from March 2020, the Company had adopted, in agreement with the trade unions, certain social safety nets made available by the Italian Government to mitigate the impacts of the COVID-19 pandemic. This led to a suspension of the Solidarity Facility and the CIGS which, as a result, have been extended until November 2021 and February 2022, respectively. In November 2021, the Company and the relevant trade unions and Italian authorities agreed to extend the scope of the Solidarity Facility through November 2023. Additionally, in February 2022, the Company and the relevant trade unions and Italian authorities signed an agreement allowing the Company to benefit from CIGS for up to 463 workers employed at the plant located in Altamura until mid-February 2023.

Share Ownership

Mr. Pasquale Natuzzi, founder of the Company and Executive Chairman of the Board of Directors, as of the date of this Annual Report, beneficially owns an aggregate amount of 30,967,521 Ordinary Shares, representing 56.5% of the Ordinary Shares outstanding (61.6% of the Ordinary Shares outstanding if the 5.1% of the Ordinary Shares owned by the Natuzzi Family are aggregated).

As a result, Mr. Natuzzi controls Natuzzi S.p.A., including its management and the selection of the members 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.

On November 6, 2014, INVEST 2003 S.r.l. completed the purchase of 250,000 ADSs, each representing one Ordinary Share at the time of purchase, at a price of U.S.\$2.00 per ADS. The purchase was privately negotiated with a single individual and was effected through an escrow arrangement with BNY Mellon.

On July 30, 2014, INVEST 2003 S.r.l. completed the purchase of 500,000 ADSs, each representing one Ordinary Share at the time of purchase, at a price of U.S. \$2.75 per ADS. The purchase was privately negotiated with a single individual and was effected through an escrow arrangement with BNY Mellon. For more information, refer to Schedule 13D (Amendment No. 2), filed with the SEC on September 14, 2014, that amends and supplements the Schedule 13D, filed with the SEC on April 24, 2008 (as amended by Amendment No. 1 filed on April 8, 2013 (“Amendment No. 1”).

These two purchases, carried out for investment purposes, brought the number of Ordinary Shares beneficially owned by each of Mr. Natuzzi and INVEST 2003 S.r.l. to 30,967,521 (representing 56.5% of the Ordinary Shares outstanding).

Between September 27, 2011 and April 30, 2013, INVEST 2003 S.r.l. completed the purchase of a total of 859,628 Natuzzi S.p.A. ADSs (each representing one Ordinary Share at the time of purchase, for a total of approximately 1.6% of the Company’s total shares then outstanding), at an average price of U.S.\$ 2.37 per ADS. These purchases were made in accordance with a purchase plan undertaken pursuant to Rule 10b-18 (“Purchases of Certain Equity Securities by the Issuer and Others”) promulgated under the Securities Exchange Act of 1934 (the “Rule 10b-18 Plan”).

On April 18, 2008, INVEST 2003 S.r.l. purchased 3,293,183 ADSs, each representing one Ordinary Share at the time of purchase, at the price of U.S.\$ 3.61 per ADS. For more information, refer to Schedule 13D, filed with the SEC on April 24, 2008, and related Amendment No. 1 to Schedule 13D, filed with the SEC on April 8, 2013.

On February 8, 2019, the Board of Directors approved a change in the ratio of its ADSs to Ordinary Shares, from one ADS representing one Ordinary Share, to one ADS representing five Ordinary Shares. The effective date of the ratio change was February 21, 2019. There were 4,361,981 ADSs (equivalent to 21,809,905 Ordinary Shares) outstanding as of February 21, 2019.

None of the other directors or officers own 1% or more of the Company’s Ordinary Shares or ADSs. None of the Company’s directors or officers has stock options. The Board of Directors expects to discuss the adoption of a stock option plan in the near future.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

The following table sets forth information, as of the date of this Annual Report, with respect to each person who beneficially owns 5% or more of the Company's Ordinary Shares or ADSs:

| | Number of Ordinary Shares owned | Percent owned |
|-----------------------------------|---------------------------------------|---------------|
| Pasquale Natuzzi ⁽¹⁾ | 30,967,521 | 56.5% |
| Mr. David L. Kanen ⁽²⁾ | 5,480,700 | 10.0% |

- ⁽¹⁾ Includes ADSs purchased on April 18, 2008, purchases made from September 27, 2011 through April 30, 2013 under the Rule 10b-18 plan and two privately negotiated purchases executed on July 30, 2014 and November 6, 2014. If Mr. Natuzzi's Ordinary Shares are aggregated with those held by members of the Natuzzi Family, the amount owned would be 33,767,521 and the percentage ownership of Ordinary Shares would be 61.6%.
- ⁽²⁾ Aggregate amount beneficially owned by Kanen Wealth Management LLC ("KWM") based on the Form 13F for the quarter ended December 31, 2021, filed by KWM with the SEC on February 15, 2022. Mr. Kanen is the managing member of KWM.

As indicated in "Item 6. — Share Ownership," Mr. Natuzzi controls Natuzzi S.p.A., including its management and the selection of the members 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.

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

As of March 31, 2022, 54,853,045 Ordinary Shares were outstanding. As of the same date, there were 4,362,652 ADSs (equivalent to 21,813,260 Ordinary Shares) outstanding. The ADSs represented 39.8% of the total number of Natuzzi Ordinary Shares issued and outstanding.

On February 8, 2019, the Board of Directors approved the Ratio Change, which became effective on February 21, 2019. There were 4,361,981 ADSs (equivalent to 21,809,905 Ordinary Shares) outstanding as of February 21, 2019.

For ADS holders, the Ratio Change had the same effect as a one-for-five reverse ADS split. No new shares were issued in connection with the Ratio Change. As a result of the Ratio Change, the price of the Company's ADSs automatically increased proportionally.

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

Related Party Transactions

The table below sets forth information about transactions entered into with related parties as at December 31, 2021 and 2020 are set forth, in millions of Euro. See Note 43 to the Consolidated Financial Statements for further details.

| | 31/12/2021 | 31/12/2020 |
|---------------------------------|------------|------------|
| Sales | 52.3 | 41.6 |
| Expenses | 0.1 | 0.4 |
| Amount owned by related parties | 8.0 | 7.2 |
| Amounts due to related parties | — | — |

The Parent used the legal services of BonelliErede law firm, of which one of the Parent's director is a partner, mainly for assistance with management advisory and with the request for a long-term loan and the sale of certain non-current assets, for a total fee amounting to €0.1 million and €0.4 million for the years ended December 31, 2021 and 2020, respectively. Amounts were billed based on market rates for such services and were due and payable under normal payment terms. See Note 43 to the Consolidated Financial Statements.

In light of the extraordinary challenges imposed by COVID-19 on the Group, on February 28, 2020, the Parent's majority shareholder entered into an agreement with the Parent setting forth its undertaking, should the Parent so request, to make advance payments of up to €15.0 million to satisfy the subscription price of a future rights issue. On February 28, 2020, the Parent requested an initial payment of €2.5 million which it received on March 2, 2020. In December 2021, the Parent's management decided that the rights issue will no longer take place. Therefore, as of December 31, 2021, the amount of €2.5 million to be paid back to the majority shareholder has been included in the caption "Other payables" of the statement of financial position. See Note 27 to the Consolidated Financial Statements.

Other than the foregoing transactions, neither the Company nor any of its subsidiaries was a party to a transaction with a related party that was material to the Company or the related party, or any transaction that was unusual in its nature or conditions, involving goods, services, or tangible or intangible assets, nor is any such transaction presently proposed. During the same period, neither the Company nor any of its subsidiaries made any loans to or for the benefit of any related party. For further details on related party transactions, see Note 43 to the Consolidated Financial Statements.

ITEM 8. FINANCIAL INFORMATION

Consolidated Financial Statements

Please refer to "Item 18. Financial Statements" of this Annual Report.

Export Sales

Sales of upholstery products manufactured in Italy and sold outside Italy totaled €148.2 million in 2021, up 46.2% from €101.4 million in 2020. This figure represents 39.6% of the Group's 2021 net leather and fabric-upholstered furniture sales (36.2% in 2020).

Legal and Governmental Proceedings

The Group is involved in legal and tax proceedings, including several minor claims and legal actions, arising in the ordinary course of business. The provision recorded against these claims is €9.6 million as of December 31, 2021 (€13.2 million as of December 31, 2020). See "Item 3. Key Information—Risk factors" and Note 23 to the Consolidated Financial Statements.

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

Although the Group reported a profit for the year 2021, the Company decided not to distribute any dividend for the year ended December 31, 2021, as it first needs to replenish a non-distributable reserve that has been reduced due to accumulated losses in prior years. The Group has also not paid dividends in any of the prior three fiscal years.

The payment of future dividends will depend on 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 U.S. 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. As a result of recent changes to the foreign tax credit rules, for taxable years beginning after December 28, 2021, any Italian income tax withheld from dividends on our ordinary shares or ADSs is unlikely to be treated as creditable unless U.S. owners are eligible for and elect benefits under the current income tax convention between the United States and Italy (the "Income Tax Convention"). See "Item 10. Additional Information—Taxation—Taxation of Dividends."

ITEM 9. THE OFFER AND LISTING

Trading Markets

Natuzzi's Ordinary Shares are listed on the 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. BNY Mellon is the Company's Depositary for purposes of issuing the American Depositary Shares evidencing ADSs. Trading in the ADSs on the NYSE commenced on May 13, 1993.

On December 26, 2018 the Company received notice from the NYSE that the Company was no longer in compliance with one of the NYSE's continued listing standards for a listed company, particularly, the average closing price of the Company's ADSs was less than US\$1.00 over a consecutive 30-trading day-period.

The Company notified the NYSE on December 27, 2018 of its intention to cure this deficiency within the prescribed timeframe.

On February 8, 2019, the Company's Board of Directors approved a change in the ratio of its ADSs to Ordinary Shares, par value €1.00 per Ordinary Share, from one ADS representing one Ordinary Share, to one ADS representing five Ordinary Shares (the "Ratio Change"). The effective date of the Ratio Change was February 21, 2019. There were 4,361,981 ADSs (equivalent to 21,809,905 Ordinary Shares) outstanding as of February 21, 2019.

For ADS holders, the Ratio Change had the same effect as a one-for-five reverse ADS split. No new shares were issued in connection with the Ratio Change and Natuzzi's ADSs continue to be traded on the NYSE under the same symbol "NTZ." As a result of the Ratio Change, the price of the Company's ADSs automatically increased proportionally.

On March 1, 2019, the Company received confirmation from the NYSE that it had regained compliance with continued listing standards.

On April 7, 2020 the Company received notice from the NYSE that the Company was no longer in compliance with one of the NYSE's continued listing standards for a listed company because the average closing price of the Company's ADSs was less than US\$1.00 over a consecutive 30-trading day-period (the "Dollar Price Standard"). The NYSE notified the Company that its ADSs would be delisted if it was not able to comply with the Dollar Price Standard within the applicable period. The Company regained compliance with the Dollar Price Standard on July 2, 2020.

In addition, from March 17, 2020 to August 12, 2020, the Company was not in compliance with the NYSE's continued listing standard set forth in Section 802.01(b) of the NYSE Listed Company Manual, which requires the Company to maintain an average global market capitalization of not less than US\$15 million over a consecutive 30-trading day period (the "Capitalization Standard"). On August 12, 2020, the Company was notified by the NYSE that, since the Company's average market capitalization was above US\$15 million over a consecutive 30-trading day period, the Company was no longer at an immediate risk of suspension and delisting. The NYSE will continue to monitor the average market capitalization daily to ensure compliance with Capitalization Standard. As of April 21, 2022, the Company's market capitalization was USD 142.6 million.

ITEM 10. ADDITIONAL INFORMATION

By-laws

The following is a summary of (i) certain information concerning the Company's shares and By-laws (*statuto*) and (ii) the relevant provisions of Italian stock corporations. In particular, Italian issuers of shares that are not listed on a regulated market of the European Union are governed by the rules of the Italian civil code (the "Civil Code"). This summary contains all the information that the Company considers to be material regarding its shares, but does not purport to be complete and is qualified in its entirety by reference to the By-laws or the relevant provisions of Italian law, as the case may be.

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. 03513760722, 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 shareholders' meeting of the Company held on July 23, 2004, the shareholders authorized the Company's board of directors to carry out, within five years from the registration of the aforementioned resolution in the Companies' Registry, 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 and of other Group companies. 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 enters his name in the register of shareholders in order to exercise 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 share capital is reduced as a result of accumulated losses, no dividends may 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 from their 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 BNY, as ADR Depositary, in accordance with the Deposit Agreement.

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

As a registered shareholder, the Depositary (or its nominee) will be entitled to vote the Ordinary Shares underlying the ADSs. The Deposit Agreement requires the Depositary (or its nominee) to accept voting instructions from holders of ADSs and to execute such instructions to the extent permitted by law. Neither Italian law nor the Company's By-laws limit the right of non-resident or foreign owners of the Company's Ordinary Shares 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 11 individuals. The Company is currently run by a board of directors composed of seven individuals (see "Item 6. Directors, Senior Management and Employees"). The board of directors is elected by the ordinary shareholders' meeting of the Company, 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 the applicable law or the By-laws to a vote of the 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, in the event they have not been appointed by the shareholders at the ordinary shareholders' meeting. 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 powers delegated to each director and revoke such delegation at any time. The managing directors must report to the board of directors and the 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 submitted to shareholders' meetings, increases in the amount of the Company's share capital or the issuance of convertible debentures (if any such power has been delegated to the board of directors by vote of the extraordinary shareholders' meeting) and the fulfilment of the formalities required when the Company's capital has to be reduced as a result of accumulated losses that reduce the Company's stated capital by more than one-third. See also "Item 10. Additional Information—Meetings of Shareholders".

The board of directors may also appoint one or more general managers (*direttori generali*), who must report 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 letter sent via fax, telegram or e-mail by the chairman on his own initiative. Meetings may be held in person, 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 of directors and to the board of 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, set up and eliminate secondary offices and approve mergers by absorption into the Company of any subsidiary in which the Company holds at least 90% of the issued share capital. The board of directors may also approve the issuance of shares or convertible debentures and reductions of the Company's share capital in the case of withdrawal of a shareholder if so authorized by the Company's extraordinary shareholders' meeting.

Under Italian law and pursuant to the Company's By-laws, directors may be removed from their 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, subject to the approval of the board of statutory auditors, must appoint substitute directors to fill vacancies arising from removals or resignations 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 shareholders' meeting of the Company 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.

The compensation of executive directors, including the CEO, is determined by the board of directors, after consultation with the board of statutory auditors, within a maximum amount established by the Company's shareholders meeting. The Company's shareholders meeting determines the base compensation for all board members, including non-executive directors. Directors are entitled to reimbursement for expenses reasonably incurred in connection with their functions.

Statutory Auditors — In addition to appointing the board of directors, the ordinary shareholders' meeting of the Company, appoints a board of statutory auditors (*collegio sindacale*) and its chairman, and sets 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 standing and one alternate member must be a chartered public accountant.

The Company's By-laws provide that the board of statutory auditors shall consist of three statutory auditors and two alternate 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 the By-laws, (ii) complies with applicable principles of good governance, and (iii) maintains adequate organizational structure and administrative and accounting systems. The Company's board of statutory auditors must be convened at least once every 90 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 attend the meetings of the Company's board of directors and shareholders' meetings.

The statutory auditors may decide to call a shareholders' meeting, ask information about the management of the Company to the members of the board of directors, 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 of the Company (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 competence of the shareholders' meeting, upon the board of statutory auditors' proposal. In addition to the obligations set forth in national auditing regulations, Natuzzi's listing on the NYSE requires that the audit firm issues an audit report on the consolidated financial statements included in the annual report on Form 20-F, in compliance with the auditing standards issued by the Public Company Accounting Oversight Board (United States) (PCAOB). Moreover, the independent audit firm is required, if applicable, to issue an opinion on the effectiveness of the internal control system applied to financial reporting.

The external auditor or the firm of external auditors is appointed for a three-year term, may be re-elected for successive terms, and its compensation is determined by a vote at an ordinary shareholders' meeting of the Company and may be removed only for just cause by a vote of the shareholders' meeting.

Meetings of Shareholders — Shareholders are entitled to attend and vote at ordinary and extraordinary shareholders' meetings. Votes may be cast personally or by proxy. Shareholders' 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 in Colle, or elsewhere in 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 ordinary shareholders' meeting of the Company 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 by 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 members of the board of directors and of the board of 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 and any matter the resolution or authorization of which is entrusted to them by law or the By-laws. Liquidation of the Company must be resolved by an extraordinary shareholders' meeting.

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

The quorum for an ordinary shareholders' meeting of the Company is 50% of the Ordinary Shares, and resolutions are adopted 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, mergers and de-mergers, may only be resolved upon at an extraordinary meeting, at which special voting rules apply. Resolutions at an extraordinary meeting of the Company are adopted, 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, de-mergers, mergers, 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, the revocation of liquidation and the issuance of preference shares) are approved by the holders of more than two-thirds of the shares present and represented at such meeting that must also represent more than one-third of the issued shares.

According to the By-laws, in order to attend any shareholders' meeting, each shareholder of the Company, at least five days prior to the date fixed for the meeting, must deposit its share certificates at the offices of the Company or with such banks as may be specified in the notice of call of the relevant 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.

Pre-emptive 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 pre-emptive rights are waived or limited 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 pre-emptive 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 an 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 to carry out 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.

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 preference 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 allowed to purchase shares, subject to certain conditions and limitations provided for by Italian law. Shares may be purchased out of profits available for dividends and out of distributable reserves, in each case as appearing on the latest stand-alone financial statements approved by the Company's shareholders' meeting. Further, the Company may only repurchase fully paid-in shares. Such purchases must be authorized by the ordinary shareholders' meeting. The aggregate purchase price of such shares may not exceed the distributable dividends and the earnings reserve specifically approved by shareholders. Shares held in violation of the above conditions and limitations 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 statement of financial position, 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 are counted for quorum purposes in shareholders' meetings. Dividends and pre-emptive rights attaching to such shares will accrue to the benefit of other shareholders.

The Company does not own any of its Ordinary Shares.

Notification of the Acquisition of Shares — In accordance with Italian antitrust laws, the Italian Competition Authority prohibits 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 of competition on a lasting basis, provided that certain turnover thresholds are exceeded. However, if the turnover of the acquiring party and the company to be acquired exceeds certain other monetary thresholds, the antitrust review of the acquisition falls within the exclusive jurisdiction of the European Commission and will be assessed under the EU Merger Regulation (Council Regulation (EC) No. 139/2004).

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 90 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' meeting 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. 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 (which must be convened immediately if the complaint appears to have a reasonable basis and there is an urgent need to take action).

Shareholders representing more than 10% of the Company's share capital have the right to report to a competent court all of the serious breaches of the directors' duties, 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 Company is not a party to any material contract, other than contracts entered into in the ordinary course of business and the contracts described immediately below:

- The Company entered into a joint venture contract with Jason Furniture (Hangzhou) Co., Ltd. ("Kuka") on March 22, 2018 (the "Joint Venture Agreement") under which the Company's wholly-owned Chinese subsidiary, Natuzzi Trading (Shanghai) Co., Ltd. ("Natuzzi Trading Shanghai") would become a joint venture (the "Joint Venture"). On July 27, 2018, the Company completed the transactions contemplated by the Joint Venture Agreement. As a result of the completion of these transactions, the Company's wholly-owned Chinese subsidiary, Natuzzi Trading (Shanghai) Co., Ltd. ("Trading Co."), became a joint venture in which each of the Company and Kuka currently owns a 49% and 51% stake, respectively. Kuka invested €65 million to acquire its stake in Trading Co. The Joint Venture distributes *Natuzzi Italia* and *Natuzzi Editions* branded products through a network of single-brand directly operated stores and franchise stores in Mainland China, Hong Kong and Macau, as well as through online stores. The Joint Venture Agreement is attached as Exhibit 4.1 to this Annual Report.
- On February 28, 2020, in light of the extraordinary challenges faced by the Group due to the COVID-19 pandemic, the Company entered into an agreement with INVEST 2003 S.r.l., its majority shareholder, setting forth the undertaking of such shareholder, upon request of the Company, to make advance payments of up to €15.0 million to satisfy the subscription price of a future rights issue. The agreement further provides that any such advance payments are subject to repayment unless a rights issue in a minimum amount of €15.0 million is approved by the Company's shareholders and completed before year end. This agreement is attached as Exhibit 4.2 to this Annual Report.
- The Securitization Facility with Muttley S.r.l., and concerning Banca IMI, Intesa San Paolo for the non-recourse factoring of export-related financial receivables for €40.0 million, dated July 22, 2020. The Securitization Facility is attached as Exhibit 4.3 to this Annual Report.
- On March 2021 the Company and Vita entered into the IMPE Purchase Agreement, whereby Vita Italy S.r.l., a wholly owned subsidiary of Vita, acquired IMPE against a payment of €6.1 million, subject to customary purchase price adjustments and warranties. The IMPE Purchase Agreement is attached as Exhibit 4.4 to this Annual Report.
- On November 4 and November 5, 2021 the Company, along with trade unions and Italian relevant authorities, entered into two agreements to extend the scope of the Solidarity Facility until November 7, 2023. These agreements are attached as Exhibit 4.5 to this Annual Report.

- On February 8, 2022, the Company along with the relevant trade unions and Italian authorities entered into an agreement to allow the Company to benefit from CIGS or up to 463 employees until February 13, 2022. This agreement is attached as Exhibit 4.6 to this Annual Report.

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 requirements however are imposed by law. Regulations on the use of cash and bearer securities are contained in legislative decree No. 231 of November 21, 2007, as amended from time to time (the “Decree 231”), which implemented in Italy the European directive on anti-money laundering 2005/60/EC (replaced by directive (EU) 2015/849, as amended by directive (EU) 2018/843 and directive (EU) 2019/2177). Such legislation requires that, subject to certain exceptions, transfers of cash 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, Poste Italiane S.p.A., electronic money institutions and payment institutions providing payment services which are different from those indicated under Article 1, paragraph 1, letter b), number 6) of legislative decree No. 11 of January 27, 2010 when the total amount to be transferred is equal to or higher than €2,000. Such limit will be decreased to €1,000 from January 1, 2023. Cash remittance services are subject to a €1,000 limit. Credit institutions and the other intermediaries effecting such transactions on behalf of residents or non-residents of Italy are required to maintain records of such transactions for 10 years after the end of the relevant business relationship or the closing of the relevant transaction. Such records may be inspected at any time by the competent Italian authorities.

Non-compliance with, *inter alia*, the reporting and record-keeping requirements set forth in the above-mentioned Decree 231 may result in administrative fines or, in the case of (*inter alia*) reporting of false or misleading information or falsification of the information that is relevant for the purposes of compliance with Decree 231, criminal penalties. The Financial Intelligence Unit of the Bank of Italy (the “FIU”) may use the information received and/or transfer it to the anti-mafia investigative directorate (*Direzione investigativa antimafia*), the special monetary police nucleus (*Nucleo speciale di polizia valutaria della Guardia di finanza*) and other competent authorities, to police money laundering, tax evasion and any other unlawful activity. The FIU is required in certain cases to maintain record of the reports for 10 years.

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. Such obligation lies also on the aforesaid resident taxpayers who, even if do not own directly investments and financial assets held abroad, qualify as “beneficial owner” of the same. 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 subjected to withholding tax or substitute tax 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 (a “U.S. Holder”). 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 shares of the Company (measured by voting power or value) or who may be subject to special tax rules, such as banks, tax-exempt entities, insurance companies, partnerships or partners therein, U.S. expatriates, 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 address the U.S. Medicare tax on net investment income, the U.S. alternative minimum tax, or any aspect of U.S. state or local tax law. 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, U.S. Holders who are considered residents of the United States for purposes of 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 ADSs will be treated as the beneficial owners of the Ordinary Shares represented by those ADSs

Taxation of Dividends

i) Italian 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 26% rate. Italian laws provide a mechanism under which non-resident shareholders can claim a refund, up to 11/26 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 Depositary for payment to U.S. owners will reflect withholding at the 26% rate. U.S. owners who comply with the certification procedures described below may then claim an additional payment of 11% of the dividend (representing the difference between the 26% rate, and the 15% rate, and referred to herein as a “treaty refund”). This 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 (IRS Form 6166), unless a previously filed certification is effective on the dividend payment date (such certificates, filed together with the statement indicated under (ii) below, should be effective until the end of the fiscal year for which the statement was originally filed), (ii) to produce a statement in accordance with the Italian tax authorities decree of July 10, 2013, whereby the U.S. owner represents to be a U.S. owner individual or corporation with no 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. 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 Depositary on how to claim a treaty refund.

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

requirements for a refund by the Company of Italian withholding tax under the Convention and applicable law, the Company will within 45 days thereafter pay the treaty refund to the Depositary for the benefit of the U.S. owners entitled thereto.

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

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

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. Holder 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. Holder in a dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the Depositary or its agent. If the Euro are converted into dollars on the day the Depositary or its agent receives them, U.S. Holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. owners who receive a treaty refund may be required to recognize foreign currency gain or loss to the extent the amount of the treaty refund (in dollars) received by the U.S. owner differs from the U.S. dollar equivalent of the Euro amount of the treaty refund on the date the dividends were received by the Depositary or its agent.

Dividends will generally constitute foreign-source "passive category" income for U.S. tax purposes. As a result of recent changes to the U.S. foreign tax credit rules, for taxable years beginning after December 28, 2021, Italian tax generally will need to satisfy certain additional requirements in order to be considered a creditable tax for a U.S. Holder, except in the case of a U.S. Holder that is eligible for, and properly claims, the benefits of the Income Tax Convention. We have not determined whether these requirements have been met, and, accordingly, no assurance can be given that any Italian withholding tax will be creditable. The calculation of foreign tax credits involves the application of rules that depend on a U.S. Holder's particular circumstances. U.S. holders are urged to consult their tax advisors whether, and to what extent, a foreign tax credit will be available in light of their particular circumstances.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual with respect to the Ordinary Shares or ADSs will be subject to taxation at reduced rates 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, and the Company believes it is eligible for the benefits of the Income Tax Convention. Based on the Company's 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 2020 or 2021 taxable year. In addition, based on the Company's 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 2022 taxable year.

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. Holder's expected economic profit is insubstantial. U.S. Holders 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.

Passive Foreign Investment Company Rules

Special U.S. tax rules apply to companies that are considered to be passive foreign investment companies ("PFICs"). The Company will be classified as a PFIC in a particular taxable year if, either

- 75 percent or more of its gross income for the taxable year is passive income; or

- 50 percent or more of the average value of its assets (generally determined on the basis of a quarterly average) is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes dividends, interest, gains from certain commodities transactions, rents, royalties and the excess of gains over losses from the disposition of assets that produce passive income.

Based on the 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 2021 taxable year. In addition, based on the Company's 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 2022 taxable year or the foreseeable future. However, the determination of whether the Company is a PFIC must be made annually based on the facts and circumstances at that time, including the valuation of its assets, including goodwill and other intangible assets (which may be determined, in part, by reference to the market price of ADSs, which could be volatile). Accordingly, the Company cannot be certain that it will not be a PFIC in the current year or in future years. U.S. Holders should consult their own tax advisors regarding the U.S. federal income tax considerations if the Company is classified as a PFIC.

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.

As a general rule, capital gains realized as of January 1, 2019 upon disposal of a "qualified" shareholding are subject to a 26% substitute tax. If a taxpayer realizes taxable capital gains in excess of capital losses incurred in the same tax year, such excess amount is subject to the 26% substitute tax. If such taxpayer's capital losses exceed its taxable capital gains, then the excess amount can be carried forward and deducted from the taxable amount of 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 disposal 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 a permanent establishment of the U.S. owner in Italy.

ii) United States Tax Considerations — Gain or loss realized by a U.S. Holder 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. Holder's basis in the Ordinary Shares or the ADSs and the amount realized on the disposition, as determined in U.S. dollars. If the amount realized is denominated in a foreign currency, its dollar equivalent generally will be determined at the spot rate in effect on the date of disposition (or, if the Ordinary Shares or ADSs are traded on an established securities market such as the NYSE, in the case of cash basis and electing accrual basis beneficial owners, the settlement date). Any such gain or loss generally would be treated as arising from sources within the United States. Such gain or loss will generally be long-term capital gain or loss if the U.S. Holder holds the Ordinary Shares or ADSs for more than one year. The net amount of long-term capital gain recognized by a U.S. Holder that is an individual holder generally is subject to taxation at a reduced rate. The ability to offset capital losses against ordinary income is subject to limitations. Deposits and withdrawals of Ordinary Shares by U.S. Holders 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 €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 €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 €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.

Italian Financial Transaction Tax — The IFTT is applicable, among other transactions, to all trades entailing the transfer of title of (i) shares or equity-like financial instruments issued by companies resident in Italy, such as the Ordinary Shares; and (ii) securities representing the shares and financial instruments under (i) above (including depositary receipts such as the ADSs), regardless of the residence of the securities' issuer. The IFTT may also apply to the transfer of Ordinary Shares and ADSs by a U.S. resident.

The IFTT applies at a rate of 0.2% for over-the-counter transactions, reduced to 0.1% for trades executed on a regulated market or multilateral trading facility established in States or territories allowing an adequate exchange of information with the Italian tax authorities. The New York Stock Exchange should qualify as a regulated market for such purposes.

The rules governing the IFTT are fairly complex. As to its basic features, it should be noted that the IFTT (i) is levied on a tax base equal to (x) the market value (calculated by taking the net balance of daily trades on the relevant securities) or, in the absence of any such market value, (y) the consideration paid for each trade; and (ii) is borne by the purchaser but is collected by the financial intermediaries (including non-resident financial intermediaries) intervening in the relevant trades.

However, a number of exemptions apply, including with respect to trades of securities issued by companies having an average market capitalization lower than €500 million in the month of November of the year preceding the year in which the trade takes place. Companies, the securities of which are listed on a foreign regulated market, and which could benefit from this exemption, such as the Company, need a confirmation from the Italian Ministry of Economy and Finance: such companies must communicate their market capitalization for each tax year to the Ministry, which will then prepare a list of the companies in relation to which the exemption applies.

EU Financial Transaction Tax — On February 14, 2013, the European Commission proposed the implementation of the EU FTT (see “Item 3. Key Information—Risk Factors”) that may also apply to the transfer of Ordinary Shares and ADSs by a U.S. resident. This directive has been modified by the European Commission. However, the related EU directive has not yet been enacted. Moreover, the implementation of the proposed EU FTT may also affect the IFTT, as described above.

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. Holder 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. Holder 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. Holder’s U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

Specified Foreign Financial Assets — Certain U.S. Holders that own “specified foreign financial assets” with an aggregate value in excess of USD 50,000 on the last day of the taxable year or USD 75,000 at any time during the taxable year are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. Holders who fail to report the required information could be subject to substantial penalties. You should consult your own tax advisors concerning the application of these rules to your particular circumstances.

Documents on Display

The Company is subject to the information reporting requirements of the Exchange 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 SEC. 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 SEC will also be available for inspection by ADS holders at the offices of BNY Mellon - Issuer Services – Depositary Receipts at 240 Greenwich Street, New York, NY 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 "Forward-Looking Information." A significant portion of the Group's net sales and costs is denominated in currencies other than the Euro.

The Group is exposed to market risks principally from fluctuations in the exchange rates between the Euro and other currencies, including, but not limited to, in particular the U.S. dollar, and to a significantly lesser extent, from variations in interest rates. See Note 30(C)(iv) to the Consolidated Financial Statements.

Exchange Rate Risk — The Group's foreign exchange rate risks in 2021 arose principally in connection with the U.S. dollars, British pounds, Euro (for the Company's subsidiary located in Eastern Europe), Australian dollars, Japanese yen, Canadian dollars and Swedish kroner, as well as in connection with Chinese yuan, Romanian Leu, Brazilian Reais, Mexican Peso and Russian Rubles, for the Company's subsidiaries operating in currencies different from the Euro.

The recent political instability following the Russian invasion of Ukraine in February 2022 and the economic sanctions imposed against Russia as a result thereof, while causing tensions on prices of some raw materials and energy, should not, according to management, have significant effects on business of the Group. Consolidated sales from Russia and Ukraine represented less than 1% of the Group's consolidated revenue in each of the 2021, 2020 and 2019, therefore, any loss in turnover would have a marginal impact on the Group's plans and on expected cash flows in 2022.

As of December 31, 2021, the Company was a party to a number of currency forward contracts, all of which are designed to hedge future cash flows from accounts receivables and sales orders denominated in different currencies. The Group does not use such foreign exchange contracts for speculative trading purposes. As of December 31, 2021 and 2020, the notional amount in Euro terms of all of the Group's outstanding currency forward contracts totaled €51.3 million and €26.3 million, respectively.

The tables below summarize (in thousands of Euro equivalent) the contractual amounts of currency forward contracts intended to hedge future cash flows from accounts receivable and sales orders as of December 31, 2021 and 2020:

| | December 31, | |
|--------------------|--------------|--------|
| | 2021 | 2020 |
| U.S. dollars | 20,532 | 854 |
| British pounds | 14,723 | 8,760 |
| Euro* | 12,192 | 11,385 |
| Australian dollars | 1,826 | 1,459 |
| Japanese yen | 1,152 | 1,293 |
| Canadian dollars | 812 | 2,301 |
| Swedish kroner | 99 | 203 |
| Total | 51,336 | 26,255 |

* Used by the Group's Romanian subsidiary to hedge its net collections denominated in Euro vs. RON.

All of these forward contracts had various maturities extending through June 2022.

As of December 31, 2021, these forward contracts had a net unrealized loss of €0.6 million, compared to a net unrealized loss of €0.1 million as of December 31, 2020. The Group recorded this amount in "net exchange rate gains/(losses)" in its Consolidated Financial Statements.

The following tables present information regarding the contract amount 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 contracts with unrealized losses are presented as "liabilities."

| | December 31, 2021 | | December 31, 2020 | |
|-------------|-------------------|---------------------------|-------------------|---------------------------|
| | Contract Amount | Unrealized gains (losses) | Contract Amount | Unrealized gains (losses) |
| Assets | 18,159 | 96 | 12,587 | 112 |
| Liabilities | 33,177 | (691) | 13,668 | (253) |
| Total | 51,336 | (595) | 26,255 | (141) |

As of December 31, 2021, the potential loss in fair value of all of the Group's forward contracts outstanding that would have resulted from a hypothetical, instantaneous and unfavorable 10% change in currency exchange rates would have been approximately €6.2 million.

For the accounting of transactions entered into in an effort to reduce the Group's exchange rate risks, see Notes 4(s) and 29 to the Consolidated Financial Statements. For further details about the Group's exposure to currency risk, see Note 30(C)(iv) to the Consolidated Financial Statements.

Interest Rate Risk — To a significantly lesser extent, the Group is also exposed to interest rate risk. As of December 31, 2021, the Group had €53.6 million (equivalent to 13.7% of the Group's total assets as of the same date) in debt outstanding (Bank overdrafts and short-term borrowings plus long-term debt, including the current portion of such debt), which is for the most part subject to floating interest rates. See Notes 19, 25 and 30(C)(iv) to the Consolidated Financial Statements.

The potential increase in interest expenses on the Group's total debt (bank overdrafts and long-term debt, including their current portion) that would have resulted from a hypothetical, instantaneous and unfavorable 1.0% increase in the interest rates of the Group's total debt outstanding as of December 31, 2021 would have been approximately €0.8 million.

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 ADS holders — BNY, as Depositary of our ADSs, 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 to make 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: | For: |
|--|--|
| \$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) | <ul style="list-style-type: none"> • Depositing or substituting the underlying shares • Selling or exercising rights • 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 |
| 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 | <ul style="list-style-type: none"> • Transfer and registration of shares on our share register to or from the name of the Depositary or its agent when holders deposit or withdraw shares |
| Expenses of the Depositary | <ul style="list-style-type: none"> • Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement) • Converting foreign currency to U.S. dollars • As necessary |
| 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 | <ul style="list-style-type: none"> • As necessary |

Fees payable by the Depositary to the Company

i) Fees incurred in past annual period — From January 1, 2021 to December 31, 2021, the Depositary waived a total of \$311.27 in administrative fees for routine corporate actions including services relating to Natuzzi's annual general meeting of shareholders.

ii) 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.

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 Company's management, including its Chief Executive Officer and Chief Accounting Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2021. 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 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, our Chief Executive Officer and Chief Accounting Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2021 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 its Chief Executive Officer and Chief Accounting 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 Exchange Act. 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 IFRS. 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. Additionally, 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, Company's management, including its Chief Executive Officer and Chief Accounting Officer, used the criteria described in "2013 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, 2021. Based on such assessment, the Company's management has concluded that as of December 31, 2021, 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, 2021, has been audited by KPMG 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 — The attestation report of KPMG S.p.A., an independent registered public accounting firm, is included in Item 18 of this Annual Report and appears on pages F-1 and F-2 of this Annual Report.

(d) Changes in Internal Control over Financial Reporting — There were no changes in our internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) that occurred during our most recently completed fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 Rule 10A-3(c)(3) of the Exchange Act 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 CEO and CFO. The Company's code of ethics is downloadable from its website at http://www.natuzzigroup.com/pdf/ir/coe_inglese.pdf.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our independent registered public accounting firm is KPMG S.p.A., Bari, Italy (headquartered in Milan, Italy). PCAOB ID: 1048.

KPMG S.p.A. ("KPMG") served as Natuzzi S.p.A.'s principal independent registered public auditor for fiscal years 2021 and 2020, for which it audited the consolidated financial statements for the years ended December 31, 2021 and 2020 included in this Annual Report.

The following table sets forth the aggregate fees billed and billable to the Company by KPMG in Italy and abroad during the fiscal years ended December 31, 2021 and 2020, for audit fees, audit-related fees, tax fees and all other fees for audit.

| | 2021 | 2020 |
|--------------------|-----------------------------------|------------|
| | (Expressed in thousands of euros) | |
| Audit fees | 934 | 750 |
| Audit-related fees | — | — |
| Tax fees | 10 | 10 |
| All Other fees | — | — |
| Total fees | 944 | 760 |

The increase in the audit fees is exclusively related to the status of accelerated filer acquired by the Company in 2021 (the Company was a non-accelerated filer in 2020).

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.

The Company's board of statutory auditors 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. All services rendered by our independent auditors for audit and non-audit services were pre-approved by our board of statutory auditors in accordance with this policy.

At the Company's annual general shareholders' meeting held on April 29, 2019, the Company appointed KPMG S.p.A. as Natuzzi S.p.A.'s principal independent registered public auditor for fiscal years 2019, 2020 and 2021.

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):

- the board of statutory auditors is established and selected pursuant to Italian law expressly permitting such a board;
- the board of statutory auditors is required under Italian law to be separate from the Company's board of directors;
- 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;
- Italian law provides for standards for the independence of the board of statutory auditors from the Company and its management;
- 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

- 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

On November 6, 2014, INVEST 2003 S.r.l. completed the purchase of 250,000 ADSs, each representing one Ordinary Share at the time of purchase, at a price of U.S.\$2.00 per ADS. The purchase was privately negotiated with a single individual and was effected through an escrow arrangement with BNY Mellon. On July 30, 2014, INVEST 2003 S.r.l. completed the purchase of 500,000 ADSs, each representing one Ordinary Share at the time of purchase, at a price of U.S.\$2.75 per ADS. The purchase was privately negotiated with a single individual and was effected through an escrow arrangement with BNY Mellon. For more information, refer to Schedule 13D (Amendment No. 2), filed with the SEC on September 14, 2014, which amends and supplements the Schedule 13D filed with the SEC on April 24, 2008 (as amended by Amendment No. 1 filed on April 8, 2013).

From January 1, 2014 to December 31, 2021 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, the Company is permitted, as a listed foreign private issuer, to adhere to the corporate governance rules of its 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 EU, 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, 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 auditing firm (*società di revisione*) is in charge of auditing the Company's 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 shareholders' meetings. This system differs from 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, inter alia, 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, by itself, is not a per se bar to independence.

Our Practice — The presence of a prescribed number of independent directors on the Company's board is neither mandated 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. The law sets forth certain principles aimed at ensuring that any member of the board of statutory auditors who is a chartered public accountant (*iscritto nel registro dei revisori contabili*) be substantively independent from the company subject to audit and not be in any way involved in the company's decision-making process. The Civil Code mandates that at least one standing and one alternative 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 have 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 handling "whistle blower" complaints regarding accounting, internal accounting controls, or auditing matters; (iii) engaging independent counsel and other advisers, as it determines necessary to carry out its duties and (v) determine appropriate funding for payments to the external auditor, advisors employed by the audit committee and other necessary administrative expenses of the audit committee. A company must also have an internal audit function, which may be outsourced, except to the independent auditor.

Our Practice — Rule 10A-3(c)(3) of 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. Nevertheless, our board of statutory auditors, consisting of independent and highly professional experts, complies with the requirements indicated at points (i), (iii) and (iv) of the preceding paragraph. The Company also has an internal audit function, which has not been outsourced, and a control and risk committee. This committee, comprised of three independent directors, has the task of supporting the Board of Directors' evaluations and decisions relating to the internal control and risk management system, as well as those relating to the approval of periodic financial reports.

Nominating and Compensation Committees

NYSE Domestic Company Standards — Under NYSE standards, a domestic company must have a nominating/corporate governance committee (or equivalent) comprised solely of independent directors, which is responsible for nominating directors, and a written charter addressing certain corporate governance matters. Additionally, U.S. companies listed on the NYSE are required to have a compensation committee (or equivalent) comprised solely of independent directors and have a written charter addressing certain corporate governance matters. The compensation committee must approve the compensation of the CEO and 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 — We do not have a nominating and compensation committee as it is not required under Italian laws. Under Italian laws, directors may be designated by any of the Company's shareholders but shall be appointed by the shareholders in a general shareholders' meeting. If, during the term of the appointment, one or more directors of the Company resign, the other directors shall replace them by a resolution approved by the board of statutory auditors, provided that the majority of the board is still comprised of directors appointed by the Company's shareholders. The coopted directors remain in office until the next shareholders' meeting. If at any time more than half of the members of the board of directors appointed by the shareholders' meeting resigns, 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. INVEST 2003 S.r.l., a company controlled by Mr. Pasquale Natuzzi, by virtue of owning a majority of the outstanding shares of the Company, controls the Company and the appointment of its board of directors.

As a matter of Italian law applicable to Italian stock corporations whose shares are not listed on a regulated market in the European Union and under our By-laws, the compensation of executive directors, including the CEO, is determined by the board of directors, after consultation with the board of statutory auditors, within a maximum amount established by the Company's shareholders, while the Company's shareholders determine the base compensation for all members of the board of directors, including non-executive directors. Compensation of the Company's executive officers is determined by the CEO. The Company discloses aggregate compensation of all of its directors and officers as well as individual base compensation of each director in Item 6 of its annual reports on Form 20-F.

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 senior financial officers, 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 task of supervising the application of the compliance program requested by the above-mentioned Italian Decree has been entrusted to an autonomous supervisory body ("*Organismo di Vigilanza*") that consists of two qualified members. In February 2016, the board of directors approved a new code of ethics that applies to all employees and officers of the Company, including the board of directors and the board of statutory auditors, the CEO, the CFO and principal accounting officer. Additionally, the Company has in place an insider trading policy, which applies to all employees, officers, directors of the Company. 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. The full text of our code of ethics and insider trading policy and information related to our organizational model pursuant to Italian decree 231/2001 may be found on our website at www.natuzzigroup.com.

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 the fact 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). 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 joins 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 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 SEC. 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 shareholders’ meeting of the Company 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.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

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.

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[Consolidated statements of financial position as at December 31, 2021 and 2020](#)

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[Consolidated statements of profit or loss for the years ended December 31, 2021, 2020 and 2019](#)

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[Consolidated statements of changes in equity for the years ended December 31, 2021, 2020 and 2019](#)

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[Consolidated statements of cash flows for the years ended December 31, 2021, 2020 and 2019](#)

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[Notes to consolidated financial statements](#)

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Report of Independent Registered Public Accounting Firm

*To the Stockholders and Board of Directors
Natuzzi S.p.A.:*

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated statements of financial position of Natuzzi S.p.A. and subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, 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 consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Impairment assessment of property, plant and equipment and right-of-use assets of the Italian upholstered furniture plant CGU and certain directly operated retail-store CGUs

As discussed in Notes 4(i), 8 and 9 to the consolidated financial statements, at each reporting date the Company reviews the carrying amounts of its cash generating units (CGUs) to determine whether there is any indication of impairment. An impairment loss is recognized if the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of a CGU is the higher of its value in use, determined using a discounted cash flow method, and its fair value less costs to sell. As of December 31, 2021, the carrying amounts of property, plant and equipment and right-of-use assets were € 83,054 thousand and € 50,755 thousand, respectively, a portion of which related to the Italian upholstered furniture plant CGU and certain directly operated retail-store CGUs.

We identified the impairment assessment of property, plant and equipment and right-of-use assets included in the Italian upholstered furniture plant CGU and certain directly operated retail store CGUs as a critical audit matter. This is due to the high degree of subjective auditor judgement that was required to evaluate the significant assumptions used by the Company in estimating the value in use. Specifically, the annual sales growth rates used to estimate the forecasted revenue for the years 2022-2026, weighted average cost of capital rates and long-term growth rates, all of which were determined at the CGU level, including the effects of the COVID-19 pandemic and the duration of the resulting economic instability. These assumptions were challenging to evaluate as they involved a high degree of subjectivity and reasonably possible changes to these assumptions had a significant effect on the value in use. Furthermore, specialized skills and knowledge were required to assess the weighted average cost of capital rates and the long-term growth rates.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the impairment assessment process. This included controls related to the determination of the annual sales growth rates, the weighted average cost of capital rates and the long-term growth rates. We evaluated the Company's ability to accurately forecast future revenue by comparing actual results to the Company's historical forecasts at the CGU level and for the Company as a whole. We assessed the annual sales growth rates at the CGU level for the years 2022-2026 by comparing them to the Company's future operating plans included in the business plan approved by the Company's Board of Directors, and relevant industry reports. We performed sensitivity analyses over the annual sales growth rates, the weighted average cost of capital rates and the long-term growth rates, to assess the impact of changes in the assumptions on the Company's determination of value in use. Furthermore, we involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the weighted average cost of capital rates and long-term growth rates by comparing them to a range of estimated rates developed independently based on publicly available market data for comparable entities.

/s/ KPMG S.p.A

We have served as the Company's auditor since 2016.

Bari, Italy

May 2, 2022

Natuzzi S.p.A. and subsidiaries
Consolidated statements of financial position as at December 31, 2021 and 2020
(Expressed in thousands of euros except as otherwise indicated)

| | December 31, 2021 | December 31, 2020 | Note |
|--|-------------------|-------------------|------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 83,054 | 85,306 | 8 |
| Right-of-use assets | 50,755 | 49,013 | 9 |
| Intangible assets and goodwill | 4,146 | 3,757 | 10 |
| Equity-method investees | 44,522 | 40,089 | 11 |
| Other non-current receivables | 4,854 | 3,364 | 12 |
| Other non-current assets | 1,418 | 1,891 | 13 |
| Deferred tax assets | 886 | 531 | 38 |
| Total non-current assets | 189,635 | 183,951 | |
| Current assets | | | |
| Inventories | 80,211 | 63,909 | 14 |
| Trade receivables | 41,259 | 33,934 | 15 |
| Other current receivables | 11,018 | 9,833 | 16 |
| Other current assets | 12,309 | 9,146 | 13 |
| Current income tax assets | 2,032 | 1,255 | 38 |
| Gains on derivative financial instruments | 96 | 112 | 29 |
| Cash and cash equivalents | 53,472 | 48,187 | 17 |
| Assets held for sale | — | 5,673 | 7 |
| Total current assets | 200,397 | 172,049 | |
| TOTAL ASSETS | 390,032 | 356,000 | |
| EQUITY | | | |
| Share capital | 54,853 | 54,853 | 18 |
| Reserves | 17,449 | 13,043 | 18 |
| Retained earnings | 10,033 | 6,448 | 18 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY | 82,335 | 74,344 | |
| Non-controlling interests | 1,511 | 1,020 | |
| TOTAL EQUITY | 83,846 | 75,364 | |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Long-term borrowings | 13,577 | 9,302 | 19 |
| Long-term lease liabilities | 46,592 | 43,137 | 20 |
| Employees' leaving entitlement | 15,588 | 15,747 | 21 |
| Non-current contract liabilities | 7,405 | 8,033 | 22 |
| Provisions | 10,572 | 14,274 | 23 |
| Deferred income for government grants | 12,754 | 12,458 | 24 |
| Deferred tax liabilities | 996 | 1,024 | 38 |
| Total non-current liabilities | 107,484 | 103,975 | |
| Current liabilities | | | |
| Bank overdrafts and short-term borrowings | 36,147 | 30,812 | 25 |
| Current portion of long-term borrowings | 3,862 | 7,124 | 19 |
| Current portion of lease liabilities | 10,546 | 10,456 | 20 |
| Trade payables | 89,215 | 74,263 | 26 |
| Other payables | 31,453 | 28,269 | 27 |
| Current contract liabilities | 20,797 | 16,150 | 22 |
| Provisions | 2,839 | 3,745 | 23 |
| Other liabilities | 412 | 1,069 | 28 |
| Liabilities for current income tax | 2,740 | 1,134 | 38 |
| Losses on derivative financial instruments | 691 | 253 | 29 |
| Liabilities directly related to assets held for sale | — | 3,386 | 7 |
| Total current liabilities | 198,702 | 176,661 | |
| TOTAL LIABILITIES | 306,186 | 280,636 | |
| TOTAL EQUITY AND LIABILITIES | 390,032 | 356,000 | |

The notes on pages F-8 to F-80 are an integral part of these consolidated financial statements.

Natuzzi S.p.A. and subsidiaries

Consolidated statements of profit or loss for the years ended December 31, 2021, 2020 and 2019

(Expressed in thousands of euros except as otherwise indicated)

| | 2021 | 2020 | 2019 | Note |
|--|----------------|-----------------|-----------------|------|
| Revenue | 427,375 | 328,343 | 386,962 | 31 |
| Cost of sales | (273,575) | (225,151) | (271,931) | 32 |
| Gross Profit | 153,800 | 103,192 | 115,031 | |
| Other income | 6,414 | 3,882 | 5,162 | 33 |
| Selling expenses | (121,631) | (84,518) | (105,250) | 34 |
| Administrative expenses | (33,302) | (29,444) | (34,026) | 35 |
| Impairment on trade receivables | (110) | (1,802) | (2,389) | 15 |
| Other expenses | (289) | (1,915) | (1,016) | 33 |
| Operating profit/(loss) | 4,882 | (10,605) | (22,488) | |
| Finance income | 225 | 317 | 400 | 36 |
| Finance costs | (6,786) | (7,831) | (7,928) | 36 |
| Net exchange rate gains/(losses) | 1,866 | (3,901) | (2,340) | 37 |
| Gain from disposal and loss of control of a subsidiary | 5,026 | — | — | 7 |
| Net finance income/(costs) | 331 | (11,415) | (9,868) | |
| Share of profit/(loss) of equity-method investees | 3,561 | 1,455 | 1,011 | 11 |
| Profit/(loss) before tax | 8,774 | (20,565) | (31,345) | |
| Income tax expense | (4,389) | (4,341) | (2,335) | 38 |
| Profit/(loss) for the year | 4,385 | (24,906) | (33,680) | |
| Profit/(loss) attributable to: | | | | |
| Owners of the Company | 3,585 | (24,678) | (33,370) | |
| Non-controlling interests | 800 | (228) | (310) | |
| Profit/(loss) per share | | | | |
| Basic earnings/(loss) per share | 0.07 | (0.45) | (0.61) | 39 |
| Diluted earnings/(loss) per share | 0.07 | (0.45) | (0.61) | 39 |

The notes on pages F-8 to F-80 are an integral part of these consolidated financial statements.

Natuzzi S.p.A. and subsidiaries

Consolidated statements of comprehensive income for the years ended December 31, 2021, 2020 and 2019

(Expressed in thousands of euros except as otherwise indicated)

| | 2021 | 2020 | 2019 | Note |
|---|--------------|-----------------|-----------------|------|
| Profit/(loss) for the year | 4,385 | (24,906) | (33,680) | |
| Other comprehensive income | | | | |
| Items that will not be reclassified to profit or loss | | | | |
| Actuarial gains/(losses) on employees' leaving entitlement | (627) | (212) | (615) | 18 |
| Tax impact | — | — | — | 38 |
| Total | (627) | (212) | (615) | |
| Items that are or may be reclassified subsequently to profit or loss | | | | |
| Exchange rate differences on translation of foreign operations | 4,037 | (3,948) | 586 | 18 |
| Tax impact | — | — | — | 38 |
| Total | 4,037 | (3,948) | 586 | |
| Other comprehensive income/(loss) for the year, net of tax | 3,410 | (4,160) | (29) | 18 |
| Total comprehensive income/(loss) for the year | 7,795 | (29,066) | (33,709) | |
| Total comprehensive income/(loss) attributable to: | | | | |
| Owners of the Company | 6,903 | (28,782) | (33,421) | |
| Non-controlling interests | 892 | (284) | (288) | |

The notes on pages F-8 to F-80 are an integral part of these consolidated financial statements.

Natuzzi S.p.A. and subsidiaries

Consolidated statements of changes in equity for the years ended December 31, 2021, 2020 and 2019

(Expressed in thousands of euros except as otherwise indicated)

| | Share Capital amount | Translation reserve | IAS 19 reserve | Other reserves | Retained earnings | Equity attributable to owners of the Company | Equity attributable to Non- controlling interests | Total equity |
|---|----------------------------|------------------------|-------------------|-------------------|----------------------|--|---|-----------------|
| Balance as at December 31, 2018 | 54,853 | 5,282 | 457 | 11,459 | 64,496 | 136,547 | 1,634 | 138,181 |
| Capital contribution | — | — | — | — | — | — | 346 | 346 |
| Loss for the year | — | — | — | — | (33,370) | (33,370) | (310) | (33,680) |
| Other comprehensive income/(loss) for the year | — | 564 | (615) | — | — | (51) | 22 | (29) |
| Balance as at December 31, 2019 | 54,853 | 5,846 | (158) | 11,459 | 31,126 | 103,126 | 1,692 | 104,818 |
| Dividend distribution | — | — | — | — | — | — | (388) | (388) |
| Loss for the year | — | — | — | — | (24,678) | (24,678) | (228) | (24,906) |
| Other comprehensive income/(loss) for the year | — | (3,892) | (212) | — | — | (4,104) | (56) | (4,160) |
| Balance as at December 31, 2020 | 54,853 | 1,954 | (370) | 11,459 | 6,448 | 74,344 | 1,020 | 75,364 |
| Gain on disposal of a Non-controlling interests | — | — | — | 1,088 | — | 1,088 | 144 | 1,232 |
| Dividend distribution | — | — | — | — | — | — | (545) | (545) |
| Profit for the year | — | — | — | — | 3,585 | 3,585 | 800 | 4,385 |
| Other comprehensive income/(loss) for the year | — | 3,945 | (627) | — | — | 3,318 | 92 | 3,410 |
| Balance as at December 31, 2021 | 54,853 | 5,899 | (997) | 12,547 | 10,033 | 82,335 | 1,511 | 83,846 |

The notes on pages F-8 to F-80 are an integral part of these consolidated financial statements.

Natuzzi S.p.A. and subsidiaries
Consolidated statements of cash flows for the years ended December 31, 2021, 2020 and 2019
(Expressed in thousands of euros except as otherwise indicated)

| | 2021 | 2020 | 2019 | Note |
|--|----------------|----------------|-----------------|----------|
| Cash flows from operating activities: | | | | |
| Profit/(loss) for the period | 4,385 | (24,906) | (33,680) | |
| Adjustments for: | | | | |
| Depreciation | 20,281 | 23,258 | 24,196 | 8 and 9 |
| Amortisation | 1,090 | 907 | 917 | 10 |
| Impairment of non-financial assets | 1,188 | 2,450 | — | 9 and 10 |
| (Gain)/loss on sale of property, plant and equipment | (2,084) | 1,049 | — | |
| Deferred income for capital grants | (1,306) | (1,242) | (1,626) | |
| Rent concessions | (1,515) | (1,799) | — | 20 |
| Interest expenses | 4,717 | 5,962 | 5,930 | 36 |
| Unrealised foreign exchange (gains)/losses | 454 | (486) | 525 | 37 |
| (Gain) from loss of control in a former subsidiary | (5,026) | — | — | 7 |
| Share of (profit)/loss of equity-method investees | (3,561) | (1,455) | (1,011) | 11 |
| Tax expense | 4,389 | 4,341 | 2,335 | 38 |
| <i>Total adjustment</i> | 18,627 | 32,985 | 31,266 | |
| Changes in: | | | | |
| Inventories | (16,000) | 4,805 | 14,542 | |
| Trade and other receivables | (5,847) | (7,059) | 13,578 | |
| Other assets | (2,690) | 1,088 | (671) | |
| Trade and other payables | 13,055 | 17,761 | (9,490) | |
| Contract liabilities | 4,019 | 1,080 | 1,004 | |
| Provisions | (4,608) | (703) | (1,523) | |
| Other liabilities | — | — | 1,273 | |
| One-time termination benefit payments | (275) | (3,849) | (3,812) | |
| Employees' leaving entitlement | (940) | (396) | (1,676) | |
| <i>Total changes</i> | (13,286) | 12,727 | 13,225 | |
| Cash provided by (used in) operating activities | 9,726 | 20,806 | 10,811 | |
| Interest paid | (4,966) | (4,684) | (5,111) | |
| Income taxes paid | (4,223) | (3,854) | (1,048) | |
| Net cash provided by (used in) operating activities | 537 | 12,268 | 4,652 | |
| Cash flows from investing activities: | | | | |
| Property, plant and equipment: | | | | |
| Additions | (3,515) | (2,083) | (3,805) | |
| Disposals | 4,511 | 2,888 | 66 | |
| Intangible assets | (1,476) | (792) | (913) | |
| Government grants received for PPE | 507 | — | 1,327 | |
| Dividends from equity-accounted investees | 1,744 | 2,335 | — | 11 |
| Purchase of business, net of cash acquired | (270) | — | — | 11 |
| Disposal of a business, net of cash disposed of | 5,515 | — | — | 7 |
| Net cash provided by (used in) investing activities | 7,016 | 2,348 | (3,325) | |
| Cash flows from financing activities: | | | | |
| Long-term borrowings: | | | | |
| Proceeds | 5,873 | 875 | 4,615 | |
| Repayments | (4,788) | (2,675) | (5,980) | |
| Short-term borrowings | 6,210 | 6,518 | (11,190) | |
| Payment of lease liabilities | (10,090) | (9,907) | (11,960) | 9 and 20 |
| Dividends distribution to non-controlling interests | (545) | (388) | — | |
| Capital contribution by non-controlling interests | 1,324 | — | 346 | |
| Net cash provided by (used in) financing activities | (2,016) | (5,577) | (24,169) | |
| Increase (decrease) in cash and cash equivalents | 5,537 | 9,039 | (22,842) | |
| Cash and cash equivalents as at January 1 (*) | 46,076 | 37,825 | 60,369 | |
| Effect of movements in exchange rates on cash held | 636 | (788) | 298 | |
| Cash and cash equivalents as at December 31 (*) | 52,249 | 46,076 | 37,825 | 17 |

(*) As at December 31, 2021, 2020 and 2019 cash and cash equivalents include bank overdrafts of 1,223, 2,111 and 1,974, respectively, that are repayable on demand and form an integral part of the Group's cash management.

The notes on pages F-8 to F-80 are an integral part of these consolidated financial statements.

Natuzzi S.p.A. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

1 Introduction

The consolidated financial statements of the Natuzzi S.p.A. as at December 31, 2021 and 2020 have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”), including interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS.

Natuzzi S.p.A., as SEC Registrant, has also presented the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year ended December 31, 2019.

During 2021, 2020 and 2019 no significant non-recurring events or unusual transactions have occurred other than that described in note 7. All transactions performed by the Group during 2021, 2020 and 2019 are part of the Group’s ordinary business.

2 Description of the business and Group composition

Natuzzi S.p.A. (“Natuzzi”, the “Company” or the “Parent”) is domiciled in Italy. The Company’s registered office is at via Iazzitello 47, 70029 Santeramo in Colle (Bari, Italy). These consolidated financial statements include the accounts of Natuzzi S.p.A. and of its subsidiaries (together with the Company, the “Group”). The Group’s primary activity is the design, manufacture and marketing of leather and fabric upholstered furniture (see note 6 on operating segment).

The financial statements utilized for the consolidation are the financial statements of each Group’s legal entity as at December 31, 2021, 2020 and 2019. The 2021, 2020 and 2019 financial statements have been adopted by the respective Boards of Directors of the relevant entities. The financial statements of subsidiaries are adjusted, where necessary, to conform to Natuzzi’s accounting principles and policies (see note 4), which are consistent with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS (see note 3(a)).

The consolidated financial statements of the Group as at December 31, 2021 have been approved by the Company’s Board of Directors (the Board) on April 07, 2022 and authorised on April 28, 2022.

Natuzzi S.p.A. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

The subsidiaries included in the consolidation as at December 31, 2021 and 2020, together with the related percentages of ownership and other information, are as follows:

| Name | Percentage of 31/12/2021 | Percentage of 31/12/2020 | Share/ quota capital | Ownership registered office | Activity |
|--------------------------------------|-----------------------------|-----------------------------|-------------------------|----------------------------------|----------|
| Italsofa Romania S.r.l. | 100.00 | 100.00 | RON 109,271,750 | Baia Mare, Romania | (1) |
| Natuzzi (China) Ltd | 100.00 | 100.00 | CNY 106,414,300 | Shanghai, China | (1) |
| Italsofa Nordeste S/A | 100.00 | 100.00 | BRL 159,300,558 | Salvador de Bahia, Brazil | (1) |
| Natco S.p.A. | 99.99 | 99.99 | EUR 4,420,000 | Santeramo in Colle, Italy | (2) |
| IMPE S.p.A. | — | 100.00 | EUR 1,000,000 | Bari, Italy | (3) |
| Nacon S.p.A. | 100.00 | 100.00 | EUR 2,800,000 | Santeramo in Colle, Italy | (4) |
| Lagene S.r.l. | 100.00 | 100.00 | EUR 10,000 | Santeramo in Colle, Italy | (4) |
| Natuzzi Americas Inc. | 100.00 | 100.00 | USD 89 | High Point, N. Carolina, USA | (4) |
| Natuzzi Florida LLC | 51.00 | 51.00 | USD 4,955,186 | High Point, N. Carolina, USA | (4) |
| Natuzzi Iberica S.A. | 100.00 | 100.00 | EUR 386,255 | Madrid, Spain | (4) |
| Natuzzi Switzerland AG | 100.00 | 100.00 | CHF 2,000,000 | Dietikon, Switzerland | (4) |
| Natuzzi Services Limited | 100.00 | 100.00 | GBP 25,349,353 | London, UK | (4) |
| Natuzzi UK Retail Limited | 70.00 | 70.00 | GBP 100 | Cardiff, UK | (4) |
| Natuzzi Germany GmbH | 100.00 | 100.00 | EUR 25,000 | Köln, Germany | (4) |
| Natuzzi Japan KK | 93.00 | 100.00 | JPY 28,000,000 | Tokyo, Japan | (4) |
| Natuzzi Russia OOO | 100.00 | 100.00 | RUB 8,700,000 | Moscow, Russia | (4) |
| Natmx S.DE.R.L.DE.C.V | 100.00 | 99.00 | MXN 68,504,040 | Mexico City, Mexico | (4) |
| Natuzzi France S.a.s. | 100.00 | 100.00 | EUR 200,100 | Paris, France | (4) |
| Natuzzi Oceania PTI Ltd | 93.00 | 100.00 | AUD 320,002 | Sydney, Australia | (4) |
| Natuzzi Singapore PTE. LTD. | 93.00 | 100.00 | USD 2,297,207 | Singapore, Republic of Singapore | (4) |
| Natuzzi Netherlands Holding | 100.00 | 100.00 | EUR 34,605,000 | Amsterdam, Holland | (5) |
| Natuzzi Trade Service S.r.l. | 100.00 | 100.00 | EUR 14,000,000 | Santeramo in Colle, Italy | (6) |
| Softaly (Furniture) Shanghai Co. Ltd | — | 96.50 | CNY 100,000 | Shanghai, China | (6) |
| Natuzzi India Furniture PVT Ltd | — | 100.00 | INR 16,200,000 | New Delhi, India | (6) |
| Italsofa Shanghai Ltd | — | 96.50 | USD 5,000,000 | Shanghai, China | (6) |

- (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) Dormant

As at December 31, 2021, the consolidation area changed due to the following events.

On January 8, 2021, the Parent signed a “Share Sell and Purchase agreement” with Vita Group for the sale of its entire interest in the subsidiary IMPE S.p.A.. This transaction was finalized on March 1, 2021. Following the finalization of such transaction, the Parent deconsolidated IMPE S.p.A. starting from March 1, 2021, date of loss of control. For further details on such transaction, reference should be made to note 7.

In January 2021, the Parent sold 7% of Natuzzi Singapore PTE. LTD. to a related party. This transaction was executed through a 1,300 capital injection by the related party into this subsidiary, increasing its share capital, in exchange for the 7% interest. Following the completion of such capital increase, the Parent has a 93% stake in Natuzzi Singapore. This transaction was undertaken to increase the Parent’s sales of finished goods in the Asian-Pacific countries other than China.

During 2021, the Parent liquidated Italsofa Shanghai Ltd., Softaly (Furniture) Shanghai Co. Ltd. and Natuzzi India Furniture PVT. Ltd.. Furthermore, in 2021, Natuzzi (China) Ltd set up the component, Natuzzi Quanjiao Limited in China.

As at December 31, 2020 the consolidation area changed due to the set up of Natuzzi Singapore PTE. LTD.

Furthermore, no business combinations have occurred in 2021 and 2020.

Natuzzi S.p.A. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

The following table summarises the information relating to the only material non-controlling interests (NCI) related to the Group's subsidiary Natuzzi Florida LLC, before any intra-group eliminations.

Summarised statement of financial position of Natuzzi Florida LLC and Non-controlling interests share in equity as at December 31, 2021 and 2020

| | 31/12/21 | 31/12/20 |
|---|--------------|--------------|
| Current assets | 8,494 | 4,122 |
| Non-current assets | 10,924 | 8,093 |
| Current liabilities | (8,142) | (4,995) |
| Non-current liabilities | (8,125) | (5,876) |
| Net assets | 3,151 | 1,344 |
| Net assets attributable to NCI – 49% | 1,544 | 659 |

Summarised statement of profit or loss of Natuzzi Florida LLC and Non-controlling interests share of loss for the years ended December 31, 2021 and 2020

| | 2021 | 2020 |
|--|--------------|--------------|
| Revenue | 16,578 | 9,756 |
| Expenses | (14,955) | (10,177) |
| Profit/(loss) for the year | 1,623 | (421) |
| Other comprehensive income/(loss) | 184 | (131) |
| Total comprehensive income/(loss) for the year | 1,807 | (552) |
| Profit/(loss) allocated to NCI – 49% | 795 | (206) |
| Other comprehensive income/(loss) allocated to NCI | 90 | (64) |
| Cash flow provided by operating activities | 4,160 | 2,350 |
| Cash flow used in investing activities | (12) | (119) |
| Cash flow used in financing activities (dividends to NCI: nil) | (1,561) | (1,266) |

3 General principles for the preparation of the consolidated financial statements

(a) Compliance with IFRS

The consolidated financial statements of the Natuzzi Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

Details of Group's accounting policies are included in note 4.

(b) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments measured at fair value (see note 29).

(c) Basis of preparation

The consolidated financial statements consist of the consolidated statement of financial position, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes to the consolidated financial statements.

The consolidated statement of financial position has been prepared based on the nature of the transactions, distinguishing: (a) current assets from non-current assets, where current assets are intended as the assets that should be realised, sold or used during the normal operating cycle, or the assets owned with the aim of being sold in the short term (within 12 months); (b)

Natuzzi S.p.A. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

current liabilities from non-current liabilities, where current liabilities are intended as the liabilities that should be paid during the normal operating cycle, or over the 12-month period subsequent to the reporting date.

The consolidated statement of profit or loss has been prepared based on the function of the expenses.

The consolidated statement of cash flows has been prepared using the indirect method.

The consolidated financial statements present all amounts rounded to the nearest thousands of Euro, unless otherwise stated. They also present comparative information in respect to the previous period.

(d) Functional and presentation currency

These consolidated financial statements are presented in Euro (the Group's presentation currency), which is the Natuzzi S.p.A.'s functional currency.

(e) Use of estimates and judgement

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Estimates are based on historical experience and other factors, including expectations about future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

(i) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

- Note 26: reverse factoring, presentation of amounts related to supply chain financing arrangements in the statement of financial position and in the statement of cash flow.
- Notes 4(f), 9 and 20: assessment of the lease term of lease liabilities depending on whether the Group is reasonably certain to exercise the extension options.

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimates as at December 31, 2021 that have an high risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes.

- Notes 4(i), 8 and 9: impairment test of property, plant and equipment and right-of-use assets, for the significant assumptions used by management in estimating the value in use (annual sales growth rates, weighted average cost of capital rates and long-term growth rates).
- Note 11: determining the fair value of the investment in a joint venture recorded as such after loss of control, for the significant assumptions used by management in estimating the fair value (annual sales growth rates, weighted average cost of capital rates and long-term growth rates).
- Notes 4(n)(i), 15 and 30: measurement of the provision for doubtful accounts, for the significant assumptions used by management in estimating the expected credit losses (weighted-average loss rate or default rate, current and future financial situation of debtors for individual receivables that management is aware will be difficult to collect, future general economic conditions).
- Notes 4(r) and 23: provision for warranties for the significant assumptions underlying the estimation of the expected warranties.

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- Notes 4(r), 23 and 42: recognition and measurement of provisions and contingencies for the key assumptions about the likelihood and magnitude of an outflow of resources.
- Notes 4(aa) and 38: recognition of deferred tax assets, for the estimation of the available future taxable profits against which deductible temporary differences and tax losses carried forward can be utilised.

(f) Going concern assumption

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be reasonably able to meet its obligations as they fall due within one year from the date of the approval of these consolidated financial statements. The Directors reasonably expect that the management plans, together with the cash and cash equivalents, other current assets and unused credit facilities as at December 31, 2021, will be sufficient for the Group to meet its obligations. As at December 31, 2021, the Group's cash and cash equivalents amount to 53,472 (48,187 as at December 2020), while its unused portion of credit facilities available to the Group (for further details, see note 25) amounts to 14,947 (23,916 as at December 31, 2020).

In addition, the Directors confirm that management continues to apply and improve the stricter procedures introduced at the beginning of the COVID-19 pandemic outbreak to manage liquidity and working capital balances, to generate sufficient operating cash flows to meet its obligations as they fall due. The Group aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows for financial liabilities over the next 60 days. The Group also monitors the level of expected cash inflows from trade and other receivables together with expected cash outflows for trade and other payables.

4 Summary of significant accounting policies

This note presents the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been applied consistently by the Group's entities to all the years presented, unless otherwise indicated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intragroup transactions, balances and unrealised gains on transactions between the Group's entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the transferred asset. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with those adopted by the Group.

Non-controlling interests (NCI) in the profit or loss and equity of subsidiaries are shown separately in the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of changes in equity. Non-controlling interests are measured initially at their proportionate share of the fair value of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (v) below), after initially being recognised at cost.

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(iii) Joint arrangements

Under IFRS 11 “Joint Arrangements”, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

(iv) Joint ventures

Interests in joint ventures are accounted for using the equity method (see (v) below), after initially being recognised at cost in the consolidated statement of financial position.

(v) Equity method

Under the equity method of accounting, investments are initially recognised at cost and adjusted thereafter to recognise the Group’s share of the post-acquisition profits or losses of the investee in profit or loss, and the Group’s share of variations in other comprehensive income of the investee. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group’s share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group’s interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. The accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 4 (i).

(vi) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Natuzzi S.p.A..

When the Group ceases to consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

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(c) Group Companies

(i) Foreign operations that have a functional currency different from the presentation currency

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency (Euro) are translated into the presentation currency as follows: (a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position; (b) revenue and expenses for each statement of profit or loss and statement of comprehensive income are translated at the average exchange rates of the year (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case revenue and expenses are translated at the dates of the transactions); and (c) all resulting exchange differences are recognised in other comprehensive income.

Since January 1, 2017, the Group's date of transition to IFRSs, such differences are recognised in the translation reserve. When a foreign operation is sold, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

(ii) Foreign operations that have a functional currency that is the presentation currency

As at December 31, 2021 and 2020, there is one foreign subsidiary, Italsofa Romania, considered to be an integral part of Natuzzi S.p.A. due to the primary and secondary indicators reported in IAS 21, paragraphs 9 and 10. Therefore, the functional currency for this foreign subsidiary is the Parent's functional currency, namely the Euro. As a result, all monetary assets and liabilities are remeasured, at the end of each reporting period, using the Euro and the resulting gain or loss is recognised in profit or loss. For all non-monetary assets and liabilities, share capital, reserves and retained earnings, the historical exchange rates are used. The average exchange rates of the year are used to translate non-Euro denominated revenue and expenses, except for those non-Euro denominated revenue and expenses related to assets and liabilities which are translated at historical exchange rates. The resulting exchange differences are recognised in profit or loss.

As at December 31, 2019, two foreign subsidiaries were considered to be an integral part of Natuzzi S.p.A.: Italsofa Romania and Natuzzi China.

However, with respect to the subsidiary Natuzzi China, engaged in the manufacturing of upholstered furniture, certain economic events took place in the first quarter of 2020 that triggered a change of its functional currency from the Euro to the local currency (the renminbi). Specifically, because of the trade war between China and the US, starting from 2020, such subsidiary manufactures and sells upholstered furniture mainly for the local Chinese market and for other Asian-Pacific markets. Until December 31, 2019, it manufactured and sold a significant portion of its production of upholstered furniture to the Parent and then the Parent resold the products in the markets. The change in the functional currency has been accounted for prospectively from the date of change (January 1, 2020), as required by the IFRS. In other words, management has translated all items included in the statements of financial position and profit or loss into the new functional currency, using the exchange rate at the date of change. Such change had an immaterial impact on the consolidated statement of financial position as at December 31, 2020 and consolidated statement of profit or loss for the year ended December 31, 2020.

(d) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency using the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the closing rate. Non-monetary items that are measured based on their historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency exchange gains and losses are recognised in profit or loss and presented within net exchange rate gains/(losses).

(e) Property, plant and equipment

Items of property, plant and equipment (PPE) are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses. The cost of certain buildings as at January, 1 2017, the Group's date of transition to IFRS, was determined with reference to their deemed cost at that date.

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If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on the disposal of an item of property, plant and equipment is recognised in profit or loss.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. Land is not depreciated.

The estimated useful lives of property, plant and equipment (see note 8) for current and comparative periods are as follows: (a) buildings, 10–50 years; (b) machinery and equipment, 4–10 years; (c) office furniture and equipment, 5–10 years; (d) retail gallery and store furnishing, 3–4 years; (e) leasehold improvements, 5–10 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(f) Leases

The Group initially applied IFRS 16 “Leases” from January 1, 2019 (date of initial application). The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application was recognised in retained earnings as at January 1, 2019. Accordingly, the comparative information presented for 2018 was not restated – i.e. it was presented, as previously reported, under IAS 17 and related interpretations.

As at December 31, 2021, 2020 and 2019, the Group does not act as lessor in any lease contracts.

(i) Policy applicable from January 1, 2019 as a lessee

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, which is generally the case for the Group’s leases, the lessee’s incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group: (a) where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received; (b) uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the

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Group, which does not have recent third party financing, and (c) makes adjustments specific to the lease to reflect for instance the term of the lease, type of the asset leased, country, currency and security.

Lease payments included in the measurement of the lease liability comprise the following: (a) fixed payments, including in-substance fixed payments; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) amounts expected to be payable under a residual value guarantee; (d) the exercise price under a purchase option that the Group is reasonably certain to exercise; (e) lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and (f) penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities in specific captions in the consolidated statement of financial position.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) COVID-19-Related Rent Concessions

The Group has applied "COVID-19-Related Rent Concessions - Amendment to IFRS 16". The Group applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Group applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Group chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Group assesses whether there is a lease modification.

(g) Business combinations

(i) Acquisitions on or after January 1, 2017

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group (see note 4 (a)(i)). In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, as a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Group has the option to apply a "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 4(i)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and

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settlement is accounted for within equity. Otherwise, other contingent consideration is measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(ii) Acquisitions prior to January 1, 2017

As part of its transition to IFRS, the Group elected to restate only those business combinations that occurred on or after January 1, 2017. In respect of acquisitions prior to January 1, 2017, goodwill represents the amount recognised under the Group's previous accounting framework, Italian GAAP. Such goodwill has been tested for impairment at the transition date January 1, 2017.

(h) Intangible assets and goodwill

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Other intangible assets, including software, trademarks and patents, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. In respect of acquisitions prior to January 1, 2017, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific intangible asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. Goodwill is not amortised.

The estimated useful lives for current and comparative periods are as follows: software 3-5 years, trademarks and patents 3-5 years, other 2-5 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(i) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (hereinafter also CGUs). Goodwill arising from a business combination is allocated to the CGU or groups of CGUs that are expected to benefit from the synergies of the combination.

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The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) *Interests in equity-accounted investees*

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Joint ventures are arrangements in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income (OCI) of equity-accounted investees, until the date on which significant influence or joint control ceases.

(k) *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 net realisable value.

Goods in process and finished goods are valued at the lower of production cost and net realisable 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.

Finished goods acquired for reselling (e.g., home furnishings accessories) are stated at the lower of cost, determined under the weighted-average method, and net realisable value.

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

(l) *Trade and other receivables*

Trade receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for doubtful accounts.

In particular, trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 90 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 4(n)(i).

The Group derecognises trade receivables when the contractual rights to the cash flows from such financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of

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ownership of such financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of such financial asset.

(m) Cash and cash equivalents

Cash and cash equivalents are recorded at their nominal amount as it substantially coincides with the fair value.

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, on-demand deposits with financial institutions, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within bank overdrafts and short-term borrowings in current liabilities in the statement of financial position.

(n) Impairment of financial assets

The Group has the following types of financial assets that are subject to the expected credit loss model: (i) trade receivables for sales of goods and services; (ii) other receivables; (iii) cash and cash equivalents.

(i) Trade receivables

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

In particular, for the credit losses on trade receivables determined on a collective basis, the Group adopted the practical expedient to use a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of five years before December 31, 2021 or January 1, 2021, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The Group recognised the expected credit losses for individual receivables which are known to be difficult to collect based on the financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation and default or late payments.

The Group records the expected credit losses on trade receivables determined on a collective and individual basis through the provision for doubtful accounts (see note 15). Trade receivables for which an impairment allowance is recognised are written off when there is no reasonable expectation of recovering additional cash. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group and a failure to make contractual payments for a period of greater than 180 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit/(loss). Subsequent recoveries of amounts previously written off are credited against the same line item.

(ii) Other receivables

Other receivables are considered to have low credit risk and the impairment loss is measured on a 12-month expected credit loss basis. Management considers other receivables to have a low credit risk if they have a low risk of default and the Group's counterparties are able to meet its contractual cash flow obligations in the short-term.

(iii) Cash and cash equivalents

The Group considers its cash and cash equivalents to have "low credit risk" based on the external credit ratings of the financial institutions. Indeed, the Group's cash and cash equivalents are held with financial institutions which have external

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credit risk ratings that are “investment grade”. Impairment of cash and cash equivalents is measured on a 12-month expected credit loss basis and reflects the short-term nature of the exposures.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to year-end which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method. The Group derecognises trade and other payables when its contractual obligations are discharged or cancelled or expired.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a borrowing that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Further, general and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

(q) Employees' leaving entitlement

The Group provides its Italian employees with benefits on the termination of their employment. The benefits fall under the definition of defined benefit plans whose existence and amount is certain but whose date is not. The liability is calculated as the present value of the obligation at the reporting date, in compliance with applicable regulations and adjusted to take into account actuarial gains or losses. The amount of the obligation is remeasured annually based on the “projected unit credit” method. Actuarial gains or losses are recorded in full during the relevant period. Actuarial gains/(losses) are stated under “Other comprehensive income” (OCI) in accordance with IAS 19.

(r) Provisions

Provisions for legal claims, service warranties and one-time termination benefits for certain employees are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

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Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(s) Derivative financial instruments and hedging activities

Derivatives financial instruments are accounted for in accordance with IFRS 9, except for hedging activities that are treated in accordance with IAS 39.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with the cash flows of recognised assets (trade receivables) and highly probable forecast transactions (sales orders) (cash flow hedges).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items (trade receivables and/or sales orders). The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the hedging reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within net exchange rate gains/(losses).

When forward contracts are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the hedging reserve within equity. The change in the forward element of the contract that relates to the hedged item ("aligned forward element") is recognised within OCI in the costs of the hedging reserve within equity. In some cases, the Group may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the hedging reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remain in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

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(ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in net exchange rate gains/(losses). The fair value of derivative instruments is disclosed in note 30.

(t) Revenue from contracts with customers

The Group has adopted IFRS 15 “Revenue from Contracts with Customers”, effective for reporting periods starting from January 1, 2018, using the full retrospective approach, without any of the practical expedients indicated by IFRS 15 C5.

(i) Sale of upholstered furniture and home furnishings accessories – wholesale (distributors and retailers)

The Group sells a wide range of upholstered furniture (upholstered sofas and beds) and home furnishing accessories (for instance coffee tables, lamps, rugs and wall units) in the wholesale market to distributors and retailers. The upholstered furniture is manufactured in the plants located in Italy, Romania, China and Brazil. Sales are recognised when control of the products has been transferred, i.e., when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler’s acceptance of the products. Delivery occurs when the products have been dispatched from the Group’s warehouse or shipped to the location specified by the wholesaler, the risks of obsolescence and loss have been transferred to the wholesaler, and the Group has objective evidence that all criteria for acceptance have been satisfied.

The goods are often sold with retrospective volume discounts based on aggregate sales over a 12-month period. As part of variable considerations, revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated historical experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability is recognised for expected volume discounts payable to wholesalers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a credit term of 30-90 days, which is consistent with market practice. The Group’s obligation to repair or replace faulty products under the standard assurance warranty terms is recognised as a provision (see note 23).

A trade receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

It is the Group’s policy not to sell its products to the wholesaler with a right of return.

(ii) Sale of upholstered furniture and home furnishings accessories—retail (end consumers)

The Group operates a chain of retail stores (Natuzzi Italia stores, Natuzzi Editions stores and Divani&Divani by Natuzzi stores) selling to end consumers a wide range of upholstered furniture (upholstered sofas and beds) and home furnishing accessories (for instance coffee tables, lamps, rugs and wall units). The upholstered furniture is manufactured in the plants located in Italy, Romania, China and Brazil.

Revenue from the sale of the goods is recognised when the products are delivered and have been accepted by the customer in store or at its premise.

Payment of the transaction price is due immediately when the product is delivered to the customer. The Group’s obligation to repair or replace faulty products under the standard assurance warranty terms is recognised as a provision (see note 23).

It is the Group’s policy not to sell its products to the end consumer with a right of return.

(iii) Sale of polyurethane foam and leather processing by-products – wholesale

The Group sells polyurethane foam and leather processing by-products in the wholesale market. Such sales are recognised when control of the products has been transferred, i.e., when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the

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wholesaler's acceptance of the products. Delivery occurs when the products have been dispatched from the Group's warehouse or shipped to the location specified by the wholesaler, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from these sales is recognised based on the price specified in the contract. No element of financing is deemed present as the sales are made with a credit term of 30-90 days, which is consistent with market practice. The Group's obligation to repair or replace faulty products under the standard assurance warranty terms is recognised as a provision (see note 23).

A trade receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

It is the Group's policy not to sell these products to the wholesaler with a right of return.

(iv) Sale of Natuzzi Display System and related slotting fees

The Group sells the Natuzzi Display System (NDS) to retailers, used to set up their stores. Revenue from such sales is recognised over time based on the length of the distribution contract signed with the retailer. Revenue is accounted for based on the price specified in the contract. No element of financing is deemed present as the sales are made with a credit term of 30-90 days, which is consistent with market practice. The deferred revenue for the sales of Natuzzi Display System is included under the caption "Contract liabilities" of the statement of financial position.

The Group pays retailers slotting fees as contributions to prepare the retailer's system to accept and sell the Group's products. Slotting fees are recognised over time based on the length of the contract signed with the retailers and are treated as a reduction of revenue. Deferred slotting fees are included under the caption "Other assets" of the statement of financial position.

(v) Service-type warranty

Customers who purchase the Group's products may require a service-type warranty. The Group allocates a portion of the consideration received to the service-type warranty. This allocation is based on the relative stand-alone selling price. The amount allocated to the service-type warranty is deferred, and is recognised as revenue over time based on the validity period of such warranty. The deferred revenue is included in the caption "Contract liabilities" of the statement of financial position.

(vi) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(u) Cost of sales, selling expenses and administrative expenses

Cost of sales consist of the following expenses: change in opening and closing inventories, purchases of raw materials, purchases of finished goods for reselling, labour costs (included one-time termination benefit accruals), third party manufacturing costs, depreciation expense of property, plant and equipment and right-of-use-assets used in the production of finished goods, impairment of property, plant and equipment and right-of-use-assets, 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), 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, labour costs for sales personnel, expenses related to leases (e.g., short-term and low-value leases), customs duties, commissions to sales representatives and related costs, depreciation expense of property, plant and

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equipment and right-of-use-assets used in the selling activities, amortisation of intangible assets that, based on their usage, are allocated to selling expenses, impairment of property, plant and equipment and right-of-use-assets, impairment of intangible assets and goodwill, energy and water expenses for trade buildings (for instance, light and heating expenses), sales catalogue and related expenses, exhibition and trade-fair costs, advisory fees for sales and marketing of finished products, expenses for maintenance of stores and other trade buildings, insurance costs for trade receivables and other miscellaneous expenses.

Administrative expenses consist of the following expenses: labour costs for administrative personnel, advisory fees for accounting and information-technology services, non-income tax expenses, traveling expenses for management and other personnel, depreciation expense related to property, plant and equipment and right-of-use-assets used in the administrative activities, amortisation of intangible assets that, based on their usage, are allocated to administrative expenses, impairment of property, plant and equipment and right-of-use-assets, impairment of intangible assets, postage and telephone costs, stationery and other office supplies costs, expenses for maintenance of administrative facilities and softwares, directors' fees, audit committee and external auditors' fees, energy and water expenses for administrative buildings (for instance, light and heating expenses) and other miscellaneous expenses.

As noted above, the costs of the 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.

(v) Shipping and handling costs

Shipping and handling costs incurred to transport products to customers are expensed in the periods incurred and are included in selling expenses. Under IFRS 15, shipping and handling costs related to activities before the customer obtains control of the finished goods, are accounted for as fulfillment costs under the caption "Other assets" of the statement of financial position. Such costs are recognised in profit or loss consistent with the pattern of transfer of the finished goods. Shipping and handling expenses recorded for the years ended December 31, 2021, 2020 and 2019, come to 54,672, 28,749 and 35,513, respectively (see note 34).

(w) 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, 2021, 2020 and 2019 amount to 5,576, 4,837 and 7,145, respectively (see note 34).

(x) Commission expense

Commissions payable to sales representatives and the related expenses are recorded at the time revenue from sale of products is recognised and are included in selling expenses. Commissions are not paid until payment for the related sale's invoice is remitted to the Group by the customer. Under IFRS 15, sale commissions are considered costs of obtaining a contract and the Group has elected to apply the practical expedient under which such costs are expensed in profit or loss, as the amortisation period is less than one year. Commissions expenses recorded in profit or loss for the years ended December 31, 2021, 2020 and 2019 amount to 7,503, 5,403 and 8,393, respectively (see note 34).

(y) Government grants

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are deferred and credited to profit or loss on a straight-line basis over the expected lives of the related assets. Amortisation of the deferred grant is recognised in profit or loss as a reduction in the cost of sales, selling expenses or administrative expenses.

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(z) Net finance income/(costs)

The Group's net finance income/(costs) include: interest income, interest expense, commission expense, gain or loss on derivative financial instruments, exchange rate gain or loss on financial assets and financial liabilities, gain from disposal of a subsidiary, and hedge ineffectiveness recognised in profit or loss.

Interest income or expense is recognised using the "effective interest rate". The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(aa) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, meet the definition of income taxes, and therefore accounted for them under IAS 12 "Income Taxes".

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable profit or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and tax liabilities are offset when the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for: (a) temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; (b) temporary differences related to investments in subsidiaries, associates and joint arrangements (mainly unremitted earnings and withholding taxes) to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and (c) taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

(ab) Operating profit/(loss)

Operating profit/(loss) is the result generated from the continuing principal revenue-producing activities of the Group as well as other income and expenses related to operating activities. Operating profit/(loss) excludes net finance income/(costs), share of profit/(loss) of equity-accounted investees and income tax expense.

(ac) Fair value measurement

“Fair value” is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as “active” if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e., the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

(ad) Earnings/(loss) per share

(i) Basic earnings/(loss) per share

Basic earnings/(loss) per share are calculated by dividing the profit/(loss) attributable to the owners of the Parent, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

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(ii) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share adjust the figures used in the determination of basic earnings/(loss) per share to take into account the post-income/(loss) tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(ae) New standards, amendments and interpretations issued but not yet effective

The standards, amendments and interpretations issued by the International Accounting Standards Board (“IASB”) that will have mandatory application in 2022 or subsequent years are listed below.

In May 2017 the IASB issued IFRS 17 “Insurance Contracts” which establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued as well as guidance relating to reinsurance contracts held and investment contracts with discretionary participation features issued. IFRS 17 is effective on or after January 1, 2023 with early adoption allowed if IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” are also applied. The IASB issued certain amendments to such standard in June 2020. Natuzzi’s management does not expect any material impact from the adoption of such standard.

In January 2020 the IASB issued amendments to IAS 1 “Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current” to clarify how to classify debt and other liabilities as current or non-current, and in particular how to classify liabilities with an uncertain settlement date and liabilities that may be settled by converting to equity. These amendments are effective on or after January 1, 2023. The Group does not expect any material impact from the adoption of these amendments.

In May 2020, the IASB issued certain amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, specifically related to “Onerous contracts - Cost of Fulfilling a Contract”. These amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments are effective for annual reporting periods beginning on or after 1 January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. Earlier application is permitted. The Group does not expect any material impact from the application of these amendments.

In May 2020, the IASB issued an amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards”. Such amendment simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of the IFRS after its parent. The amendment is effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The Group does not expect any impact from the application of this amendment.

In May 2020, the IASB issued amendments to IAS 16 “Property, Plant and Equipment”. These amendments provide guidance on the accounting for sales proceeds and related production costs of items produced in the process of making an item of property, plant and equipment available for its intended use. Under the amendments, an entity recognises proceeds from selling items before the related item of property, plant and equipment is available for use in profit or loss, together with the costs of producing those items. IAS 2 “Inventories” is applied in identifying and measuring these production costs. The amendments also clarify that testing whether an item of property, plant and equipment functions properly means assessing its technical and physical performance rather than its financial performance. No disclosure requirements have been added to IAS 16 for sales of items that are an output of a company’s ordinary activities: the disclosure requirements of IFRS 15 “Revenue from Contracts with Customers” and IAS 2 will apply in such cases. The amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The Group does not expect any impact from the application of this amendment.

In May 2020, as part of its process to make non-urgent but necessary amendments to IFRS Standards, the IASB issued the “Annual Improvements to IFRS Standards 2018–2020”. These amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The Group does not expect any material impact from the applications of such amendments.

In May 2020, the IASB issued amendments to “IFRS 3 — Business combinations” to update a reference in IFRS 3 to the “Conceptual Framework for Financial Reporting” without changing the accounting requirements for business combinations.

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These amendments are effective on or after January 1, 2022. The Group does not expect any material impact from the adoption of these amendments.

In July and May 2020, the IASB issued amendments to IAS 1 “Presentation of Financial Statements”. These amendments clarify the following in relation to the classification of liabilities as current or non-current: (i) the right to defer settlement for at least 12 months after the reporting period must have substance and exist at the reporting date – i.e. the requirement for the right to be “unconditional” has been removed; (ii) the classification of liabilities is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and (iii) settlement of a liability includes transferring an entity’s own equity instruments to the counterparty. If a liability has any conversion options that involve a transfer of an entity’s own equity instruments, then these generally affect the liability’s classification as current or non-current, unless these conversion options are recognised as equity under IAS 32. The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. The Group does not expect any material impact from the application of these amendments.

In February 2021, the IASB issued amendments to IAS 1 “Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies” which require companies to disclose their material accounting policy information rather than their significant accounting policies and provide guidance on how to apply the concept of materiality to accounting policy disclosures. These amendments are effective on or after January 1, 2023. The Group does not expect any material impact from the adoption of these amendments.

In February 2021, the IASB issued amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates” which clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. These amendments are effective on or after January 1, 2023. The Group does not expect any material impact from the adoption of these amendments.

In May 2021, the IASB issued amendments to IAS 12 “Income taxes”. These amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g., leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest comparative period presented. Such amendments apply for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted. The Group does not expect any material impact from the application of these amendments.

In December 2021, the IASB published an amendment to IFRS 17 “Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information”. This amendment adds a new transition option to IFRS 17 (the “classification overlay”) to alleviate operational complexities and one-time accounting mismatches in comparative information between insurance contract liabilities and related financial assets on the initial application of IFRS 17. It allows presentation of comparative information about financial assets to be presented in a manner that is more consistent with IFRS 9 “Financial Instruments”. The amendment is effective on or after January 1, 2023. Natuzzi’s management has concluded that such standard is not applicable to the Group.

5 Changes in significant accounting policies

Changes in significant accounting policies for the years ended December 31, 2021 and 2020 are reported below.

(A) COVID-19 Related Rent Concessions

In response to the COVID-19 coronavirus pandemic, in May 2020, the IASB issued an amendment to IFRS 16 “Leases” to provide practical relief for lessees in accounting for rent concessions. Under the practical expedient, lessees are not required to assess whether eligible rent concessions are lease modifications, and instead are permitted to account for them as if they were not lease modifications. Rent concessions are eligible for the practical expedient if they occur as a direct consequence of the COVID-19 pandemic and if all of the following criteria are met: (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before June 30, 2021; and (iii) there is no substantive change to the other terms and conditions of the lease. Such amendment is effective for annual periods

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beginning on or after June 1, 2020. Earlier application is permitted. The Group has adopted this amendment early and applied the practical expedient consistently to eligible rent concessions. The Group has applied this amendment retrospectively. This amendment had no impact on retained earnings as at January 1, 2020.

Furthermore, in March 2021, the IASB issued an additional amendment that allows a one-year extension (i.e., June 30, 2022) to the above practical expedient for “COVID-19 related rent concessions” under IFRS 16 “Leases”. Such amendment is effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted. The Group has adopted this amendment early and applied the above practical expedient consistently to eligible rent concessions. The Group has applied this amendment retrospectively. This amendment had no impact on retained earnings as at January 1, 2021.

Due to the adoption of such amendments, the Group recognized lease incentives of 1,799 and 1,515 in the consolidated statement of profit or loss for the year ended December 31, 2020 and 2021 (see note 34), respectively.

(B) Other standards

A number of other new standards are also effective from January 1, 2020 and 2021 but they did not have a material effect on the Group’s consolidated financial statements. Specifically, the adoption by the Group of “Definition of a Business” (Amendments to IFRS 3), “Interest Rate Benchmark Reform” (Amendments to IFRS 9, IAS 39 and IFRS 7) and “Interest Rate Benchmark Reform” – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) did not impact its consolidated financial statements.

6 Operating segment

The Group operates in two operating segments, “Natuzzi brand” and “Private label”. The Natuzzi brand segment includes net sales from the “Natuzzi Italia”, “Natuzzi Editions” and “Divani&Divani by Natuzzi” product lines. Segment disclosure is rendered by aggregating the operating segments into one reporting segment, that is the design, manufacture and marketing of leather and fabric upholstered sofas, beds and home furnishings accessories. It offers a wide range of upholstered furniture for sale, manufactured in production facilities located in Italy and abroad (Romania, China and Brazil).

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The two operating segments have been aggregated into a single reporting segment as the two segments have similar characteristics, and are similar in each of the following respects: (a) the nature of the products; (b) the nature of the production processes; (c) the type of customer for their products; (d) the methods used to distribute their products.

Reference should be made to note 31 “Revenue” for details on revenue streams and disaggregation of revenue from contracts with customers by types of goods, geographical markets, geographical location of customers, distribution channels, brands and timing of revenue recognition.

7 Assets held for sale

In September 2019, the Company committed to a plan to sell certain non-strategic assets such as land, buildings, the tannery and foam operations.

(i) Disposal group held for sale

Following the preliminary agreement reached in September 2020, on January 8, 2021, the Company signed a “Share Sell and Purchase Agreement” (the “Agreement”) with Vita Group, the largest European manufacturer of flexible polyurethane foams, for the sale of its entire interest in the subsidiary IMPE S.p.A. which contains the foam operations. The consideration agreed for this sale was 6,100 plus certain customary purchase price adjustments of about 2,100, agreed in May 2021. This transaction was approximately finalised in March 1, 2021. Following the finalisation of such transaction, Vita Group holds 100% of IMPE S.p.A.. As of the date of approval of these consolidated financial statements, the Parent has collected the entire cash consideration amounting to 8,202.

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As at December 31, 2020, such disposal group, comprising assets and liabilities, was classified as held for sale as it was highly probable that as at that date it would have been recovered primarily through its sale rather than through continuing use. Furthermore, as at December 31, 2020, the fair value less costs to sell of this disposal group was higher than its carrying amount, and it did not represent a discontinued operation since the foam operation did not constitute a separate line of business or geographic area of operations. Specifically, IMPE S.p.A. was a subsidiary engaged in the production of flexible polyurethane foam products employed by the Group in the manufacture of its upholstered furniture and the sale to third parties of the residual part of the foam products that results in excess of the Group's needs.

As at December 31, 2020, this disposal group comprised the following assets and liabilities.

| | |
|--|--------------|
| Property, plant and equipment | 1,620 |
| Intangible assets | 9 |
| Inventories | 971 |
| Trade receivable | 1,304 |
| Other financial assets | 65 |
| Total assets held for sale | 3,969 |
| Long-term borrowing | 344 |
| Employees' leaving entitlement | 408 |
| Trade payables and other financial liabilities | 2,634 |
| Total liabilities held for sale | 3,386 |

As at December 31, 2020, there was no cumulative income or expenses included in OCI relating to this disposal group.

Furthermore, at the date of loss of control, March 1, 2021, the Parent: (a) derecognised assets and liabilities of IMPE S.p.A. at their carrying amounts (net assets amounted to 3,176) at the date of loss of control; (b) recognised the fair value of the consideration received from Vita Group of 8,202 for the transfer of the 100% interest in IMPE S.p.A.; (c) recognised the resulting difference as a gain in the statement of profit or loss, in the amount of 5,026.

The carrying amounts of the derecognized assets and liabilities of IMPE S.p.A. as at the date of loss of control were the following:

| | |
|---------------------------------------|----------------|
| Property, plant and equipment | 1,614 |
| Intangible assets | — |
| Inventories | 644 |
| Trade receivable | — |
| Other receivable | 26 |
| Cash and cash equivalent | 1,313 |
| Total assets | 3,597 |
| Share capital | (1,000) |
| Reserves | (2,272) |
| Retained earnings | 329 |
| Profit (loss) as of February 28, 2021 | (233) |
| Equity | (3,176) |
| Employees' leaving entitlement | (410) |
| Deferred income | (11) |
| Total liabilities | (421) |
| Total equity and liabilities | (3,597) |

Details of the net cash flows deriving from this transaction are as follows:

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(Expressed in thousands of euros except as otherwise indicated)

| | |
|--|--------------|
| Consideration agreed for the disposal of 100% stake in IMPE S.p.A. | 8,202 |
| Cash and Cash equivalents as at the date of disposal of IMPE S.p.A. | (1,313) |
| Portion of consideration not cashed as at December 31, 2021 | (1,374) |
| Net cash for the cash flows statement as at December 31, 2021 | 5,515 |

As at the date of approval of these consolidated financial statements, the Parent Company collected all the consideration for the disposal of the IMPE S.p.A.

Until the date of loss of control, IMPE S.p.A. contributed 2,217 of revenue and 261 to the profit before tax of the Group.

(ii) Non-current assets held for sale

In March and May 2021, following the preliminary agreements reached in December 2020, the Parent signed two separate sale contracts with two third parties for the disposal of two idle industrial real estate complexes located in the city of Altamura (Bari), just a few miles away from its headquarters, for a total cash consideration of 2,550. As at December 31, 2020, the carrying amount of this property was 1,704. Following such disposal, the Parent recognised a gain of 846.

These two assets have been classified as held for sale as it was highly probable that, as at December 31, 2020, their carrying amount would have been recovered primarily through their sale rather than through continuing use. Furthermore, as at December 31, 2020, the fair value less costs to sell of each asset was higher than its carrying amount and they did not represent a discontinued operation.

8 Property, plant and equipment

Changes in the carrying amount of property, plant and equipment for the years ended December 31, 2021 and 2020 are analysed in the following tables.

| | Land and buildings | Machinery and equipment | Office furniture and equipment | Retail gallery and store furnishing | Leasehold improvements | Constr. in progress | Total |
|--|--------------------------|-------------------------------|---|--|---------------------------|------------------------|----------------|
| Cost as at December 31, 2019 | 170,815 | 127,465 | 15,123 | 13,732 | 23,375 | 255 | 350,765 |
| Additions | 396 | 897 | 119 | 47 | 541 | 580 | 2,580 |
| Disposals | (3,364) | (3,842) | (232) | (60) | (5,064) | — | (12,562) |
| Reclassifications to assets held for sale | (10,828) | (15,746) | (608) | — | — | — | (27,182) |
| Reclassifications from constr. in progress | — | 414 | — | — | — | (414) | — |
| Effect of translation adj. | (3,814) | (965) | (68) | (638) | 560 | (61) | (4,986) |
| Cost as at December 31, 2020 | 153,205 | 108,223 | 14,334 | 13,081 | 19,412 | 360 | 308,615 |
| Additions | 1,064 | 4,573 | 363 | 316 | 615 | 110 | 7,041 |
| Disposals | (1,023) | (1,121) | (1,086) | (6,744) | (1,085) | — | (11,059) |
| Reclassifications from constr. in progress | — | 108 | 169 | 32 | — | (309) | — |
| Effect of translation adj. | 1,836 | 341 | 233 | 669 | 1,365 | (2) | 4,442 |
| Cost as at December 31, 2021 | 155,082 | 112,124 | 14,013 | 7,354 | 20,307 | 159 | 309,039 |

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(Expressed in thousands of euros except as otherwise indicated)

| | Land and buildings | Machinery and equipment | Office furniture and equipment | Retail gallery and store furnishing | Leasehold improvements | Constr. in progress | Total |
|---|--------------------------|-------------------------------|---|--|---------------------------|------------------------|------------------|
| Accumulated depreciation as at December 31, 2019 | (92,305) | (113,673) | (14,286) | (12,996) | (14,982) | — | (248,242) |
| Depreciation | (3,831) | (2,972) | (370) | (467) | (2,242) | — | (9,882) |
| Disposals | 7 | 3,330 | 219 | 52 | 5,017 | — | 8,625 |
| Reclassifications to assets held for sale | 8,377 | 14,878 | 603 | — | — | — | 23,858 |
| Effect of translation adj. | 1,589 | 721 | 62 | 711 | (751) | — | 2,332 |
| Accumulated depreciation as at December 31, 2020 | (86,163) | (97,716) | (13,772) | (12,700) | (12,958) | — | (223,309) |
| Depreciation | (3,590) | (2,697) | (320) | (337) | (1,631) | — | (8,575) |
| Disposals | 125 | 770 | 1,032 | 6,746 | 1,081 | — | 9,754 |
| Effect of translation adj. | (1,794) | (330) | (174) | (627) | (930) | — | (3,855) |
| Accumulated depreciation as at December 31, 2021 | (91,422) | (99,973) | (13,234) | (6,918) | (14,438) | — | (225,985) |
| Net book value as at December 31, 2019 | 78,510 | 13,792 | 837 | 736 | 8,393 | 255 | 102,523 |
| Net book value as at December 31, 2020 | 67,042 | 10,507 | 562 | 381 | 6,454 | 360 | 85,306 |
| Net book value as at December 31, 2021 | 63,660 | 12,151 | 779 | 436 | 5,869 | 159 | 83,054 |
| Annual rate of depreciation for 2021 and 2020 | 0%-10% | 10%-25% | 10%-20% | 25%-35% | 10%-20% | — | |

In June 2020, the Parent signed a sale agreement with a third party for the disposal of the land located in the “Santeramo in Colle-Iesce” area, just a few miles away from its headquarters. The cash consideration received by the Parent for such disposal amounts to 2,800. Following such disposal, the Parent realised a loss of 557. Furthermore, if certain conditions included in this sale agreement are met, in the next year the Parent could receive additional consideration of about 2,500 from the acquirer.

In March, May and September 2021, the Parent sold to third parties two idle industrial real estate complexes located in the city of Altamura (Bari), just a few miles away from its headquarters (see note 7) and a site located in High Point (North Caroline, USA), for a total cash consideration of 4,254. Following such disposals, the Parent recognised a gain of 1,748.

As at December 31, 2021 and 2020, the carrying amount of property, plant and equipment temporarily idle is of 3,240 and 5,247, respectively.

As at December 31, 2020 the carrying amount of the property, plant and equipment reclassified to the caption “assets held for sale” is of 3,324 (cost of 27,182 and accumulated depreciation of 23,858). For further details on such reclassifications, reference should be made to note 7.

As at December 31, 2021, properties with a carrying amount of 37,210 (45,519 as at December 31, 2020) are subject to registered mortgages to guarantee the long-term borrowings (see note 19).

The following tables show a breakdown of property, plant and equipment by country.

| | 31/12/21 | 31/12/20 |
|--------------------------|---------------|---------------|
| Italy | 45,470 | 45,895 |
| Romania | 18,502 | 19,253 |
| United States of America | 13,884 | 14,778 |
| Brazil | 2,753 | 2,807 |
| Europe | 1,253 | 1,461 |
| China | 810 | 1,109 |
| Other countries | 382 | 3 |
| Total | 83,054 | 85,306 |

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The following tables show a breakdown of property, plant and equipment based on the cash generating units in which they are included.

| | 31/12/21 | 31/12/20 |
|---------------------------------------|---------------|---------------|
| Italian upholstered furniture plant | 34,704 | 32,401 |
| Romanian upholstered furniture plant | 19,627 | 20,626 |
| Brazilian upholstered furniture plant | 2,978 | 3,048 |
| Chinese upholstered furniture plant | 2,215 | 2,654 |
| Others | 23,530 | 26,577 |
| Total | 83,054 | 85,306 |

As at December 31, 2021, the Group performed the impairment assessment of property, plant and equipment and right-of-use assets included in several cash generating units (CGUs), such as the Italian upholstered furniture plant CGU and certain directly operated retail stores CGUs that presented indicators of impairment. The Group performed the impairment assessment in accordance with its accounting policy discussed in note 4(i). In particular, an impairment loss is recognised if the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of a CGU is the higher of its value in use, determined using a discounted cash flow method, and its fair value less costs to sell.

Further, the significant assumptions used by the Group in estimating the value in use were the annual sales growth rates used to estimate the forecasted revenue for the years 2022-2026, the weighted average cost of capital rates and the long-term growth rates, all of which were determined at CGU level, including the effects of the COVID-19 pandemic and the duration of the resulting economic instability. Such significant assumptions involved a high degree of subjectivity by management and reasonably possible changes to these assumptions had a significant effect on the value in use. Specifically, such assumptions were based on the Group's future business performances and other forward-looking assumptions that entail significant judgments by management and were heavily impacted by several external events. Finally, cash flow projections for the years 2022-2026 have been derived from the business plan approved by the Board of Directors and forecasts have been developed taking into consideration the track records of actual results reported by the Group.

For property, plant and equipment temporarily idle, the fair value less costs to sell was estimated through independent third-party appraisals, which assessed the fair value of land and buildings using the comparable market method and assessed the fair value of machinery and equipment using the depreciated replacement cost method, adjusted for an obsolescence rate and a marketability rate.

As a result of the 2021 and 2020 impairment assessment performed by the Group, no impairment losses have emerged for property, plant and equipment.

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9 Right-of-use-assets

Changes in the carrying amount of right-of-use assets for the years ended December 31, 2021 and 2020, are reported in the following tables.

| | Buildings | Vehicles | Total |
|---|-----------------|--------------|-----------------|
| Cost as at December 31, 2019 | 66,867 | 1,037 | 67,904 |
| Additions | 10,083 | — | 10,083 |
| Disposals | (6,910) | — | (6,910) |
| Adjustments due to remeasurements | 693 | — | 693 |
| Adjustments due to modifications | (327) | — | (327) |
| Effect of translation adjustments | (2,696) | (14) | (2,710) |
| Cost as at December 31, 2020 | 67,710 | 1,023 | 68,733 |
| Additions | 3,194 | — | 3,194 |
| Disposals | (1,267) | — | (1,267) |
| Adjustments due to remeasurements | 9,084 | — | 9,084 |
| Adjustments due to modifications | 42 | (1) | 41 |
| Effect of translation adjustments | 3,021 | 13 | 3,034 |
| Cost as at December 31, 2021 | 81,784 | 1,035 | 82,819 |
| Accumulated depreciation and impairment loss as at Dec. 31, 2019 | (12,884) | (302) | (13,186) |
| Depreciation | (13,066) | (310) | (13,376) |
| Disposals | 6,639 | — | 6,639 |
| Impairment loss | (584) | — | (584) |
| Adjustments due to remeasurements | 157 | — | 157 |
| Adjustments due to modifications | — | — | — |
| Effect of translation adjustments | 621 | 9 | 630 |
| Accumulated depreciation and impairment loss as at Dec. 31, 2020 | (19,117) | (603) | (19,720) |
| Depreciation | (11,457) | (249) | (11,706) |
| Disposals | 1,209 | — | 1,209 |
| Impairment loss | (1,188) | — | (1,188) |
| Adjustments due to remeasurements | — | — | — |
| Adjustments due to modifications | — | — | — |
| Effect of translation adjustments | (648) | (11) | (659) |
| Accumulated depreciation and impairment loss as at Dec. 31, 2021 | (31,201) | (863) | (32,064) |
| Net book value as at December 31, 2019 | 53,983 | 735 | 54,718 |
| Net book value as at December 31, 2020 | 48,593 | 420 | 49,013 |
| Net book value as at December 31, 2021 | 50,583 | 172 | 50,755 |

The Group leases buildings for its retail stores, warehouses and factory facilities. These leases typically run for a period of five to ten years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term. Some of such leases provide for additional rent payments that are based on changes in local price indices. For certain of these leases, the Group is restricted from entering into any sub-lease arrangements. A significant portion of retail stores, warehouse and factory facilities leases were entered into several years ago.

The Group leases vehicles under a number of leases. The contract lease term of such leases run for a period of two to four years.

The Group leases also IT and office equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

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The following tables show a breakdown of right-of-use assets based on geographical location of the cash generating units (mainly directly operated retail stores) in which they are included.

| | 31/12/21 | 31/12/20 |
|--------------------------|---------------|---------------|
| United States of America | 15,853 | 14,643 |
| Italy | 11,977 | 9,671 |
| Spain | 4,809 | 5,382 |
| United Kingdom | 7,625 | 9,274 |
| China | 4,076 | 5,484 |
| Others | 6,415 | 4,559 |
| Total | 50,755 | 49,013 |

As at December 31, 2021, the Group performed the impairment assessment of property, plant and equipment and right-of-use assets included in several cash generating units (CGUs), such as the Italian upholstered furniture plant CGU and certain directly operated retail stores CGUs that presented indicators of impairment. For additional information on the impairment assessment, reference should be made to note 8.

As result of the 2021, 2020 and 2019 impairment assessment performed by the Group, impairment losses of 1,188, 584 and nil have emerged for right-of-use assets, respectively.

Other information about leases for which the Group is a lessee is presented below.

The following tables show the amounts recognized in profit or loss under IFRS 16 for the years ended December 31, 2021, 2020 and 2019.

| | 2021 | 2020 | 2019 |
|--|---------------|---------------|---------------|
| Depreciation charge of right-of-use assets | 11,706 | 13,376 | 13,227 |
| Interest on lease liabilities | 2,584 | 2,613 | 2,635 |
| Expenses relating to short-term leases | 1,187 | 719 | 1,090 |
| Expenses relating to leases of low-value assets, excluding short-term leases | 169 | 122 | 132 |
| Covid-19 rent concessions | (1,515) | (1,799) | — |
| Total | 14,131 | 15,031 | 17,084 |

Lease payments recognised in statement of cash flows for the years ended December 31, 2021, 2020 and 2019 amount to 12,693, 12,496 and 14,251, respectively, and include interests paid for 2,603, 2,589 and 2,291, respectively (see note 20).

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10 Intangible assets and goodwill

Changes in the carrying amount of intangible assets and goodwill for the years ended December 31, 2021 and 2020 are analysed in the following tables.

| | Trademarks, patents and other | Software | Goodwill | Total |
|---|-------------------------------------|-----------------|--------------|-----------------|
| Cost as at December 31, 2019 | 14,086 | 30,471 | 4,068 | 48,625 |
| Additions | 107 | 685 | — | 792 |
| Impairment of goodwill | — | — | (1,866) | (1,866) |
| Reclassifications to assets held for sale | (174) | (53) | — | (227) |
| Effect of translation adjustments | 3 | (113) | (281) | (391) |
| Cost as at December 31, 2020 | 14,022 | 30,990 | 1,921 | 46,933 |
| Additions | 100 | 1,376 | — | 1,476 |
| Impairment of goodwill | — | — | — | — |
| Disposals | (22) | (168) | — | (190) |
| Effect of translation adjustments | 16 | 38 | — | 54 |
| Cost as at December 31, 2021 | 14,116 | 32,236 | 1,921 | 48,273 |
| Accumulated amortisation as at December 31, 2019 | (13,634) | (28,970) | — | (42,604) |
| Amortisation | (145) | (762) | — | (907) |
| Disposals | — | — | — | — |
| Reclassifications to assets held for sale | 167 | 51 | — | 218 |
| Effect of translation adjustments | 7 | 110 | — | 117 |
| Accumulated amortisation as at December 31, 2020 | (13,605) | (29,571) | — | (43,176) |
| Amortisation | (140) | (950) | — | (1,090) |
| Disposals | 22 | 166 | — | 188 |
| Effect of translation adjustments | (12) | (37) | — | (49) |
| Accumulated amortisation as at December 31, 2021 | (13,735) | (30,392) | — | (44,127) |
| Net book value as at December 31, 2019 | 452 | 1,501 | 4,068 | 6,021 |
| Net book value as at December 31, 2020 | 417 | 1,419 | 1,921 | 3,757 |
| Net book value as at December 31, 2021 | 381 | 1,844 | 1,921 | 4,146 |

As at December 31, 2021 and 2020, goodwill of 1,921 only relates to the “Italy – retail stores” CGU. It arose on the 2017 acquisition by the Parent of four “Divani&Divani by Natuzzi” stores located in the North East of Italy. This acquisition was performed with a related party at arm’s length conditions.

Impairment tests have been performed on goodwill in 2021, 2020 and 2019.

As result of such impairment tests in 2020, the goodwill of 1,866 related to “Mexico – retail stores” CGU was fully impaired. In fact, in 2020, this CGU was severely affected by the COVID-19 pandemic and the restriction measures taken to contain it, including the lockdown period. The recoverable amount of this CGU was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The carrying amount of such CGU was determined to be higher than its recoverable amount and an impairment loss of 1,866 was recognised in profit or loss for the year ended December 31, 2020. The impairment loss was fully allocated to goodwill and it was included in “selling expenses” of profit or loss for the year ended December 31, 2020.

As result of such impairment tests in 2021 no impairment losses have emerged on goodwill.

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The significant assumptions that were used in performing the 2021 and 2020 impairment tests for goodwill are as follows.

December 31, 2021

| | Net book value after impairment test | Long-term growth rate | WACC | Annual sales growth rate 2022 | Annual sales growth rate 2023–2026 |
|-----------------------|--|-----------------------------|-------|---|--|
| CGU | | | | | |
| Italy – retail stores | 1,921 | 0.73% | 8.89% | 4.3% | 3.2% |

December 31, 2020

| | Net book value after impairment test | Long-term growth rate | WACC | Annual sales growth rate 2021 | Annual sales growth rate 2022–2025 |
|------------------------|--|-----------------------------|--------|-------------------------------------|--|
| CGU | | | | | |
| Italy – retail stores | 1,921 | 0.90% | 8.92% | 8.03% | 2.50% |
| Mexico – retail stores | — | 3.57% | 13.31% | 18.00% | 2.13% |
| Total goodwill | 1,921 | | | | |

Further, the cash flows included specific estimates for five years and a long-term growth rate thereafter. Cash flows projections have been derived from the business plan approved by the Board of Directors. The estimated recoverable amount of Italy – retail stores CGU exceeded its carrying amount with an adequate cushion.

Research and development costs recognised as an expense for the years ended December 31, 2021, 2020 and 2019 amount to 3,270, 3,137 and 3,700, respectively.

11 Equity-method investees

Changes in the carrying amount of equity-method investees for the years ended December 31, 2021 and 2020 are analysed as follows.

| | Natuzzi Trading Shanghai | Nars Miami LLC | Natuzzi Texas LLC | Natuzzi Store (UK) Ltd | Salena S.r.l. | Total |
|--|--------------------------------|----------------------|-------------------------|---------------------------------|------------------|---------------|
| Balance as at December 31, 2019 | 41,236 | 106 | — | — | — | 41,342 |
| Share of profit for the year | 1,455 | — | — | — | — | 1,455 |
| Share of other comprehensive income | (365) | (8) | — | — | — | (373) |
| Dividends received | (2,335) | — | — | — | — | (2,335) |
| Balance as at December 31, 2020 | 39,991 | 98 | — | — | — | 40,089 |
| Acquisition of non-controlling interests | — | — | 270 | 18 | — | 288 |
| Share of profit for the year | 3,409 | 152 | — | — | — | 3,561 |
| Share of other comprehensive income | 2,320 | 8 | — | — | — | 2,328 |
| Dividends received | (1,490) | (254) | — | — | — | (1,744) |
| Balance as at December 31, 2021 | 44,230 | 4 | 270 | 18 | — | 44,522 |

As at December 31, 2021 and 2020 equity-method investees include: (a) the 49% stake in the joint venture Natuzzi Trading Shanghai; (b) the 49% stake in the associate Nars Miami LLC; (c) the 51% stake in the joint venture Natuzzi Texas LLC; (d) the 30% stake in the associate Natuzzi Store (UK) Ltd; (e) the 49% interest in the associate Salena S.r.l., whose carrying value was totally impaired in 2014 in consideration of some legal disputes among shareholders.

All such investments are accounted for using the equity method.

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(i) Disclosures on Natuzzi Trading (Shanghai) Co. Ltd., joint venture

On March 22, 2018, the Company signed a Joint Venture Agreement and a Share Purchase Agreement with Kuka Group (Kuka), a leading distributor of upholstered furniture in China. Such agreements, which aim to expand the Company's retail network on the Chinese market, provide for an investment by Kuka in the Group of 65,000, of which: (a) a 35,000 capital injection into the subsidiary Natuzzi Trading (Shanghai) Co. Ltd. (Natuzzi Trading Shanghai), increasing the share capital of the latter, in exchange for a 27.46% interest; and (b) 30,000 for the purchase of an additional 23.54% interest in the subsidiary, Natuzzi Trading Shanghai, which was owned by Natuzzi.

Such agreements were finally completed on July 27, 2018, after obtaining the necessary authorizations and approvals. Following such agreements, the Company and Kuka own, respectively, a 49% and a 51% interest in Natuzzi Trading Shanghai.

Both the Joint Venture Agreement and the Share Purchase Agreement incorporated some conditions precedent, including: (a) the stipulation of a license contract between Natuzzi and Kuka for the use of the exclusive and permanent rights to Natuzzi trademarks, for a total consideration of 15,000; (b) the stipulation of the distribution contracts between Natuzzi and Kuka, in accordance with which Natuzzi Trading Shanghai is to exclusively distribute Natuzzi Italia and Natuzzi Editions branded products, to be purchased mainly by Natuzzi Group, through a network of directly-operated single-brand stores and franchises in China, as well as through online stores. Such contract was signed on March 22, 2018 and became effective on July 27, 2018.

The following table shows the reconciliation of the carrying amount of the retained interest in Natuzzi Trading Shanghai as at December 31, 2019 with the carrying amount as at December 31, 2020 included in the consolidated statement of financial position.

| | | |
|--|--------------|----------------------|
| Carrying amount as at December 31, 2019 | | 41,236 |
| Group's share of profit for the year | 1,873 | |
| Elimination of amortisation of Natuzzi's trademarks | 367 | |
| Elimination of intercompany profit on inventories | (396) | |
| Amortisation of intangibles assets | (519) | |
| Reversal of deferred tax liabilities | 130 | |
| Group's share of profit for the year, net of equity method adjustments | <u>1,455</u> | 1,455 |
| Group's share of other comprehensive income | | (365) |
| Dividends distribution | | <u>(2,335)</u> |
| Carrying amount as at December 31, 2020 | | <u>39,991</u> |

The following table shows the reconciliation of the carrying amount of the retained interest in Natuzzi Trading Shanghai as at December 31, 2020 with the carrying amount as at December 31, 2021 included in the consolidated statement of financial position.

| | | |
|--|--------------|----------------------|
| Carrying amount as at December 31, 2020 | | 39,991 |
| Dividends distribution | | (1,490) |
| Group's share of profit for the year | 4,065 | |
| Elimination of amortisation of Natuzzi's trademarks | 367 | |
| Elimination of intercompany profit on inventories | (634) | |
| Amortisation of intangibles assets | (519) | |
| Reversal of deferred tax liabilities | 130 | |
| Group's share of profit for the year, net of equity method adjustments | <u>3,409</u> | 3,409 |
| Group's share of other comprehensive income | | <u>2,320</u> |
| Carrying amount as at December 31, 2021 | | <u>44,230</u> |

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Summarised financial information of the joint venture Natuzzi Trading Shanghai, based on its IFRS financial statements, and reconciliation with the carrying amount of the Group's share in net assets and in profit or loss as reported in the consolidated financial statements are set out below.

Summarised statement of financial position of Natuzzi Trading Shanghai and Group's share in net assets as at December 31, 2021 and 2020

| | 31/12/21 | 31/12/20 |
|--|---------------|---------------|
| Current assets | 79,527 | 60,319 |
| Non-current assets | 21,619 | 20,197 |
| Current liabilities | (50,092) | (38,427) |
| Non-current liabilities | (1,344) | (2,367) |
| Net Assets | 49,710 | 39,722 |
| Group's share in net assets – 49% of net assets | 24,358 | 19,463 |
| Intangible assets | 2,832 | 3,351 |
| Goodwill | 26,140 | 26,140 |
| Elimination of intercompany profit from licensing Natuzzi's trademarks | (6,095) | (6,462) |
| Elimination of intercompany profit on inventories | (2,298) | (1,664) |
| Deferred tax liabilities | (707) | (837) |
| Group's carrying amount of interest | 44,230 | 39,991 |

As at December 31, 2021 and 2020 cash and cash equivalents, bank overdrafts and borrowings, lease liabilities current and non-current are set out below.

| | 31/12/21 | 31/12/20 |
|--------------------------------|---------------|---------------|
| Cash and cash equivalents | 61,944 | 43,668 |
| Bank overdrafts and borrowings | — | — |
| Lease liabilities current | (2,616) | (2,432) |
| Lease liabilities non-current | (1,344) | (2,367) |
| Total, net | 57,984 | 38,869 |

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Summarised statement of profit or loss of Natuzzi Trading Shanghai and Group's share of profit for the year ended December 31, 2021, 2020 and 2019

| | 2021 | 2020 | 2019 |
|--|---------------|--------------|--------------|
| Revenue | 96,272 | 62,023 | 52,714 |
| Cost of sales | (57,120) | (37,414) | (33,754) |
| Other income and expenses, net | (39) | (413) | 41 |
| Selling expenses | (23,937) | (17,685) | (13,570) |
| Administrative expenses | (4,983) | (2,185) | (1,883) |
| Net finance income | 1,213 | 864 | 1,194 |
| Profit before tax | 11,406 | 5,190 | 4,742 |
| Income tax expense | (3,111) | (1,368) | (1,304) |
| Profit for the period | 8,295 | 3,822 | 3,438 |
| Other comprehensive profit/(loss) | 4,734 | (744) | 227 |
| Total comprehensive profit for the period | 13,029 | 3,078 | 3,665 |
| Group's share of profit for the period – 49% | 4,065 | 1,873 | 1,684 |
| Elimination of amortisation of Natuzzi's trademarks | 367 | 367 | 368 |
| Elimination of intercompany profit on inventories | (634) | (396) | (671) |
| Amortisation of intangible assets | (519) | (519) | (519) |
| Deferred tax liabilities | 130 | 130 | 130 |
| Group's share of profit/(loss), net of equity method adj. | 3,409 | 1,455 | 992 |
| Group's share of other comprehensive income/(loss) for the period | 2,320 | (365) | 111 |
| Group's share of total comprehensive income/(loss) for the period | 5,729 | 1,090 | 1,103 |
| Dividends received by the Group | 1,490 | 2,335 | — |

For the years ended December 31, 2021, 2020 and 2019, depreciation and amortisation, interest income, interest expense and income tax expense are set below.

| | 2021 | 2020 | 2019 |
|-------------------------------|-------|-------|-------|
| Depreciation and amortisation | 4,507 | 4,106 | 2,916 |
| Interest income | 1,529 | 1,256 | 1,419 |
| Interest expense | 316 | 392 | 257 |
| Income tax expense | 3,111 | 1,368 | 1,304 |

(ii) Disclosures on Nars Miami LLC, associate

Nars Miami LLC, an immaterial associate, is engaged in the sale of the Group's upholstery furniture and home furnishings accessories to end customers, under a franchise agreement. The principal place of business of such associate is in Miami, Florida (USA).

(iii) Disclosures on Natuzzi Texas LLC, joint venture

Natuzzi Texas LLC is an immaterial joint venture, set up in 2021, which is engaged in the sale of the Group's Natuzzi upholstery furniture and home furnishings accessories to end consumers through directly-operated single-brand stores (Natuzzi Italia stores). The company opened its first store in February 2022.

(iv) Disclosures on Natuzzi Stores (UK) Ltd, associate

Natuzzi Stores (UK) Ltd is an immaterial associate, in which the Group acquired a 30% stake in early 2021. Natuzzi Stores (UK) Ltd is engaged in the sale of upholstered furniture and home furnishings accessories to end consumers through directly-operated Natuzzi Italia mono-brand stores.

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12 Other non-current receivables

Other non-current receivables consist of the following:

| | 31/12/21 | 31/12/20 |
|---------------------------------------|--------------|--------------|
| Security deposits for lease contracts | 4,557 | 3,093 |
| Receivable from disposal of assets | 297 | 271 |
| Total | 4,854 | 3,364 |

The receivable from disposal of assets is the long-term portion of receivables derived from the sale of the security and doorkeeping services branch to a third-party which occurred in 2014.

13 Other assets (non-current and current)

Other assets are analysed as follows:

| | 31/12/21 | 31/12/20 |
|--|--------------|--------------|
| Advances to suppliers | 5,842 | 4,956 |
| Deferred delivery and commission costs related to finished goods | 4,831 | 2,049 |
| Deferred costs for Natuzzi Display System | 1,676 | 2,003 |
| Deferred costs for slotting fees | 868 | 1,410 |
| Deferred costs for Service-Type Warranty | 205 | 252 |
| Other prepaid expenses and accrued income | 305 | 367 |
| Total other assets | 13,727 | 11,037 |
| Less current portion | (12,309) | (9,146) |
| Non-current portion | 1,418 | 1,891 |

“Advances to suppliers” represent advance payments for raw materials, services and other expenses.

“Deferred delivery and commission costs related to finished goods” are related to the deferral of shipping and handling costs and commission expenses for finished goods that had not been delivered at year-end.

“Deferred costs for Natuzzi Display System” refer to the deferred costs incurred by the Company to purchase store fittings, which are then sold to retailers and used to set up their stores (“Natuzzi Display System” – NDS). Such costs are recognised over the life of the distribution contract signed with the retailer (usually five years).

“Deferred costs for slotting fees” refer to contributions made by the Company to retailers to prepare the retailer’s system to accept and sell the Group’s products. Such fees are recognised over the life of the contract signed with the retailers (usually five years).

“Deferred costs for Service-Type Warranty” refer to the deferral of costs incurred by the Company for the sale of a service-type warranty to end customers, considering that this insurance is provided by a third-party. Such costs are recognised over the life of the contractual insurance period, which is five years.

14 Inventories

Inventories are analysed as follows:

| | 31/12/21 | 31/12/20 |
|---------------------------------|---------------|---------------|
| Leather and other raw materials | 27,006 | 24,580 |
| Goods in process | 14,090 | 8,852 |
| Finished goods | 39,115 | 30,477 |
| Total | 80,211 | 63,909 |

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The following tables summarise the changes to the provision for slow moving and obsolete raw materials and finished goods included in inventories for the years ended December 31, 2021 and 2020.

| | 31/12/21 | 31/12/20 |
|-------------------------------|---------------|---------------|
| Balance at beginning of year | 13,059 | 11,855 |
| Additions | 3,413 | 3,371 |
| Reductions | (904) | (2,167) |
| Balance at end of year | 15,568 | 13,059 |

The additions and reductions are included in “cost of sales”.

For the years ended December 31, 2021, 2020 and 2019, inventories of 168,492, 126,580 and 153,747, respectively, were recognised as an expense and included in “cost of sales” (see note 32).

There are no pledged inventories that could be limited in their availability.

15 Trade receivables

Trade receivables are due primarily from distributors and retailers who sell directly to end customers.

Trade receivables disaggregated by nature of the relationship with the customers are as follows:

| | 31/12/21 | 31/12/20 |
|---------------------------------|---------------|---------------|
| Third parties | 38,556 | 34,613 |
| Related parties | 8,028 | 7,202 |
| Gross trade receivables | 46,584 | 41,815 |
| Allowance for doubtful accounts | (5,325) | (7,881) |
| Total trade receivables | 41,259 | 33,934 |

Transactions with related parties are conducted at arm’s length (see note 43).

Trade receivables by geographic region are analysed as follows:

| | 31/12/21 | 31/12/20 |
|---------------------------------|---------------|---------------|
| Italian customers | 10,678 | 10,259 |
| Other European customers | 12,252 | 11,128 |
| North American customers | 7,232 | 5,447 |
| Chinese customers | 7,059 | 6,873 |
| South American customers | 4,956 | 3,482 |
| Other foreign customers | 4,407 | 4,626 |
| Gross trade receivables | 46,584 | 41,815 |
| Provision for doubtful accounts | (5,325) | (7,881) |
| Total trade receivables | 41,259 | 33,934 |

The following tables provide the movements in the provision for doubtful accounts for the years ended December 31, 2021 and 2020.

| | 31/12/21 | 31/12/20 |
|---|----------|----------|
| Balance at beginning of year | 7,881 | 8,699 |
| Charges – bad debt expense | 76 | 1,802 |
| Reductions – write off of uncollectible amounts | (2,015) | (1,024) |
| Reductions – reversal to profit and loss | (617) | — |
| Reclassification to assets held for sale | — | (1,596) |
| Balance at end of year | 5,325 | 7,881 |

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The Parent sold trade receivables to a financial institution for cash advances (for further details, see note 30(C)(iii)). These trade receivables have not been derecognized from the statement of financial position, because the Parent retains substantially all of the risks and rewards – primarily credit risk. The amount received on their transfer has been recognised as a secured bank borrowing (see note 25). The arrangement with the financial institution is such that the customers remit cash directly to the Parent and the Parent transfers the collected amounts to the financial institution. The receivables are considered to be held within a held-to-collect business model consistent with the Group’s continuing recognition of the receivables.

The following information shows the reporting-date carrying amount of trade receivables that have been transferred but have not been derecognised and the associated liabilities.

| | 31/12/21 | 31/12/20 |
|--|--------------|--------------|
| Carrying amount of trade receivables transferred | 29,778 | 24,855 |
| Carrying amount of associated liabilities | (26,341) | (22,246) |
| Total, net | 3,437 | 2,609 |

Information about the Group’s exposure to credit risk and impairment losses for trade receivables is included in note 30(C)(i-a).

16 Other current receivables

Other current receivables are analysed as follows:

| | 31/12/21 | 31/12/20 |
|---|---------------|--------------|
| VAT | 3,588 | 3,690 |
| Receivables from National Institute for Social Security | 3,187 | 3,725 |
| Receivables from VITA Group | 1,374 | — |
| Other | 2,869 | 2,418 |
| Total | 11,018 | 9,833 |

The “VAT” receivables include value added taxes and related interest reimbursable to the various companies of the Group. While currently due at the reporting date, the collection of the VAT receivable may extend over a maximum period of up to two years.

The “Receivables from National Institute for Social Security” represent the amounts anticipated by the Company on behalf the governmental institute related to salaries and wages for those workers and employees subject to temporary work force reduction.

The “Receivables from VITA Group” is related to the disposal of the subsidiary IMPE S.p.A.. For further details on such receivable and disposal, reference should be made to note 7.

The “Other” caption primarily includes certain receivables related to green incentives for photovoltaic investment.

17 Cash and cash equivalents

Cash and cash equivalents are analysed as follows:

| | 31/12/21 | 31/12/20 |
|---------------|---------------|---------------|
| Cash on hand | 201 | 881 |
| Bank accounts | 53,271 | 47,306 |
| Total | 53,472 | 48,187 |

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The following tables show the Group's cash and cash equivalents broken-down by region.

| | 31/12/21 | 31/12/20 |
|---------------|---------------|---------------|
| Europe | 36,550 | 38,773 |
| China | 9,938 | 6,040 |
| North America | 5,924 | 2,725 |
| South America | 786 | 533 |
| Other | 274 | 116 |
| Total | 53,472 | 48,187 |

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

| | 31/12/21 | 31/12/20 | 31/12/19 |
|--|---------------|---------------|---------------|
| Cash and cash equivalents in the statement of financial position | 53,472 | 48,187 | 39,799 |
| Bank overdrafts repayable on demand | (1,223) | (2,111) | (1,974) |
| Cash and cash equivalents in the statement of cash flows | 52,249 | 46,076 | 37,825 |

Bank overdrafts repayable on demand form an integral part of the Group's cash management (see note 25).

18 Share capital, reserves and retained earnings

As at December 31, 2021, 2020 and 2019 the equity attributable to owners of the Company is analysed as follows:

| | 31/12/21 | 31/12/20 | 31/12/19 |
|-------------------|---------------|---------------|----------------|
| Share capital | 54,853 | 54,853 | 54,853 |
| Reserves | 17,449 | 13,043 | 17,147 |
| Retained earnings | 10,033 | 6,448 | 31,126 |
| Total | 82,335 | 74,344 | 103,126 |

As at December 31, 2021 and 2020, the Company's share capital, which is totally authorized and issued, is composed of 54,853,045 ordinary shares with par value of Euro 1 each, for a total of 54,853.

Ordinary shareholders have the right to receive dividends, as approved by shareholders' meetings, and to express one vote per each share owned.

Share capital is owned, as at December 31, 2021, 2020 and 2019, as follows:

| | 31/12/21 | 31/12/20 | 31/12/19 |
|-------------------------|---------------|---------------|---------------|
| Mr. Pasquale Natuzzi | 56.5% | 56.5% | 56.5% |
| Mrs. Anna Maria Natuzzi | 2.6% | 2.6% | 2.6% |
| Mrs. Annunziata Natuzzi | 2.5% | 2.5% | 2.5% |
| Other investors | 38.4% | 38.4% | 38.4% |
| Total | 100.0% | 100.0% | 100.0% |

An analysis of "Reserves" is as follows:

| | 31/12/21 | 31/12/20 | 31/12/19 |
|---|---------------|---------------|---------------|
| Legal reserve | 10,971 | 10,971 | 10,971 |
| Majority shareholder capital contribution | 488 | 488 | 488 |
| Reserve for gain on disposal of Non-controlling interests | 1,088 | — | — |
| Foreign operations translation reserve | 5,899 | 1,954 | 5,846 |
| Remeasurement of defined benefit plan | (997) | (370) | (158) |
| Total | 17,449 | 13,043 | 17,147 |

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The “Legal reserve” is connected to the requirements of the Italian law, which provide that 5% of net income of the Parent Company is retained as a legal reserve, until such reserve is 20% of the issued share capital. The legal reserve may be utilized to offset losses; any portion which exceeds 20% of the issued share capital is distributable as dividends. The legal reserve totaled 10,971 as at December 31, 2021, 2020 and 2019.

The “Majority shareholder capital contribution” is one of the Parent Company’s reserves, which is restricted for capital grants received.

The “Reserve for gain on disposal of Non-controlling interests” is related to the 7% stake of Natuzzi Singapore PTE LTD to a related party, occurred in 2021. For further details on this transaction, reference should be made to note 2.

The “Foreign operations translation reserve” relates to the translation of foreign subsidiaries’ financial statements for those subsidiaries which have assessed their functional currency being different from Euro.

The “remeasurement of defined benefit plan” refers to the calculation of the present value of the employees’ leaving entitlement at each reporting date, in compliance with applicable regulations and adjusted to take into account actuarial gains or losses. In particular, such actuarial gains or losses are reported in OCI (see note 4 (q)).

OCI accumulated in reserves, net of tax, is reported in the following tables.

| | 31/12/21 | 31/12/20 | 31/12/19 |
|---------------------------------------|--------------|--------------|--------------|
| Foreign operation translation | 5,899 | 1,954 | 5,846 |
| Remeasurement of defined benefit plan | (997) | (370) | (158) |
| Owners of the Company | 4,902 | 1,584 | 5,688 |
| Non-controlling interests | (27) | (119) | (63) |
| Total OCI | 4,875 | 1,465 | 5,625 |

The disaggregation of changes of OCI by each type of reserve in equity is shown in the tables below.

Year ended December 31, 2021

| | Foreign operations translation reserve | Remeasurement of defined benefit plan | Total |
|--|--|---------------------------------------|--------------|
| Exchange difference on translation of foreign operations | 1,709 | — | 1,709 |
| Share of OCI of equity-method investees | 2,328 | — | 2,328 |
| Actuarial losses on employees’ leaving entitlement | — | (627) | (627) |
| Total | 4,037 | (627) | 3,410 |

Year ended December 31, 2020

| | Foreign operations translation reserve | Remeasurement of defined benefit plan | Total |
|--|--|---------------------------------------|----------------|
| Exchange difference on translation of foreign operations | (3,575) | — | (3,575) |
| Share of OCI of equity-method investees | (373) | — | (373) |
| Actuarial losses on employees’ leaving entitlement | — | (212) | (212) |
| Total | (3,948) | (212) | (4,160) |

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Year ended December 31, 2019

| | Foreign operations translation reserve | Remeasurement of defined benefit plan | Total |
|--|---|---|-------------|
| Exchange difference on translation of foreign operations | 475 | — | 475 |
| Share of OCI of equity-method investees | 111 | — | 111 |
| Actuarial losses on employees' leaving entitlement | — | (615) | (615) |
| Total | 586 | (615) | (29) |

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, as well as the level of dividends to ordinary shareholders.

The Group monitors capital using a ratio of "net debt" to "equity". Net debt is calculated as total liabilities (as shown in the consolidated statement of financial position) less cash and cash equivalents. Equity comprises all components of equity. As at December 31, 2021, the Group's policy is to keep the ratio below 3.20.

The Group's net debt to equity ratio as at December 31, 2021 and 2020 is as follows:

| | 31/12/21 | 31/12/20 |
|--------------------------------|----------|----------|
| Total liabilities | 306,186 | 280,636 |
| Less cash and cash equivalents | (53,472) | (48,187) |
| Net debt (a) | 252,714 | 232,449 |
| Total equity (b) | 83,846 | 75,364 |
| Net debt to equity ratio (a/b) | 3.01 | 3.08 |

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19 Long-term borrowings

Long-term borrowings (debts) as at December 31, 2021 and 2020 consist of the following:

| | 31/12/21 | 31/12/20 |
|---|---------------|---------------|
| Three-month Euribor (360) plus a 4% spread long-term debt with final payment due September 2021 | — | 750 |
| Three-month Euribor (360) plus a 3.5% spread long-term debt with final payment due June 2022 (repaid early) | — | 750 |
| Three-month Euribor (360) plus a 2.2% spread long-term debt with final payment due August 2022 | 139 | — |
| Six-month Euribor (360) plus a 2.75% spread long-term debt with final payment due December 2022 | 92 | 183 |
| Three-month Euribor (360) plus a 1.9% spread long-term debt with final payment due June 2023 | 621 | 1,025 |
| Six-month Euribor (360) plus a 2.5% spread long-term debt with final payment due August 2023 | 2,946 | 3,920 |
| 11.76% fixed long-term debt with final payment due October 2023 | 216 | 314 |
| Six-month Euribor (360) plus a 2.75% spread long-term debt with final payment due March 2025 | 4,646 | — |
| 2.3% fixed long-term debt with final payment due January 2026 | 4,518 | 5,562 |
| No interest rate long-term debt with final payment due September 2027 | 395 | 378 |
| 0.21% fixed long-term debt with final payment due December 2030 | 2,963 | 3,257 |
| 80% of six-month Euribor (360) plus a 0.95% spread long-term debt with final payment due January 2035 | 903 | 287 |
| Total long-term borrowings | 17,439 | 16,426 |
| Less current installments | (3,862) | (7,124) |
| Long-term borrowings, excluding current installments | 13,577 | 9,302 |

During 2021 and 2020, both the three-month Euribor (360) and the six-month Euribor (360) were negative. Consequently, actual range of rates are from 0.21% and 4%.

In 2015 the Company incurred long-term debt for nominal amount of 5,000 with installments payable on a quarterly basis and with final payment due in September 2021. This loan was paid off regularly in September 2021.

In January 2017, the Company incurred long-term debt for a 2,500 nominal amount with installments payable on a quarterly basis and with final payment due June 2022. The loan has a residual amount as at 31 December 2021 equal to zero since it was repaid early in September 2021.

In March 2021, the Parent Company, following the sale of its former subsidiary IMPE S.p.A., assumed the residual debt of the loan received by IMPE S.p.A. in 2017 for a nominal amount of 1,000 to be repaid in monthly installments up to August 2022. This loan, of which 139 remains at year-end, provides for variable interest installments determined based on the three-month Euribor (360) plus a 2.2% spread.

In 2018, the Romanian subsidiary obtained a long-term debt from a financial institution, amounting to 206. Such loan has installments repayable on a monthly basis starting from October 2020 and ending in December 2022. This long-term debt, of which 92 remains at year-end, provides for variable interest installments determined based on the six-month Euribor (360) plus a 2.75% spread.

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In November 2017, the Company incurred long-term debt for a 2,000 nominal amount with installments payable on a monthly basis and with final payment due June 2023. This long-term debt, of which 621 remains at year-end, provides for variable interest installments determined based on the three-month Euribor (360) plus a 1.9% spread.

A loan of nominal 10,000 was incurred in 2015 by the Romanian subsidiary. The loan was payable on a monthly basis starting from August 2015. In August 2017 and July 2019, the subsidiary negotiated a rescheduling of the loan's repayment with the bank. In particular, the loan, remaining at year-end in the amount of 2,946 is due by August 2023, and the new amortisation schedule provides for monthly installments and a lump sum repayment of 1,944, due on maturity. The variable interest rate is six-month Euribor (360) plus a 2.5% spread. The loan is guaranteed by a mortgage on the Romanian plant for an amount of 16,628, and is subject to the following covenants: (a) cash receipts \geq 60% turnover; (b) earnings before interest, taxes, depreciation and amortisation (EBITDA) \geq 4.5%; (c) net debt/EBITDA \leq 3; (d) debt service cover ratio \geq 1.35. The Romanian subsidiary was in compliance with the covenants required.

In May 2020, the Brazilian subsidiary obtained a long-term loan from a financial institution, amounting to 314. This loan has been obtained as part of the COVID-19 measures to support business approved by the Brazilian government. Such loan has installments repayable on a monthly basis starting from 2020, after the six-month interest-only period, and ending in October 2023. This long-term debt, of which 216 remains at year-end, provides for variable installments determined based on 11.76% interest rate.

In March 2021, the Romanian subsidiary obtained a long-term loan of 5,000 which provides for variable interest installments determined based on the six-month Euribor (360) plus a 2.75% spread. This loan, of which 4,646 remains at year-end, is backed by a 90% state-guarantee and ends in March 2025. The first installment, after the five-month interest only period, was paid on October 2021.

In July 2017, the Company incurred long-term debt for a 7,000 nominal amount with installments payable on a monthly basis, fixed interest rate of 2.3% and with final payment due January 2026. This long-term fixed-rate debt, of which 4,518 remains at year-end, is assisted by a mortgage on the properties located in Matera (Italy) for an amount of 14,000.

In March 2020, the Swiss subsidiary obtained a long-term loan from a financial institution, amounting to 378. This loan has been obtained as part of the COVID-19 measures to support business approved by the Swiss government. Such loan has installments repayable on a six-month basis starting from 2022 and ending in September 2027. This long-term debt, of which 395 remains at year-end, has no interest rate.

In December 2019, the Company incurred long-term debt for a 4,181 nominal amount with installments payable on semi-annual basis, fixed interest rate of 0.21% and with final payment due December 2030. This long-term debt, of which 2,963 remains at year-end, is guaranteed by a mortgage on the properties located in Ginosa, Laterza and Santeramo in Colle (Italy) for a total amount of 13,936.

In December 2019, one of the Italian subsidiaries incurred long-term debt for a 435 nominal amount with installments payable on semi-annual basis and with final payment due January 2035. This long-term debt, of which 903 remains at year-end following a further disbursement obtained in 2021, provides for variable interest installments determined based on the 80% of six-month Euribor (360) plus 0.95% spread. Such loan is guaranteed by a mortgage on the properties located in Pozzuolo del Friuli (Italy) for a total amount of 3,000.

During 2021 and 2020, the Company made all installment payments related to the aforementioned long-term borrowings.

Interest expense related to long-term borrowings for the years ended December 31, 2021, 2020 and 2019 is 405, 405 and 454, respectively. Interest due is paid with the related installment.

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20 Lease liabilities (non-current and current)

The non-current and current portion of the lease liabilities as at December 31, 2021 and 2020 is as follows:

| | 31/12/21 | 31/12/20 |
|--|---------------|---------------|
| Non-current portion of the lease liabilities | 46,592 | 43,137 |
| Current portion of the lease liabilities | 10,546 | 10,456 |
| Total | 57,138 | 53,593 |

Changes in the carrying amount of the lease liabilities for the year ended December 31, 2021 and 2020 are reported in the following tables.

| | 31/12/21 | 31/12/20 |
|-----------------------------------|---------------|---------------|
| Balance at beginning of year | 53,593 | 57,367 |
| Additions for new leases | 3,194 | 10,083 |
| Interest expenses | 2,603 | 2,589 |
| Lease payments | (12,693) | (12,496) |
| Disposal of leases | (58) | (260) |
| Adjustments due to remeasurements | 9,084 | 850 |
| Adjustments due to modifications | 41 | (327) |
| Covid-19 rent concessions | (1,515) | (1,799) |
| Effect of translation adjustments | 2,889 | (2,414) |
| Balance at end of year | 57,138 | 53,593 |

As at December 31, 2021, the incremental borrowing rate is within the range of 3% and 12% (the same range as at December 31, 2020).

The maturity analysis of the contractual undiscounted cash flows of the lease liabilities as at December 31, 2021 and 2020 are reported in the tables below.

| | 31/12/21 | 31/12/20 |
|---|---------------|---------------|
| Less than one year | 13,130 | 13,039 |
| One to five years | 38,419 | 35,461 |
| More than five years | 14,305 | 14,154 |
| Total undiscounted lease liabilities | 65,854 | 62,654 |

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control. The Group has estimated that the potential future lease payments, should it exercise the extension option, would result in an increase in lease liability of 22,015 (19,289 as at December 31, 2020).

The Group negotiated rent concessions with its landlords for the majority of its retail store leases as a result of the severe impact of the COVID-19 pandemic during the year. The Group applied the practical expedient for COVID-19-related rent concessions consistently to eligible rent concessions relating to its retail store leases. The amount recognised in profit or loss for the years ended December 31, 2021 and 2020 to reflect changes in lease payments arising from rent concessions to which the Group has applied the practical expedient for COVID-19-related rent concessions is 1,515 and 1,799, respectively.

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21 Employees' leaving entitlement

Changes to employees' leaving entitlement occurring during 2021 and 2020 are analysed as follows:

| | 31/12/21 | 31/12/20 |
|--|---------------|---------------|
| Balance at beginning of year | 15,747 | 16,121 |
| Current service cost | 103 | 95 |
| Interest expense | 51 | 123 |
| Benefits paid | (940) | (396) |
| Actuarial losses | 627 | 212 |
| Reclassification to liabilities directly related to assets held for sale | — | (408) |
| Balance at end of year | 15,588 | 15,747 |

The employees' leaving entitlement refers to a defined benefit plan provided for by the Italian legislation due and payable upon termination of employment, assuming immediate separation (see note 4(q)).

The principal assumptions used in determining the present value of such defined benefit obligation ("DBO") related to the employee benefit obligation are reported as follows:

| | 31/12/21 | 31/12/20 |
|------------------------------------|---|----------|
| Annual discount rate | 0.98% | 0.34% |
| Annual future salary increase rate | 1.75% | 0.80% |
| Annual inflation rate | 1.75% | 0.80% |
| Annual DBO increase rate | 2.81% | 2.10% |
| Mortality | RG48 mortality tables published by the General State Accounting | |
| Inability | National Institute for Social Security tables, by age and sex | |
| Retirement | 100% upon achievement of AGO requisites | |
| Annual frequency of turnover | 2.00% | 4.00% |
| Annual frequency of DBO advances | 2.00% | 2.00% |

A quantitative sensitivity analysis for significant assumptions impacting the DBO as at December 31, 2021 and 2020 is reported as follows:

| | 31/12/21 | 31/12/20 |
|---------------------------------|----------|----------|
| +1% on turnover rate | (118) | (115) |
| -1% on turnover rate | 130 | 127 |
| +0.25% on annual inflation rate | 232 | 218 |
| -0.25% on annual inflation rate | (227) | (214) |
| +0.25% on annual discount rate | (362) | (340) |
| -0.25% on annual discount rate | 375 | 352 |

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. Such analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

The following are the expected payments of the employees' leaving entitlement in future years:

| | 31/12/21 | 31/12/20 |
|-----------------------|----------|----------|
| Within 1 year | 769 | 1,193 |
| Between 2 and 5 years | 3,223 | 3,782 |

The average duration of the defined benefit plan as at December 31, 2021 and 2020 is 10.5 years.

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22 Contract liabilities (non-current and current)

Contract liabilities as at December 31, 2021 and 2020 consist of the following:

| | 31/12/21 | 31/12/20 |
|--|--------------|--------------|
| Advance payments from customers | 19,206 | 14,318 |
| Deferred income from licensing of Natuzzi's trademarks | 6,343 | 6,726 |
| Deferred revenue for Natuzzi Display System | 2,178 | 2,613 |
| Deferred revenue for Service-Type Warranty | 475 | 526 |
| Total contract liabilities | 28,202 | 24,183 |
| Less current portion | (20,797) | (16,150) |
| Non-current portion | 7,405 | 8,033 |

"Advance payments from customers" are related to considerations received by the Group upon sale of the Group's products, and before their delivery to end customers.

"Deferred income from licensing Natuzzi's trademarks" refers to the deferral of revenue deriving from licensing Natuzzi's Trademarks, to the former subsidiary Natuzzi Trading Shanghai, as part of the transaction with Kuka previously described in note 11. Such revenue, in the amount of 6,343 (net of the elimination of intercompany profit on the transaction), has been deferred over the useful life (20 years) of the licensed trademarks.

"Deferred revenue for Natuzzi Display System" refers to the deferral of revenue deriving from the sale of store fittings to retailers, which are used to set up their stores ("Natuzzi Display System" – NDS). Such revenue is recognised over time based on the length of the distribution contract signed with the retailer (usually five years).

"Deferred revenue for Service-Type Warranty" refers to the deferral of revenue deriving from the sale of a service-type warranty to end customers, which is recognised over time based on the contractual length of the insurance period (five years).

The amount of revenue recognised for the years ended December 31, 2021, 2020 and 2019 that was included in the opening contract liabilities balance amounts to 16,150, 14,014 and 12,165, respectively.

23 Provisions (non-current and current)

Provisions as at December 31, 2021 and 2020 consist of the following:

| | 31/12/21 | 31/12/20 |
|--|---------------|---------------|
| Provision for legal claims | 9,403 | 12,865 |
| Provision for tax claims | 229 | 360 |
| Provision for warranties | 2,839 | 3,745 |
| Termination indemnities for sales agents | 940 | 1,049 |
| Other provisions | — | — |
| Total provisions | 13,411 | 18,019 |
| Less current portion | (2,839) | (3,745) |
| Non-current portion | 10,572 | 14,274 |

The provision for legal claims includes the amounts accrued by the Group for the probable contingent liability related to legal procedures initiated by several third parties as result of past events.

The provision for tax claims refers to the amounts accrued by the Group for the probable liability that will be paid to settle some tax claims.

The provision for warranties includes the estimated liabilities for the Group's obligation to repair or replace faulty products under the assurance warranty terms (see notes 4(r) and 4(t)). The warranty claims for the finished products sold are estimated based on past experience of the level of repairs, faulty products and disputes with customers. The Company expects that these costs will be incurred mainly in the next financial year. Significant assumptions used to calculate the provision for such

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assurance type warranty are the warranty period for all products sold, current sales levels and historical information available about repairs, faulty products and dispute with customers.

The termination indemnities for sales agents refer to termination indemnities, provided for by Italian law, due to the Group's agents upon termination of their agreement with the Company or relevant subsidiary.

The item "Other provisions" was mainly composed of the provision associated with the restructuring of part of the Italian upholstered furniture plant and headquarters. Estimated restructuring costs provided for in such provision mainly include employees' one-time termination benefits and are based on a detailed plan agreed between management and employee representatives.

Changes in the above provisions for the years ended December 31, 2021 and 2020 are analysed as follows:

| | Provision for legal claims | Provision for tax claims | Provision for warranties | Termination indemnities for sales agents | Other Provisions | Total |
|--|----------------------------------|--------------------------------|--------------------------------|---|---------------------|---------------|
| Balance as at December 31, 2019 | 10,469 | 641 | 4,489 | 1,197 | 659 | 17,455 |
| Provisions made during the year | 5,403 | 103 | 969 | — | — | 6,475 |
| Provisions used during the year | (2,907) | (384) | (1,713) | (148) | (659) | (5,811) |
| Provisions reversed during the year | (100) | — | — | — | — | (100) |
| Balance as at December 31, 2020 | 12,865 | 360 | 3,745 | 1,049 | — | 18,019 |
| Provisions made during the year | 1,110 | — | 455 | 237 | — | 1,802 |
| Provisions used during the year | (4,572) | (105) | (1,339) | (346) | — | (6,362) |
| Provisions reversed during the year | — | (26) | (22) | — | — | (48) |
| Balance as at December 31, 2021 | 9,403 | 229 | 2,839 | 940 | — | 13,411 |

As at December 31, 2021, the provision for legal claims refers for 8,608 (12,263 as at December 31, 2020) to the probable contingent legal liability related to legal procedures initiated by 154 workers against the Company for the misapplication of the social security procedure "CIGS—Cassa Integrazione Guadagni Straordinaria". According to the "CIGS" procedure, the Company pays a reduced salary to the worker for a certain period of time based on formal agreements signed with the Trade Unions and other Public Social parties. In particular, these 154 workers are claiming in the legal procedures that the Company applied the "CIGS" during the period from 2004 to 2016 without foreseeing any time rotation. In May 2017, the Company received from the Italian Supreme Court of Justice ("Corte di Cassazione") an adverse verdict for the above litigation related only to two workers. Based on this unfavorable verdict, the Company, with the support of its legal counsel, has assessed that the liability for legal procedures initiated by all the 154 workers is 8,608.

24 Deferred income for government grants

Changes in the carrying amount of deferred income for government grants for the years ended December 31, 2021 and 2020 are analysed as follows:

| | 31/12/21 | 31/12/20 |
|--|---------------|---------------|
| Balance at beginning of year | 12,458 | 13,869 |
| Additions | 1,725 | — |
| Reclassification to liabilities directly related to assets held for sale | — | (11) |
| Credit to profit or loss | (1,429) | (1,400) |
| Balance at end of year | 12,754 | 12,458 |

Government grants are related to benefits the Group obtained in 2021 and previous years from the Italian government as part of the incentive programs for under-industrialised regions in Southern Italy. They have been received to compensate the Group for the purchase of certain items of property, plant and equipment and for certain expenses mainly related to research projects. Deferred income for grants related to property, plant and equipment are credited to profit or loss on a straight-line basis over the expected lives of the related assets. Deferred income for grants related to expenses are credited to profit or loss in the periods in which the costs are recognised.

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There are no unfulfilled conditions or contingencies attached to these grants, except for that in accordance with the terms of some grants, the Group is prohibited from selling certain items of property, plant and equipment for a period of five years from the date on which the related grant was finally approved by the Italian governmental agency. As at December 31, 2021 the carrying amount of these items of property, plant and equipment amounted to 4,607.

25 Bank overdrafts and short-term borrowings

Bank overdrafts and short-term borrowings as at December 31, 2021 and 2020 are analysed as follows:

| | 31/12/21 | 31/12/20 |
|---|---------------|---------------|
| Bank overdrafts | 1,223 | 2,111 |
| Borrowings related to a recourse factoring agreement | 26,341 | 22,246 |
| Borrowings secured with trade receivables not part of factoring agreement | 8,327 | 5,629 |
| Borrowings unsecured | 256 | 826 |
| Total | 36,147 | 30,812 |

The weighted average interest rates on the bank overdrafts and short-term borrowings for the years ended December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|-----------------|-------|-------|
| Bank overdrafts | 5.53% | 5.50% |
| Borrowings | 3.92% | 3.90% |

As at December 31, 2021, the unused portion of credit facilities available to the Group, for which no commitment fees are due, amount to 14,947 (23,916 as at December 31, 2020). Such unused portion is related to a recourse factoring agreement for export-related trade receivables (10,222), borrowings to be secured with trade receivables (1,980) and bank overdrafts (2,745).

26 Trade payables

Trade payables as at December 31, 2021 and 2020 are analysed as follows:

| | 31/12/21 | 31/12/20 |
|---|---------------|---------------|
| Invoices received - supplier not part of factoring facility | 52,110 | 42,966 |
| Invoices received - supplier factoring facility | 13,581 | 11,849 |
| Accruals for invoices to be received | 23,524 | 19,448 |
| Total | 89,215 | 74,263 |

Trade payables mainly represent amounts payable for purchases of goods and services in Italy and abroad.

Trade payables include amounts due to related parties amounting to nil both as at December 31, 2021 and 2020 (see note 43).

The Parent participates in a supply chain finance programme (SCF) under which certain of its suppliers may elect to receive early payment of their invoices from a bank by factoring their receivables from the Parent. Under the arrangement, a bank agrees to pay amounts to a participating supplier in respect of invoices owed by the Parent and receives settlement from the Parent at a later date. The principal purpose of this programme is to facilitate efficient payment processing and enable the willing suppliers to sell their receivables due from the Parent to a bank before their due date.

The Parent has not derecognised the original liabilities to which the arrangement applies because neither a legal release was obtained nor was the original liability substantially modified on entering into the arrangement. From the Parent's perspective, the arrangement does not significantly extend payment terms beyond the normal terms agreed with other suppliers that have not elected to participate in the program. The Parent, therefore, presents the amounts factored by these suppliers as trade payables because the nature and function of the financial liability remain the same as those of other trade payables but discloses disaggregated amounts in this note. All payables under the SCF program are classified as current as at December 31, 2021 and 2020.

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The payments to the bank are included within operating cash flows because they continue to be part of the Group's normal operating cycle and their principal nature remains operating – i.e., payments for the purchase of goods and services. The payments to a supplier by the bank are considered to be non-cash transactions.

27 Other payables

Other payables as at December 31, 2021 and 2020 are analysed as follows:

| | 31/12/21 | 31/12/20 |
|--|---------------|---------------|
| Salaries and wages | 7,991 | 8,621 |
| Social security contributions | 5,898 | 5,073 |
| Vacation accrual | 4,397 | 3,275 |
| Withholding taxes on payroll and on others | 2,000 | 2,097 |
| Advance payment from the Parent's majority shareholder | 2,500 | 2,500 |
| Other accounts payable | 8,667 | 6,703 |
| Total | 31,453 | 28,269 |

As at December 31, 2021, the amount of 2,500 refers to the payment received from the Parent's majority shareholder and to be reimbursed to it during 2022 based on the decision taken by the Parent's management in December 2021. Specifically, in light of the extraordinary challenges imposed by COVID-19 on the Group, on February 28, 2020, the Parent's majority shareholder entered into an agreement with it setting forth its undertaking, should the Parent so request, to make advance payments of up to 15,000 to satisfy the subscription price of a future rights issue. On February 28, 2020, the Parent requested an initial payment of 2,500 which it received on March 2, 2020. In December 2021, the Parent's management decided that the share capital increase will no longer take place. Therefore, as at December 31, 2021, the amount of 2,500 to be paid back to the majority shareholder has been included in the caption "Other payables" of the statement of financial position.

28 Other liabilities

Other liabilities as at December 31, 2021 and 2020 are analysed as follows:

| | 31/12/21 | 31/12/20 |
|--|------------|--------------|
| Advance payments for government grants | 412 | 1,069 |
| Other | — | — |
| Total | 412 | 1,069 |

As at December 31, 2021 and 2020, advance payments for government grants are related to considerations received by the Parent for government grants obtained for next years' purchases of property, plant and equipment and next years' expenses related to research projects.

29 Derivative financial instruments

A significant portion of the Group's revenue and costs are denominated in currencies other than the Euro. Consequently, a significant portion of its revenue and costs is exposed to fluctuations in the exchange rates between the Euro and other currencies. The Group uses forward exchange contracts (known in Italy as domestic currency swaps) to reduce its exposure to the risks of short-term decrease in the value of its foreign currency denominated revenue. The Group uses such derivative instruments to protect the value of its foreign currency denominated revenue, and not for speculative or trading purposes. Despite being entered into such domestic currency swaps with the intent to reduce the foreign currency exposure risk for trade receivables and expected sales, the Group's derivative financial instruments do not qualify for being accounted for as hedging instruments according to IAS 39. Therefore, the Company reflects the positive or negative changes in the fair value of those derivatives through profit or loss in the caption "Net exchange rate gains/(losses)".

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The tables below summarise in euro equivalent the contractual amounts of forward exchange contracts used to hedge principally future cash flows from trade receivables and sale orders as at December 31, 2021 and 2020.

| | 31/12/21 | 31/12/20 |
|--------------------|----------|----------|
| U.S. dollars | 20,532 | 854 |
| British pounds | 14,723 | 8,760 |
| Euro | 12,192 | 11,385 |
| Australian dollars | 1,826 | 1,459 |
| Japanese yen | 1,152 | 1,293 |
| Canadian dollars | 812 | 2,301 |
| Swedish kroner | 99 | 203 |
| Total | 51,336 | 26,255 |

The following tables present information regarding the contract amount in euro equivalent amount and the estimated fair value of all of the Group's forward exchange contracts. Contracts with net unrealized gains are presented as "assets" and contracts with net unrealized losses are presented as "liabilities".

| | 2021 | | 2020 | |
|-------------|-----------------|---------------------------|-----------------|---------------------------|
| | Contract amount | Unrealised gains/(losses) | Contract amount | Unrealised gains/(losses) |
| Assets | 18,159 | 96 | 12,587 | 112 |
| Liabilities | 33,177 | (691) | 13,668 | (253) |
| Total | 51,336 | (595) | 26,255 | (141) |

As at December 31, 2021 and 2020, the forward exchange contracts have a net unrealized expense of 595 and 141, respectively. These amounts are recorded in net exchange rate gains/(losses) in the consolidated statements of profit or loss (see note 37).

30 Financial Instruments – Fair values and risk management

IFRS 9 "Financial Instruments" sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaced IAS 39 "Financial Instruments: Recognition and Measurement". The Group has applied this new standard from January 1, 2018 (date of initial application), but has elected not to apply the new requirements for hedge accounting. As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 "Presentation of Financial Statements", which require the impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Additionally, the Group has adopted consequential amendments to IFRS 7 "Financial Instruments: Disclosures".

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model within which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

Furthermore, IFRS 9 replaced the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

The Group's principal financial assets, other than derivatives, include cash and cash equivalents, trade and other receivables that derive directly from operations. The Group's principal financial liabilities, other than derivatives, comprise of long-term borrowings, lease liabilities, bank overdrafts and short-term borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group also enters into derivative transactions, namely forward

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exchange contracts, to protect the value of its foreign currency denominated revenue, not for speculative or trading purposes (see note 29).

For an explanation of how the Group classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see notes 4(l), 4(m), 4(n), 4(o), 4(p) and 4(s).

A. Accounting classification of financial assets and financial liabilities

The following tables show the classification and carrying amounts of Group's financial assets and financial liabilities as at December 31, 2021 and 2020.

| Financial assets | 31/12/21 | 31/12/20 |
|--|-----------------|-----------------|
| Financial assets measured at amortised cost | | |
| Other non-current receivables | 4,854 | 3,364 |
| Trade receivables | 41,259 | 33,934 |
| Other current receivables | 11,018 | 9,833 |
| Cash and cash equivalents | 53,472 | 48,187 |
| Total (a) | 110,603 | 95,318 |
| Financial assets measured at fair value | | |
| Forward exchange contracts | 96 | 112 |
| Total (b) | 96 | 112 |
| Total financial assets (a+b) | 110,699 | 95,430 |

Financial assets measured at amortised cost include trade receivables, other receivables (non-current and current) and cash and cash equivalents. Financial assets at fair value reflect the positive change in fair value of forward exchange contracts that are not designated as hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for future cash flows from accounts receivables and sale orders.

For further details on "Trade receivables", "Other receivables", "Cash and cash equivalents" and "Forward exchange contracts" reference should be made to notes 15, 12-16, 17 and 29, respectively.

| Financial liabilities | 31/12/21 | 31/12/20 |
|---|-----------------|-----------------|
| Financial liabilities measured at amortised cost | | |
| Long-term borrowings | 17,439 | 16,426 |
| Lease liabilities | 57,138 | 53,593 |
| Bank overdrafts and short-term borrowings | 36,147 | 30,812 |
| Trade payables | 89,215 | 74,263 |
| Other payables | 31,453 | 28,269 |
| Total (a) | 231,392 | 203,363 |
| Financial liabilities measured at fair value | | |
| Forward exchange contracts | 691 | 253 |
| Total (b) | 691 | 253 |
| Total financial liabilities (a+b) | 232,083 | 203,616 |

Financial liabilities measured at amortised cost include long-term borrowings (non-current and current portion), lease liabilities (non-current and current portion), bank overdrafts and short-term borrowings, trade payables and other payables. Financial liabilities measured at fair value reflect the negative change in fair value of forward exchange contracts that are not designated as hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected future cash flows from trade receivables and sale orders.

For further details on "Long-term borrowings", "Lease liabilities", "Bank overdrafts and short-term borrowings", "Trade payables", "Other payables" and "Forward exchange contracts" reference should be made to notes 19, 20, 25, 26, 27 and 29, respectively.

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B. Fair value and measurement of fair values of financial assets and financial liabilities

Management has assessed that the fair values of cash and cash equivalents, trade and other receivables, trade and other payables, bank overdrafts and short-term borrowings approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following tables show the carrying amount and fair value of Group's financial assets and financial liabilities as at December 31, 2021 and 2020, other than those with carrying amount that are reasonable approximation of fair value.

| | 31/12/21 | | 31/12/20 | |
|------------------------------|-----------------|------------|-----------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets | | | | |
| Forward exchange contracts | 96 | 96 | 112 | 112 |
| Financial liabilities | | | | |
| Floating-rate borrowings | 9,347 | 9,552 | 6,915 | 6,999 |
| Fixed rate borrowings | 8,092 | 9,308 | 9,511 | 10,433 |
| Total long-term borrowings | 17,439 | 18,860 | 16,426 | 17,432 |
| Forward exchange contracts | 691 | 691 | 253 | 253 |

As at December 31, 2021 and 2020, the fair value measurement hierarchy of the forward exchange contracts and long-term borrowings is "significant observable inputs" (level 2).

There were no transfers between level 1 (quoted prices in active markets) and level 2 during 2021 and 2020. There were no level 3 (significant unobservable inputs) fair values estimated as at December 31, 2021 and 2020.

The following methods and assumptions are used to estimate the fair values.

Forward exchange contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing using present value calculations. The models incorporate various inputs, including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying commodity.

The fair values of the Group's interest-bearing borrowings are determined using the discounted cash flow method. The discount rate used reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at December 31, 2021 and 2020 is determined to be insignificant.

C. Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- credit risk;
- liquidity risk and
- market risk.

(i) Risk management framework

The management of the Group's risks arising from financial instruments is performed on the basis of guidelines set by the Company's Board of Directors. The main purpose of these guidelines is to balance the Group's liabilities and assets, in order to ensure an adequate capital viability. The main financial sources of the Group are represented by a mix of equity and financial liabilities, including long-term borrowings used to finance investments, bank overdrafts and short-term borrowings used to finance the Group's working capital.

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(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in this note.

Impairment losses on financial assets recognised in profit or loss for the years ended December 31, 2021, 2020 and 2019 are related mainly to trade receivables and are as follows:

| | 2021 | 2020 | 2019 |
|--------------------------------------|------|-------|-------|
| Impairment loss on trade receivables | 110 | 1,802 | 2,389 |

The Group accrued an impairment loss on trade receivables of 110 as a result of an accrual of 728 accounted for some of its subsidiaries and a reversal of 618 accounted for other subsidiaries.

(ii-a) Trade receivables

The Group's customers are distributors, retailers and end consumers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in note 31.

Customer credit risk is managed on the basis of the Group's established policies, procedures and controls relating to customer credit risk management.

In particular, the Group has established a credit policy under which each customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. After such review, sale limits are established for each customer and reviewed periodically. Any sales exceeding those limits require approval from senior management. In response to the COVID-19 pandemic, management has also been performing more frequent reviews of sales limits for customers in regions and industries that are severely impacted. Specifically, in 2021 and 2020, certain sales limits have been closely and frequently monitored, and if necessary reduced, particularly for customers operating in certain countries (e.g., the US, Brazil, United Kingdom, France and Spain) because the Group's experience is that the COVID-19 pandemic has had a greater impact on customers in those countries than on customers in other countries or regions.

Furthermore, the Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period in the range of 30-90 days for individual customers. During the years ended December 31, 2021 and 2020, the Group temporarily extended the credit terms to up to 120 days for certain customers with liquidity constraints arising as a direct result of the COVID-19 pandemic. All extensions were granted within current sales limits after careful consideration of the impact of the COVID-19 pandemic on the creditworthiness of the customer and each customer that was granted an extension is closely monitored for credit deterioration. In order to mitigate credit risk, sales to distributors or retailers for which no payment extensions are granted due to an uncertain creditworthiness assessment, are required to be settled in cash ("cash against documents", "cash on delivery", "payment in advance"). Furthermore, sales to the end consumers are also required to be settled in cash or using major credit cards, thus mitigating the credit risk.

More than 80% of the Group's distributors and retailers have been transacting with the Group for at least five years, and none of these customers' balances have been written off or are credit-impaired at the reporting date. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, whether they are a distributor or retailer, their geographic location, industry, trading history with the Group and the existence of previous financial difficulties. In response to the COVID-19 pandemic, the Group divided some of these customer groups into subgroups when there was a significant difference in the way the pandemic impacted exposures in the customer group.

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The Group does not require collateral to be given for trade receivables. The Group does not have trade receivables for which no loss allowance is recognised because of collateral provided.

Management closely monitors the outstanding trade receivables to prevent losses.

Finally, in order to significantly reduce its exposure to credit risk, the Group insures the non-collection risk related to a significant portion of its trade receivables with a third party insurer and, in the case of customer insolvency, the insurance company refunds about 85% of the uncollected outstanding balances. Accordingly, the credit risk is entirely borne by the Group for non-insured trade receivables while it is only exposed to approximately 15% for insured trade receivables.

The Group evaluates the concentration of risk with respect to trade receivables and revenue as low, as its customers are located in several jurisdictions and operate in largely independent markets (see notes 15 and 31). Furthermore, as at December 31, 2021, 2020 and 2019, the Group had one customer, the joint venture Natuzzi Trading Shanghai, whose purchases exceeded 5% of revenue and trade receivables (see note 43). In particular, for such related party customer, the percentage of revenue and trade receivables are reported in the following tables.

| | 31/12/21 | 31/12/20 | 31/12/19 |
|-------------------|----------|----------|----------|
| Revenue | 48,457 | 38,401 | 36,442 |
| Trade receivables | 6,953 | 5,961 | 3,619 |

As at December 31, 2021 and 2020, insured and non-insured trade receivables are as follows:

| | 31/12/21 | 31/12/20 |
|---------------------------------|---------------|---------------|
| Insured trade receivables | 26,459 | 21,468 |
| Non-insured trade receivables | 20,125 | 20,347 |
| Gross trade receivables | 46,584 | 41,815 |
| Provision for doubtful accounts | (5,325) | (7,881) |
| Net trade receivables | 41,259 | 33,934 |

As at December 31, 2021 and 2020 the ageing of trade receivables is as follows:

| | 31/12/21 | 31/12/20 |
|---------------------------------|---------------|---------------|
| Current (not past due) | 30,146 | 28,919 |
| From 1 to 29 days past due | 7,854 | 3,877 |
| From 30 to 60 days past due | 1,030 | 1,105 |
| From 61 to 90 days past due | 355 | 347 |
| More than 90 days past due | 7,199 | 7,567 |
| Gross trade receivables | 46,584 | 41,815 |
| Provision for doubtful accounts | (5,325) | (7,881) |
| Net trade receivables | 41,259 | 33,934 |

The movements in the provision for doubtful accounts in respect of trade receivables for the years ended December 31, 2021 and 2020 are reported in note 15.

The provision for doubtful accounts is estimated by the Group based on the insurance in place, the credit worthiness of its customers, historical trends, as well as current and future general economic conditions.

Specifically, for receivables subject to collective valuation an impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The impairment allowance rates (default rates) are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating, and coverage by

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credit insurance). The calculation reflects the probability-weighted outcome based on reasonable and supportable information available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Instead, for individual receivables which are known to be difficult to collect an impairment analysis is performed at each reporting date to measure expected credit losses. The impairment allowance is estimated by the Group based on the financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or late payments.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix as at December 31, 2021 and 2020, further to the adoption of IFRS 9.

December 31, 2021

| | Days past due | | | | Total |
|---|---------------|------------|------------|-----------|--------|
| | <30 days | 30-60 days | 61-90 days | > 90 days | |
| Trade receivables subject to collective valuation | 15,783 | 266 | 6 | — | 16,055 |
| Trade receivables subject to specific valuation | | | | | 30,529 |
| Total gross carrying amount | | | | | 46,584 |
| Default rate | 0.54% | 5.55% | 12.71% | 28.86% | — |
| Expected credit loss | 85 | 15 | 1 | — | 101 |

December 31, 2020

| | Days past due | | | | Total |
|---|---------------|------------|------------|-----------|--------|
| | <30 days | 30-60 days | 61-90 days | > 90 days | |
| Trade receivables subject to collective valuation | 9,480 | 264 | 24 | 239 | 10,007 |
| Trade receivables subject to specific valuation | | | | | 31,808 |
| Total gross carrying amount | | | | | 41,815 |
| Default rate | 0.56% | 5.79% | 13.08% | 100.00% | |
| Expected credit loss | 53 | 15 | 3 | 239 | 310 |

(ii-b) Other receivables

As at December 31, 2021 and 2020 other receivables current and non-current amount to 15,872 and 13,197, respectively. Such receivables are considered to have a low credit risk and the impairment loss has been measured on a 12-months expected credit loss basis. Management considers its other receivables to have a low credit risk as they have a low risk of default and their counterparties are able to meet their contractual cash flow obligations in the short-term. As at December 31, 2021 and 2020 the identified impairment loss of other receivables is immaterial.

(ii-c) Cash and cash equivalents

As at December 31, 2021 and 2020 the Group has cash and cash equivalents of 53,472 and 48,187, respectively. Indeed, the Group considers its cash and cash equivalents to have a low credit risk based on the external credit ratings of the financial institutions. Indeed, the Group's cash and cash equivalents are held with financial institutions, which have external credit risk ratings that are equivalent to the understood definition of "investment grade". Impairment of cash and cash equivalents has been measured on a 12-months expected credit loss basis and reflects the short-term nature of the exposures. As at December 31, 2021 and 2020 the identified impairment loss of cash and cash equivalents is immaterial.

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(ii-d) Derivative financial instruments

Domestic currency swaps (see note 29) are entered into with financial institutions that have outstanding external credit ratings (“investment grade”). As at December 31, 2021 and 2020 the identified impairment loss of the favourable domestic currency swaps is immaterial.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Group aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities over the next 60 days. The Group also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. As at December 31, 2021, the expected cash flows from trade and other receivables maturing within two months were in excess of the expected cash outflows for trade and other payables due within two months. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

As described in note 26, the Group also participates in a supply chain financing arrangement (SCF) with the principal purpose of facilitating efficient payment processing of supplier invoices. The SCF allows the Group to centralise payments of trade payables to the bank rather than paying each supplier individually. While the SCF does not significantly extend payment terms beyond the normal terms agreed with other suppliers that have not participated, the arrangement assists in making cash outflows more predictable.

Therefore, the Group’s objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, short-term borrowings and long-term borrowings.

The steps taken by the Group in 2020 and 2021 to respond to possible future liquidity constraints arising from the COVID-19 pandemic and the impact of those steps on the consolidated financial statements include the following.

- In June 2020, the Parent signed a sale agreement with a third party for the disposal of the land located in the “Santeramo in Colle-Iesce” area, just a few miles away from its headquarters. The cash consideration received by the Parent for such disposal amounts to 2,800. Furthermore, if certain conditions included in this sale agreement are met, in the next year the Parent could receive additional consideration of about 2,500 from the acquirer (see note 8).
- In July 2020, the Parent signed the renewal for an additional five-year period of a factoring agreement with a major Italian financial institution. Under this agreement, the Parent assigns certain trade receivables to such financial institution in exchange for short-term borrowings for a maximum amount of 40,000. Trade receivables sold under such agreement are not derecognised from the statement of financial position, because the Parent retains substantially all of the risk and rewards – primarily credit risk (see note 15). The amount received on their transfer is recognised as a secured bank borrowing (see note 25). Under the original agreement signed in July 2015 which expired in July 2020, trade receivables were derecognised from the statement of financial position, because the Group did not retain substantially all of the risk and rewards.
- Following the “Share Sell and Purchase agreement” (the “Agreement”) signed with Vita Group on January 8, 2021, on March 1, 2021, the Parent sold its entire interest in the subsidiary IMPE S.p.A. for a consideration of approximately 6,100 plus certain customary purchase price adjustments of about 2,100. The cash consideration already received by the Parent at the date of the approval of these consolidated financial statements amounts to 8,202 (see note 7).
- In March, May and September 2021, the Parent sold to third parties two idle industrial real estate complexes located in the city of Altamura (Bari), just a few miles away from its headquarters (see note 7) and a site located in High Point (North Caroline, USA), for a total cash consideration of 4,254 (see note 8).

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- In March 2021, the Romanian subsidiary obtained a long-term loan from a financial institution, amounting to 5,000. This loan, which is guaranteed by a Romanian governmental authority, has been made available by the Romanian government as part of the COVID-19 measures to support businesses. Such loan has instalments repayable on a monthly basis starting from October 2021, after the six-month interest-only period, and ending in March 2025. This long-term debt provides for variable interest installments determined based on the six-month Euribor (360) plus a 2.75% spread (see note 19).
- In January 2022, the Parent obtained a long-term loan from a financial institution, amounting to 4,000. This loan, which is guaranteed by an Italian governmental authority, has been made available by the Italian government as part of the COVID-19 measures to support businesses. Such loan has installments repayable on a quarterly basis starting from January 2023, after the 12-month interest-only period, and ending in January 2028. This long-term debt provides for variable interest installments determined based on the six-month Euribor (360) plus a 2.20% spread.

The tables below summarize the remaining contractual maturities of financial liabilities as at December 31, 2021 and 2020. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

December 31, 2021

| | Less than 2 months | 2 to 12 months | 1 to 2 years | 2 to 5 years | More than 5 years | Total |
|--|-----------------------|-------------------|-----------------|-----------------|-------------------------|----------------|
| Long-term borrowings | 774 | 3,981 | 5,935 | 6,006 | 2,807 | 19,503 |
| Lease liabilities | 1,889 | 11,241 | 12,760 | 25,659 | 14,305 | 65,854 |
| Bank overdrafts and short-term borrowings | 36,147 | — | — | — | — | 36,147 |
| Trade and other payables | 31,453 | 89,215 | — | — | — | 120,668 |
| Losses on derivative financial instruments | 691 | — | — | — | — | 691 |
| Total financial liabilities | 70,954 | 104,437 | 18,695 | 31,665 | 17,112 | 242,863 |

December 31, 2020

| | Less than 2 months | 2 to 12 months | 1 to 2 years | 2 to 5 years | More than 5 years | Total |
|--|-----------------------|-------------------|-----------------|-----------------|----------------------|----------------|
| Long-term borrowings | 587 | 7,015 | 2,642 | 5,663 | 2,459 | 18,366 |
| Lease liabilities | 1,844 | 11,195 | 11,503 | 23,958 | 14,154 | 62,654 |
| Bank overdrafts and short-term borrowings | 30,812 | — | — | — | — | 30,812 |
| Trade and other payables | 28,269 | 74,263 | — | — | — | 102,532 |
| Losses on derivative financial instruments | 253 | — | — | — | — | 253 |
| Total financial liabilities | 61,765 | 92,473 | 14,145 | 29,621 | 16,613 | 214,617 |

As disclosed in note 19, the Group has secured bank loans that contain covenants. A future breach of covenants may require the Group to repay the loan earlier than indicated in the above table. Under the agreement, the covenants are monitored on a regular basis by the treasury department and regularly reported to management to ensure compliance with the agreement. The interest payments on variable interest rate loans in the tables above reflect market forward interest rates at the reporting date and these amounts may change as market interest rates change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

In addition, the following is to be considered: (a) as at December 31, 2021, the Group has unused credit lines of 14,947 (see note 25); (b) the Company can use the credit facilities of its subsidiaries adhering to the cash pooling contract in place; from time to time, the Company evaluates the adequacy of such credit facilities, requesting additional facilities as needed; (c) the Group holds cash at foreign subsidiaries, that can be withdrawn by the Company subject to the approval of a dividend distribution; some of these dividends are subject to withholding taxes; (d) the Company can apply for long-term borrowings

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to sustain long-term investments; (e) there are no significant liquidity risk concentrations, both on financial assets and on financial liabilities.

(iv) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (e.g., interest rates, foreign exchange rates). Market risk, mainly, depends on the trend of the demand for furniture and other finished products, the trend in prices of raw materials and the fluctuation of interest rates and foreign currencies.

The market demand risk is managed by way of a constant monitoring of markets, performed by the commercial division of the Group, market diversification in the different geographical locations of customers and a product diversification in the different brands and models.

In order to manage the prices of raw materials risk, the Group constantly monitors procurement policies and attempts to diversify suppliers while respecting the quality standards expected by the market.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowings obligations with floating interest rates. The Group manages its interest rate risk by having a portfolio of fixed and variable rate borrowings. As at December 31, 2021, approximately 46.4% of the Group's borrowings were at a fixed rate of interest (2020: 57.9%). No derivative financial instruments were entered into by the Group to manage the cash flow risk on floating interest-rate borrowings.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows:

| | Increase/decrease in basis points | Effect on profit before tax |
|-------------------|--|--|
| December 31, 2021 | +45 | (43) |
| December 31, 2021 | -45 | 43 |
| December 31, 2020 | +45 | (38) |
| December 31, 2020 | -45 | 38 |
| December 31, 2019 | +45 | (51) |
| December 31, 2019 | -45 | 51 |

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries. In particular, a significant portion of the Group's revenue and costs are denominated in currencies other than the Euro. Consequently, a significant portion of its revenue and costs is exposed to fluctuations in the exchange rates between the Euro and other currencies. The Group uses forward exchange contracts (known in Italy as domestic currency swaps) to reduce its exposure to the risks of short-term decreases in the value of its foreign currency denominated revenue. For further details, see note 29.

When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of the derivative to match the terms of the hedged exposure. For hedges of forecast transactions, the derivative covers the period of exposure from the

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point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable that is denominated in the foreign currency.

The following tables demonstrate the sensitivity to a reasonably possible change in foreign exchange rates, with all other variables held constant.

The Group's profit before tax is affected through the change in foreign in exchange rates as follows:

| | Change in foreign exchange rates | Effect on profit before tax |
|-------------------|-------------------------------------|--------------------------------|
| December 31, 2021 | +5% | 5,381 |
| December 31, 2021 | -5% | (5,113) |
| December 31, 2020 | +5% | 2,161 |
| December 31, 2020 | -5% | (2,447) |
| December 31, 2019 | +5% | 3,155 |
| December 31, 2019 | -5% | (3,486) |

As at December 31, 2021 and 2020 the Group's financial assets and financial liabilities denominated in foreign currency are as follows:

| | 31/12/21 | 31/12/20 |
|--|---------------|---------------|
| Financial assets | | |
| Trade receivables | 29,434 | 26,269 |
| Cash and cash equivalents | 48,014 | 44,611 |
| Total financial assets | 77,448 | 70,880 |
| Financial liabilities | | |
| Long-term borrowings | 611 | 692 |
| Lease liabilities | 37,643 | 35,927 |
| Bank overdraft and short-term borrowings | 24,783 | 18,547 |
| Trade payables | 35,524 | 28,064 |
| Total financial liabilities | 98,561 | 83,230 |

As at December 31, 2021 and 2020, the summary quantitative data about Group's exposure to currency risk as reported to the management of the Group is as follows:

December 31, 2021

| | Financial Assets (a) | Financial liabilities (b) | Net Exposure (c) = (a)-(b) |
|------------------|-------------------------|------------------------------|-------------------------------|
| U.S. dollars | 29,658 | 46,930 | (17,272) |
| Chinese Yuan | 18,927 | 14,192 | 4,735 |
| British pounds | 15,027 | 16,664 | (1,637) |
| Brazilian Reais | 4,334 | 2,435 | 1,899 |
| Canadian dollars | 2,263 | 1,290 | 973 |
| Mexican pesos | 1,395 | 1,883 | (488) |
| Romanian Leu | 666 | 7,934 | (7,268) |
| Other | 5,178 | 7,233 | (2,055) |
| Total | 77,448 | 98,561 | (21,113) |

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December 31, 2020

| | Financial Assets (a) | Financial liabilities (b) | Net Exposure (c) = (a)-(b) |
|------------------|-------------------------|------------------------------|-------------------------------|
| U.S. dollars | 26,464 | 35,295 | (8,831) |
| Chinese Yuan | 21,047 | 15,999 | 5,048 |
| British pounds | 13,110 | 16,845 | (3,735) |
| Brazilian Reais | 3,753 | 2,173 | 1,580 |
| Canadian dollars | 1,693 | 88 | 1,605 |
| Romanian Leu | 901 | 7,090 | (6,189) |
| Mexican pesos | 797 | 1,166 | (369) |
| Other | 3,115 | 4,574 | (1,459) |
| Total | 70,880 | 83,230 | (12,350) |

(v) Reconciliation of movements of liabilities to cash flows arising from financing activities

The following tables show the reconciliation of movements of financial liabilities to cash flows arising from financing activities for the three years ended December 31, 2021, 2020 and 2019.

December 31, 2021

| | Jan. 1, 2021 | Cash outflows | Cash inflows | Changes in fair value | Other changes | Dec. 31, 2021 |
|--|-----------------|------------------|-----------------|--------------------------------|------------------|------------------|
| Long-term borrowings | 16,426 | (4,788) | 5,873 | — | (72) | 17,439 |
| Lease liabilities | 53,593 | (10,090) | — | — | 13,635 | 57,138 |
| Short-term borrowings | 28,701 | — | 6,210 | — | 13 | 34,924 |
| Bank overdrafts | 2,111 | (888) | — | — | — | 1,223 |
| Non-controlling interests | 1,020 | (545) | 144 | — | 892 | 1,511 |
| Total liabilities from financing activities | 101,851 | (16,311) | 12,227 | — | 14,468 | 112,235 |

Bank overdrafts are used only for cash management purposes.

December 31, 2020

| | Jan. 1, 2020 | Cash outflows | Cash inflows | Changes in fair value | Other changes | Dec. 31, 2020 |
|--|-----------------|------------------|-----------------|-----------------------------|------------------|------------------|
| Long-term borrowings | 18,412 | (2,675) | 875 | — | (186) | 16,426 |
| Lease liabilities | 57,367 | (9,907) | — | — | 6,133 | 53,593 |
| Short-term borrowings | 22,196 | — | 6,518 | — | (13) | 28,701 |
| Bank overdrafts | 1,974 | — | 137 | — | — | 2,111 |
| Non-controlling interests | 1,692 | (388) | — | — | (284) | 1,020 |
| Total liabilities from financing activities | 101,641 | (12,970) | 7,530 | — | 5,650 | 101,851 |

Bank overdrafts are used only for cash management purposes.

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31 Revenue

(i) Revenue streams

The Group generates revenue primarily from the sale of leather and fabric upholstered furniture and home furnishing accessories to its customers. Other sources of revenue include sale of polyurethane foam, sale of leather-by products, sale of Natuzzi Display System and sale of Service Type Warranty.

Therefore, all the Group's revenue is related to revenue from contracts with customers.

(ii) Disaggregation of revenue from contracts with customers

In the following tables, revenue from contracts with customers are disaggregated by types of goods, primary geographical markets, geographical location of customers, distribution channels, brands and timing of revenue recognition.

| Types of goods | 2021 | 2020 | 2019 |
|-------------------------------------|----------------|----------------|----------------|
| Sale of upholstery furniture | 373,936 | 280,210 | 329,162 |
| Sale of home furnishing accessories | 39,803 | 33,325 | 39,623 |
| Sale of polyurethane foam | 7,660 | 6,848 | 9,665 |
| Sale of other goods | 5,976 | 7,960 | 8,512 |
| Total | 427,375 | 328,343 | 386,962 |

The sale of upholstery furniture includes the following categories: stationary furniture (sofas, loveseats and armchairs), sectional furniture, motion furniture, sofa beds and occasional chairs, including recliners and massage chairs.

| Geographical markets | 2021 | 2020 | 2019 |
|--------------------------------|----------------|----------------|----------------|
| Europe, Middle East and Africa | 197,584 | 165,025 | 183,794 |
| Americas | 157,373 | 99,383 | 137,665 |
| Asia-Pacific | 72,418 | 63,935 | 65,503 |
| Total | 427,375 | 328,343 | 386,962 |

| Geographical location of customers | 2021 | 2020 | 2019 |
|--|----------------|----------------|----------------|
| United States of America | 117,012 | 73,676 | 97,723 |
| Italy | 53,157 | 46,269 | 48,557 |
| China | 48,857 | 38,339 | 39,258 |
| United Kingdom | 45,864 | 36,463 | 39,416 |
| Spain | 15,864 | 13,039 | 14,846 |
| Brazil | 14,166 | 8,641 | 12,120 |
| Canada | 13,127 | 9,233 | 18,355 |
| Belgium | 9,250 | 7,281 | 7,809 |
| South Korea | 7,574 | 7,151 | 5,626 |
| Mexico | 7,509 | 4,829 | 6,117 |
| Australia | 6,335 | 6,867 | 8,668 |
| Switzerland | 5,280 | 3,783 | 5,643 |
| Israel | 5,236 | 3,997 | 4,022 |
| Japan | 3,993 | 5,320 | 4,829 |
| France | 3,856 | 5,975 | 8,493 |
| Other countries (none greater than 5%) | 70,295 | 57,480 | 65,480 |
| Total | 427,375 | 328,343 | 386,962 |

| Distribution channels | 2021 | 2020 | 2019 |
|--|----------------|----------------|----------------|
| Wholesale (distributors and retailers) | 359,021 | 274,070 | 320,263 |
| Directly operated stores (end consumers) | 68,354 | 54,273 | 66,699 |
| Total | 427,375 | 328,343 | 386,962 |

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| Brands | 2021 | 2020 | 2019 |
|------------------|----------------|----------------|----------------|
| Natuzzi Editions | 203,849 | 152,452 | 160,136 |
| Natuzzi Italia | 156,977 | 115,155 | 135,500 |
| Private label | 52,922 | 45,928 | 73,149 |
| Other | 13,627 | 14,808 | 18,177 |
| Total | 427,375 | 328,343 | 386,962 |

| Timing of revenue recognition | 2021 | 2020 | 2019 |
|--|----------------|----------------|----------------|
| Goods transferred at a point in time | 426,200 | 326,705 | 385,510 |
| Goods and services transferred over time | 1,175 | 1,638 | 1,452 |
| Total | 427,375 | 328,343 | 386,962 |

(iii) Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers.

| | 31/12/21 | 31/12/20 |
|--|----------|----------|
| Trade receivables | 41,259 | 33,934 |
| Trade receivables included in “assets held for sale” | — | 1,304 |
| Contract liabilities | 28,202 | 24,183 |

Reference should be made to note 15 “Trade receivables”, note 7 “Assets held for sale” and note 22 “Contract liabilities (non-current and current)” for details about such contract balances.

(iv) Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in the customer contract. The Group recognises revenue when it transfers control over a good or service to a customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it controls the goods or services before transferring them to the customer.

In determining the transaction price for its contracts with customers, the Group considers the effects of variable consideration and the existence of significant financing components.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. The allocation of the transaction price to the Group’s performance obligations is performed using the relative stand-alone selling price method.

For detailed information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms and related revenue recognition policies, see note 4(t).

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The transaction price allocated to the remaining performance obligations (partially unsatisfied) as at December 31, 2021 and 2020 is as follows:

| | 31/12/21 | 31/12/20 |
|---|--------------|--------------|
| Sale of the license for Natuzzi trademarks | | |
| Within a year | 383 | 383 |
| More than a year | 5,960 | 6,343 |
| Total | 6,343 | 6,726 |
| Sale of Natuzzi Display System | | |
| Within a year | 1,009 | 1,183 |
| More than a year | 1,169 | 1,430 |
| Total | 2,178 | 2,613 |
| Sale of Service-Type Warranties | | |
| Within a year | 199 | 266 |
| More than a year | 276 | 260 |
| Total | 475 | 526 |

(v) Variable considerations

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of furniture provide customers with volume discounts, which give rise to variable consideration.

In particular, the Group provides retrospective volume discounts to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Discounts are offset against amounts payable by the customer. Accumulated experience is used to estimate and provide for the discounts, using the expected value method. A refund liability is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

(vi) Financing components

For information about financing components, reference should be made to note 4(t)(vi).

(vii) Warranty obligations

The Group typically provides warranties for general repairs of defects that existed at the time of sale, as required by law.

Customers who purchase the Group's upholstered furniture and home furnishings accessories may require a service-type warranty. As disclosed in note 4(t)(v), the Group allocates a portion of the consideration received to the service-type warranty, based on the relative stand-alone selling price. The amount allocated to the service-type warranty is deferred, and is recognised as revenue over the time based on the validity period of such warranty.

These warranties are accounted for under IAS 37. Refer to the accounting policy on warranty provision in note 4(r).

(viii) Cost to obtain a contract

The Group pays sales commission to its agents for each contract that they obtain. For information about the accounting policy elected by the Group on sales commissions, reference should be made to note 4(x).

(ix) Fulfillment costs

The Group accounts for shipping and handling costs related to activities before the customer obtains control of the finished goods as fulfillment costs under the caption "Other assets" of the consolidated statement of financial position. For information about the accounting policy applied by the Group for shipping and handling costs, reference should be made to note 4(v).

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32 Cost of sales

Cost of sales is analysed as follows:

| | 2021 | 2020 | 2019 |
|----------------------------------|----------------|----------------|----------------|
| Opening inventories | 63,909 | 69,685 | 84,227 |
| Purchases of raw materials | 161,625 | 105,643 | 122,728 |
| Purchases of finished products | 23,169 | 15,161 | 16,477 |
| Labour costs | 80,346 | 71,937 | 86,209 |
| Depreciation and amortisation | 7,895 | 10,144 | 11,709 |
| Third party manufacturers costs | 2,172 | 2,829 | 3,919 |
| Other manufacturing costs | 15,922 | 14,853 | 17,810 |
| Government grants related to PPE | (1,252) | (1,192) | (1,463) |
| Closing inventories | (80,211) | (63,909) | (69,685) |
| Total | 273,575 | 225,151 | 271,931 |

The line item “Depreciation and amortisation” includes the depreciation expenses of property plant and equipment and right-of-use assets used in the production of finished goods. The depreciation expenses amount to 7,895, 10,144 and 11,709 for the years ended December 31, 2021, 2020 and 2019, respectively.

33 Other income and other expenses

Other income is analysed as follows:

| | 2021 | 2020 | 2019 |
|--|--------------|--------------|--------------|
| Gain on disposal of certain items of property | 2,105 | — | — |
| VAT relief | 1,395 | 755 | 1,216 |
| Reimbursements | 580 | 498 | 519 |
| Release of provisions for contingent liabilities | — | 100 | 332 |
| Other | 2,334 | 2,529 | 3,095 |
| Total | 6,414 | 3,882 | 5,162 |

As reported in further detail in note 8, during 2021, the Group sold two idle industrial real estate complexes located in the city of Altamura (Bari, Italy) and a site located in High Point (North Caroline, USA), recognising a total gain of 1,748. The remaining gain of 357 refers to other disposals.

During 2021, 2020 and 2019 the Brazilian subsidiary obtained a VAT relief of 1,395, 755 and 1,216, respectively, connected to local tax rules on VAT payments.

During 2021, 2020 and 2019, the Company recorded reimbursements of 580, 498 and 519, respectively, related to the positive outcome of litigation started in previous years.

During 2021, 2020 and 2019, the Company released provisions for legal claims by nil, 100 and 332, respectively, further to the positive settlement of some legal disputes with third parties.

Other expenses include some minor costs incurred by the Group and not related to cost of sales, selling and administrative expenses.

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34 Selling expenses

Selling expenses are analysed as follows:

| | 2021 | 2020 | 2019 |
|--------------------------------------|----------------|---------------|----------------|
| Shipping and handling costs | 54,672 | 28,749 | 35,513 |
| Labour costs | 24,241 | 20,077 | 23,782 |
| Depreciation and amortisation | 11,819 | 12,441 | 11,805 |
| Customs duties | 10,614 | 6,958 | 9,261 |
| Commissions to sales representatives | 7,503 | 5,403 | 8,393 |
| Advertising expenses | 5,576 | 4,837 | 7,145 |
| Utilities | 2,668 | 2,149 | 2,457 |
| Insurance costs | 1,293 | 1,421 | 1,291 |
| Impairment of non-financial assets | 1,188 | 2,450 | — |
| Fairs | 807 | 591 | 1,864 |
| Samples | 687 | 582 | 519 |
| Leases | 607 | 483 | 649 |
| COVID-19 government grants | (299) | (1,534) | — |
| COVID-19 rent concessions | (1,515) | (1,799) | — |
| Other | 1,770 | 1,710 | 2,571 |
| Total | 121,631 | 84,518 | 105,250 |

Due to the adoption of “COVID-19-Related Rent Concessions - Amendment to IFRS 16” issued on 28 May 2020 (see note 5(A)), the Group recognised lease incentives of 1,515 and 1,799 as a reduction of the selling expenses for the year ended December 31, 2021 and 2020, respectively.

During 2021 and 2020, the Group received COVID-19 grants from certain governments, including the US, as part of the actions to provide assistance to entities in the current conditions caused by the COVID-19 pandemic.

35 Administrative expenses

Administrative expenses are analysed as follows:

| | 2021 | 2020 | 2019 |
|------------------------------------|---------------|---------------|---------------|
| Labour costs | 17,342 | 15,578 | 19,060 |
| Professional services costs | 3,690 | 4,409 | 4,761 |
| Indirect taxes | 3,617 | 2,354 | 2,261 |
| Directors and audit committee fees | 1,868 | 736 | 831 |
| Office and software maintainance | 1,784 | 1,502 | 1,385 |
| Depreciation and amortisation | 1,657 | 1,580 | 1,585 |
| Travel expenses | 1,388 | 868 | 2,226 |
| Mail and Phone | 519 | 523 | 622 |
| Printing and Stationery | 354 | 278 | 381 |
| Government grants related to PPE | (54) | (49) | (163) |
| Other | 1,137 | 1,665 | 1,077 |
| Total | 33,302 | 29,444 | 34,026 |

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36 Finance income and costs

Finance income is analysed as follows:

| | 2021 | 2020 | 2019 |
|---|------------|------------|------------|
| Interest income from financial institutions | 39 | 171 | 121 |
| Other interest income | 186 | 146 | 279 |
| Total | 225 | 317 | 400 |

Finance costs are analysed as follows:

| | 2021 | 2020 | 2019 |
|---|--------------|--------------|--------------|
| Interest expenses due to financial institutions | 1,857 | 1,803 | 2,864 |
| Interests expenses related to lease liabilities | 2,584 | 2,613 | 2,635 |
| Other interest expenses | 276 | 1,546 | 431 |
| Financial institution commissions | 2,069 | 1,869 | 1,998 |
| Total | 6,786 | 7,831 | 7,928 |

37 Net exchange rate gains/(losses)

Net exchange rate gains/(losses) are analysed as follows:

| | 2021 | 2020 | 2019 |
|---|----------------|----------------|----------------|
| Net realised gains/(losses) on derivative instruments | (1,428) | 317 | (737) |
| Net realised gains/(losses) on trade receivables and payables | 4,612 | (2,793) | 1,600 |
| Total net realised gains/(losses) (a) | 3,184 | (2,476) | 863 |
| Net unrealised gains/(losses) on derivative instruments | (454) | 486 | (638) |
| Net unrealised gains/(losses) on trade receivables and payables | (144) | (1,507) | (531) |
| Net unrealised gains/(losses) on non-monetary assets | (720) | (404) | (2,034) |
| Total net unrealised gains/(losses) (b) | (1,318) | (1,425) | (3,203) |
| Total realised and unrealised exchange rate gains/(losses) (a+b) | 1,866 | (3,901) | (2,340) |

“Net unrealised gains/(losses) on non-monetary assets” refers to the remeasurement of non-monetary assets of the subsidiaries Italsofa Romania and Natuzzi China (only for 2019), since such entities have the same functional currency of the Parent, namely the Euro (see note 4(c)(ii)).

38 Income tax expense

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

| | 2021 | 2020 | 2019 |
|---------------------|--------|--------|--------|
| IRES (state tax) | 24.00% | 24.00% | 24.00% |
| 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.

IRAP is a regional tax and each Italian region has the power to increase the current rate of 3.90% by a maximum of 0.92%. 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 interest expense and other financial costs). The enacted IRAP tax rate due in Puglia region for 2021, 2020 and 2019 is 4.82% (3.90% plus 0.92%).

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(Expressed in thousands of euros except as otherwise indicated)

Total income taxes for the years ended December 31, 2021, 2020 and 2019 are allocated as follows:

| | 2021 | 2020 | 2019 |
|----------------------|----------------|----------------|----------------|
| Current: | | | |
| - Domestic | (2,116) | (2,221) | (585) |
| - Foreign | (3,170) | (1,545) | (1,400) |
| Total (a) | (5,286) | (3,766) | (1,985) |
| Deferred: | | | |
| - Domestic | — | 430 | (387) |
| - Foreign | 897 | (1,005) | 37 |
| Total (b) | 897 | (575) | (350) |
| Total (a + b) | (4,389) | (4,341) | (2,335) |

Consolidated profit/(loss) before income taxes and Non-controlling interests of the consolidated statement of profit or loss for the years ended December 31, 2021, 2020 and 2019, is analysed as follows:

| | 2021 | 2020 | 2019 |
|--------------|--------------|-----------------|-----------------|
| Domestic | (1,551) | (17,049) | (24,808) |
| Foreign | 10,325 | (3,516) | (6,537) |
| Total | 8,774 | (20,565) | (31,345) |

The effective income taxes differ from the expected income tax expense (computed by applying the IRES state tax, which is 24% for 2021, 2020 and 2019, to profit before income taxes and non-controlling interests) as follows:

| | 2021 | 2020 | 2019 |
|--|----------------|----------------|----------------|
| Expected tax benefit (expense) at statutory tax rates | (2,106) | 4,936 | 7,523 |
| Effect of: | | | |
| - Tax exempt income | 2,320 | 4,806 | 3,297 |
| - Aggregate effect of different tax rates in foreign jurisdictions | 191 | 322 | (139) |
| - Italian regional tax | (78) | (24) | (78) |
| - Non-deductible expenses | (5,152) | (5,575) | (4,521) |
| - Tax effect on unremitted earnings | (515) | (1,024) | (430) |
| - Non taxable gain from disposal of a subsidiary | 1,057 | — | — |
| - Chinese withholding tax on income not recoverable | (699) | (1,396) | (139) |
| - Effect of net change in deferred tax assets unrecognised | 593 | (6,386) | (7,848) |
| Actual tax charge | (4,389) | (4,341) | (2,335) |

In 2021, the Group reported a profit before tax of 8,774 and income tax expense of 4,389 (for a tax rate of 50.0%), compared to a loss before tax of 20,565 and income tax expense of 4,341 in 2020, and a loss before tax of 31,345 and income tax expense of 2,335 in 2019.

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities as at December 31, 2021 and 2020 are presented below:

| Deferred tax assets | 31/12/21 | 31/12/20 |
|--------------------------------------|--------------|--------------|
| Inventories obsolescence | 633 | 354 |
| Provision for contingent liabilities | 466 | 379 |
| Other temporary differences | 174 | 12 |
| Intercompany profit on inventories | 22 | 1,278 |
| Total deferred tax assets | 1,295 | 2,023 |

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(Expressed in thousands of euros except as otherwise indicated)

| Deferred tax liabilities | 31/12/21 | 31/12/20 |
|--|----------------|----------------|
| Withholding tax on unremitted earnings of subsidiaries | (516) | (1,024) |
| Withholding tax on liquidation of subsidiaries | (482) | — |
| Deferred revenue (IFRS 15) | — | (984) |
| Unrealised net gains on foreign exchange rate | (258) | (376) |
| Other temporary differences | (149) | (131) |
| Total deferred tax liabilities | (1,405) | (2,515) |

Movements in deferred tax balances occurred during 2019, 2020 and 2021 are analysed as follows:

| | Def. tax assets | Def. tax liabilities | Total |
|--|-----------------|----------------------|--------------|
| Balance as at December 31, 2018 | 2,027 | (1,594) | 433 |
| Recognised in profit or loss | (53) | (297) | (350) |
| Recognised in OCI | — | — | — |
| Recognised directly in equity | — | — | — |
| Balance as at December 31, 2019 | 1,974 | (1,891) | 83 |
| Recognised in profit or loss | 49 | (624) | (575) |
| Recognised in OCI | — | — | — |
| Recognised directly in equity | — | — | — |
| Balance as at December 31, 2020 | 2,023 | (2,515) | (492) |
| Recognised in profit or loss | (728) | 1,110 | 382 |
| Recognised in OCI | — | — | — |
| Recognised directly in equity | — | — | — |
| Balance as at December 31, 2021 | 1,295 | (1,405) | (110) |

The following tables show the reconciliation of deferred tax assets and deferred tax liabilities with the balances included in the consolidated statements of financial position as at December 31, 2021 and 2020.

| | 31/12/21 | 31/12/20 |
|--------------------------------------|------------|------------|
| Deferred tax assets | 1,295 | 2,023 |
| Deferred tax liabilities compensated | (409) | (1,492) |
| Net deferred tax assets | 886 | 531 |
| Deferred tax liabilities | (996) | (1,024) |

As at December 31, 2021, deferred tax assets recognised are mainly related to inventories obsolescence and provisions for contingent liabilities and inventories obsolescence both of them recorded by some subsidiaries.

In assessing the reliability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realised. The ultimate realisation 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 utilised. Given the cumulative loss position of the domestic companies and of some of foreign subsidiaries as at December 31, 2021 and 2020, management has considered the scheduled reversal of deferred tax liabilities and tax planning strategies, in making their assessment. After an analysis as at December 31, 2021 and 2020, management has not identified any relevant tax planning strategies prudent and feasible available to recognise the deferred tax assets. Therefore, as at December 31, 2021 and 2020 the realisation of the deferred tax assets is primarily based on the scheduled reversal of deferred tax liabilities, except in certain historically profitable jurisdictions.

Based upon this analysis, management believes that the Natuzzi Group will realise the deferred tax assets of 1,295 as at December 31, 2021 (2,023 as at December 31, 2020).

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As at December 31, 2021 and 2020 deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

| <u>Unrecognised deferred tax assets</u> | <u>31/12/21</u> | | <u>31/12/20</u> | |
|--|---------------------|-------------------|---------------------|-------------------|
| | <u>Gross Amount</u> | <u>Tax effect</u> | <u>Gross Amount</u> | <u>Tax effect</u> |
| Tax loss carry-forwards | 368,779 | 88,328 | 396,763 | 97,107 |
| Provision for contingent liabilities | 12,231 | 2,888 | 14,311 | 3,695 |
| Inventory obsolescence | 11,985 | 2,560 | 9,952 | 2,480 |
| Allowance for doubtful accounts | 6,810 | 1,540 | 11,006 | 2,547 |
| Intercompany profit on inventories | 5,676 | 1,614 | 5,958 | 439 |
| Provision for warranties | 3,117 | 898 | 3,646 | 1,051 |
| Impairment of non-financial assets | 3,989 | 1,018 | 3,318 | 967 |
| Goodwill and intangible assets | 692 | 48 | 680 | 196 |
| IAS 19 adjustment - employees' leaving entitlement | 1,807 | 434 | 1,806 | 433 |
| Deferred costs | 45 | 9 | 2,866 | 822 |
| Other temporary differences | 8,997 | 1,398 | 7,744 | 992 |
| Total unrecognised deferred tax assets | 424,128 | 100,735 | 458,050 | 110,729 |

As at December 31, 2021 and 2020, taxes that will be due on the distribution of the portion of shareholders' equity equal to unremitted earnings of some subsidiaries are 1,051 and 507, respectively. Of these deferred taxes, the Group recognized in 2021 the amount of 576 on the share of the aforementioned retained earnings, as it is likely they will be distributed as dividends by the subsidiaries in the coming years.

As at December 31, 2021 and 2019 the tax losses carried-forward of the Group expire as follows:

| | <u>2021</u> | <u>Expire date</u> | <u>2020</u> | <u>Expire date</u> |
|-------------------------|----------------|--------------------|----------------|--------------------|
| Expire in five years | 6,207 | 2022-2026 | 7,421 | 2021-2025 |
| Expire after five years | 3,257 | > 2026 | 4,902 | > 2025 |
| Never expire | 359,316 | — | 384,440 | — |
| Total | 368,780 | | 396,763 | |

In Italy all tax losses carried-forward no longer expire, with the only limitation being that such tax losses carried-forward can be utilised to off-set a maximum of 80% of the taxable income in each following year.

The income tax payable recorded as at December 31, 2021 and 2020 is 2,740 and 1,134, respectively. Whereas, the current income tax receivable recorded as at December 31, 2021 and 2020 is 2,032 and 1,255, respectively. Of the Group's income tax payable, 300 (2020: nil) relates to management's estimation of the amount for the ongoing tax review of the Parent, which the Italian tax authority commenced in October 2020. The uncertain tax treatment relates to the interpretation of how the tax legislation applies to the Group's transfer pricing arrangements. Due to the uncertainty involved, there is a possibility that the outcome of such tax review may be significantly different to the amount currently recognised. Although management has used a single best estimate of the tax amount expected to be paid, it is anticipated that the reasonably possible outcome of current tax liabilities sits within a range between 200 and 400.

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

The Company operates in many foreign jurisdictions. With no material exceptions, the Company and its major subsidiaries located in Romania and China are no longer subject to examination by tax authorities for years prior to 2017.

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39 Earnings/(loss) per share

Basic and diluted earnings/(loss) per share is analysed as follows:

| | 2021 | 2020 | 2019 |
|--|------------|------------|------------|
| Weighted average number of ordinary shares | 54,853,045 | 54,853,045 | 54,853,045 |
| Basic earnings/(losses) per share | 0.07 | (0.45) | (0.61) |
| Diluted earnings/(losses) per share | 0.07 | (0.45) | (0.61) |

Basic earnings/(loss) per share is calculated by dividing earnings/(loss) for the year, attributable to ordinary equity holders of the Parent Company, by the weighted average number of ordinary shares outstanding during the year.

The weighted-average number of ordinary shares equals the number of ordinary shares issued as at December 31, 2021, 2020 and 2019 since there have been no transactions involving ordinary shares both in 2021, 2020 and 2019.

Diluted earnings/(loss) per share as at December 31, 2021, 2020 and 2019 equals the basic earnings/(loss) per share, since the Parent Company has not issued any financial instruments convertible to ordinary shares, and there are therefore no dilutive impacts.

On February 8, 2019 the Company announced a change in the ratio of its American Depositary Receipts (ADRs) to ordinary shares, from 1 ADR representing 1 share to 1 ADR representing 5 shares. The effective date of the ratio change was February 21, 2019. No new shares have been issued in connection with the ratio change.

40 Expenses by nature

The following tables show the expenses by nature for the years ended December 31, 2021, 2020 and 2019 as required by IAS 1.104.

| | 2021 | 2020 | 2019 |
|---|----------------|----------------|----------------|
| Changes in inventories | (16,302) | 5,776 | 14,542 |
| Purchases of raw materials | 161,625 | 105,643 | 122,728 |
| Purchases of finished products | 23,169 | 15,161 | 16,477 |
| Services costs | 100,656 | 68,613 | 91,526 |
| Employee benefits expenses | 121,929 | 107,592 | 129,051 |
| Depreciation and amortisation, net of government grants | 20,065 | 22,924 | 23,487 |
| Other | 17,366 | 13,404 | 13,396 |
| Total cost of sales, selling and administrative expenses | 428,508 | 339,113 | 411,207 |

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The following tables show in which caption is included the depreciation and amortisation, net of government grants.

| | 2021 | 2020 | 2019 |
|--|---------------|---------------|---------------|
| Included in cost of sales | | | |
| Depreciation of property, plant and equipment | 5,970 | 6,846 | 7,867 |
| Depreciation of right-of-use assets | 1,923 | 3,290 | 3,842 |
| Amortisation of intangible assets | 2 | 8 | 14 |
| Government grants | (1,252) | (1,192) | (1,463) |
| Total (a) | 6,643 | 8,952 | 10,260 |
| Included in selling expenses | | | |
| Depreciation of property, plant and equipment | 2,285 | 2,665 | 2,721 |
| Depreciation of right-of-use assets | 9,534 | 9,776 | 9,084 |
| Amortisation of intangible assets | — | — | — |
| Total (b) | 11,819 | 12,441 | 11,805 |
| Included in administrative expenses | | | |
| Depreciation of property, plant and equipment | 320 | 371 | 381 |
| Depreciation of right-of-use assets | 249 | 310 | 301 |
| Amortisation of intangible assets | 1,088 | 899 | 903 |
| Government grants | (54) | (49) | (163) |
| Total (c) | 1,603 | 1,531 | 1,422 |
| Total depreciation and amortisation (a+b+c) | 20,065 | 22,924 | 23,487 |

The following tables show in which caption is included the employee benefits expenses.

| | 2021 | 2020 | 2019 |
|---|----------------|----------------|----------------|
| Included in cost of sales | | | |
| Salaries and wages | 58,552 | 48,514 | 60,756 |
| Social security contributions | 14,696 | 12,138 | 17,251 |
| Employees' leaving entitlement | 3,493 | 4,915 | 3,704 |
| Other costs | 3,605 | 6,370 | 4,498 |
| Total (a) | 80,346 | 71,937 | 86,209 |
| Included in selling expenses | | | |
| Salaries and wages | 19,359 | 15,912 | 18,736 |
| Social security contributions | 3,512 | 3,059 | 3,800 |
| Employees' leaving entitlement | 492 | 542 | 557 |
| Other costs | 878 | 564 | 689 |
| Total (b) | 24,241 | 20,077 | 23,782 |
| Included in administrative expenses | | | |
| Salaries and wages | 12,666 | 11,272 | 13,725 |
| Social security contributions | 3,012 | 2,717 | 3,502 |
| Employees' leaving entitlement | 619 | 605 | 664 |
| Other costs | 1,045 | 984 | 1,169 |
| Total (c) | 17,342 | 15,578 | 19,060 |
| Total employee benefits expenses (a+b+c) | 121,929 | 107,592 | 129,051 |

During 2021 and 2020, the Group benefitted from the salary and wage subsidy programme introduced by the governments of Italy and other countries as part of support measures extended to manufacturers in response to the COVID-19 pandemic for the loss of revenue. Such governmental measure allowed the Group to pay temporarily laid off workers and employees a reduced salary or wage for a certain period, starting from March 2020 and until December 31, 2021. Such benefits received by the Group for the years ended December 31, 2021 and 2020 amount approximately to 6,980 and 13,600, respectively, and they were recorded as a reduction in the labour costs included in the cost of sales, selling expenses and administrative expenses.

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41 Adjusted earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA)

Management supplementally presents the performance measure Adjusted EBITDA because it monitors this performance measure at a consolidated level and it believes that this measure is relevant to an understanding of the Group's financial performance. Adjusted EBITDA is calculated by adjusting profit or loss from continuing operations to exclude the impact of taxation, net finance income/(costs), depreciation, amortisation, government grants only related to depreciation of property, plant and equipment (PPE) and share of profit of equity-method investees.

Adjusted EBITDA is not a defined performance measure in IFRS. The Group's definition of Adjusted EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

The following tables show the reconciliation of Adjusted EBITDA to profit/(loss) for the years ended December 31, 2021, 2020 and 2019.

| | 2021 | 2020 | 2019 |
|---|---------------|-----------------|-----------------|
| Profit/(loss) for the year | 4,385 | (24,906) | (33,680) |
| Income tax expense | 4,389 | 4,341 | 2,335 |
| Profit/(loss) before tax | 8,774 | (20,565) | (31,345) |
| Adjustments for: | | | |
| - Addition (subtraction) of net finance income/(costs) | (331) | 11,415 | 9,868 |
| - Addition (subtraction) of share of profit/(loss) equity-method inv. | (3,561) | (1,455) | (1,011) |
| - Addition of depreciation | 20,281 | 23,258 | 24,196 |
| - Addition of amortisation | 1,090 | 907 | 917 |
| - Subtraction of government grants related to PPE | (1,306) | (1,241) | (1,626) |
| Adjusted EBITDA | 24,947 | 12,319 | 999 |

42 Commitments and contingent liabilities

As at December 31, 2021, the Group is not committed to investing in significant property, plant and equipment, intangibles assets and other capital expenditure.

Certain financial institutions have provided guarantees as at December 31, 2021 to secure payments to third parties amounting to 4,988 (5,341 as at December 31, 2020). These guarantees are unsecured and have various maturities extending through April 30, 2026.

The Group is involved in a number of 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 provisions accrued, will not have a material adverse effect on the Group's consolidated financial position or results of operations (see note 23).

43 Related parties

Related parties of the Group include mainly associates and joint ventures of the Group and the Group's key management personnel.

The following tables provide the total amount of transactions that have been entered into with related parties for the relevant financial year.

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(i) Compensation of key management personnel of the Group

The compensation of key management personnel of the Group is analysed as follows:

| | 2021 | 2020 | 2019 |
|--|--------------|--------------|--------------|
| Directors' fee | 511 | 412 | 400 |
| Short-term employee benefits | 1,934 | 2,026 | 1,704 |
| Social security contributions and defined contribution plans | 692 | 634 | 563 |
| Employee benefit obligations | 132 | 137 | 118 |
| Total | 3,269 | 3,209 | 2,785 |

The amounts disclosed in the tables are the amounts recognised as an expense during the reporting period related to key management personnel. No loans and/or guarantees have been provided for or agreed to with key management personnel.

(ii) Transactions with directors of the Group

The aggregate value of transactions and outstanding balances related to directors were as follows.

| | 2021 | | 2020 | | 2019 | |
|--|-----------|-------------|------------|-------------|------------|-------------|
| | Cost | Amounts due | Cost | Amounts due | Cost | Amounts due |
| Legal services | 86 | — | 392 | — | 32 | — |
| Consultancy fees for business strategy | — | — | — | — | 133 | — |
| Total | 86 | — | 392 | — | 165 | — |

The Parent used the legal services of BonelliErede law firm, of which one of the Parent's director is a partner, mainly for assistance with management advisory and with the request for a long-term loan and the sale of certain non-current assets, for a total fee amounting to 86, 392 and 32 for the years ended December 31, 2021, 2020 and 2019, respectively. Amounts were billed based on market rates for such services and were due and payable under normal payment terms.

Furthermore, the Parent used the consultancy services of a former Director for assistance about business strategy, for a total fee amounting to 133 for the year ended December 31, 2019. Amounts were billed based on market rates for such services and were due and payable under normal payment terms.

For the advance of 2,500 for the future capital increase received from the Parent's majority shareholder and Chairman, see note 27.

In January 2021, the Parent sold 7% of Natuzzi Singapore PTE. LTD. to a related party. This transaction was executed through a 1,300 capital injection by the related party into this subsidiary, increasing its share capital, in exchange for the 7% interest. Following the completion of such capital increase, the Parent has a 93% stake in Natuzzi Singapore. Furthermore, the transaction was also undertaken to increase the Parent's sales of finished goods in the Asian-Pacific countries other than China.

From time to time, Directors of the Group, or their related entities, may buy goods from the Group. These purchases are made on the same terms and conditions as those entered into by the Group's other employees or customers.

(iii) Transactions with associates, joint ventures and other related parties

The following tables provide the total amount of transactions that have been entered into with such related parties for the relevant financial year. Such transactions have been conducted at arm's length.

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December 31, 2021

| | Sales | Expenses | Dividends received | Amounts owed by related parties | Amounts due to related parties |
|---|---------------|----------|--------------------|---------------------------------|--------------------------------|
| Natuzzi Trading Shanghai Co, Ltd. (joint venture) | 48,457 | — | 1,490 | 6,953 | — |
| Nars Miami LLCC (associate) | 806 | — | 254 | 123 | — |
| Natuzzi Texas LLC (joint venture) | — | — | — | — | — |
| Natuzzi Stores (UK) LTD (associate) | — | — | — | — | — |
| Natuzzi Design S.a.s. | 1,820 | — | — | 710 | — |
| Natuzzi Arredamenti S.r.l. | 989 | — | — | 191 | — |
| Natuzzi Sofa S.r.l. | 232 | — | — | 51 | — |
| NA.FO. S.r.l. | — | — | — | — | — |
| Total | 52,304 | — | 1,744 | 8,028 | — |

December 31, 2020

| | Sales | Expenses | Dividends received | Amounts owed by related parties | Amounts due to related parties |
|---|---------------|----------|--------------------|---------------------------------|--------------------------------|
| Natuzzi Trading Shanghai Co, Ltd. (joint venture) | 38,401 | 9 | 2,335 | 5,961 | — |
| Nars Miami LLCC (associate) | 406 | — | — | 27 | — |
| Natuzzi Design S.a.s. | 1,734 | — | — | 888 | — |
| Natuzzi Arredamenti S.r.l. | 827 | — | — | 279 | — |
| Natuzzi Sofa S.r.l. | 238 | — | — | 47 | — |
| NA.FO. S.r.l. | — | — | — | — | — |
| Total | 41,606 | 9 | 2,335 | 7,202 | — |

December 31, 2019

| | Sales | Expenses | Dividends received | Amounts owed by related parties | Amounts due to related parties |
|---|---------------|------------|--------------------|---------------------------------|--------------------------------|
| Natuzzi Trading Shanghai Co, Ltd. (joint venture) | 36,442 | 124 | — | 3,619 | 124 |
| Nars Miami LLCC (associate) | 646 | — | — | 169 | — |
| Natuzzi Design S.a.s. | 1,686 | — | — | 1,013 | — |
| Natuzzi Arredamenti S.r.l. | 842 | — | — | 367 | — |
| Natuzzi Sofa S.r.l. | 249 | — | — | 67 | — |
| Total | 39,865 | 124 | — | 5,235 | 124 |

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash within three months of the reporting date. None of the balances are secured. No guarantees have been given or received.

To support the activities of such joint ventures and associates, the Group and the other investors in these entities have agreed to make additional contributions in proportion to their interests to make up any losses, if required.

There are no borrowings received from or given to the above joint ventures, associates and other related parties, for the years ended December 31, 2021, 2020 and 2019.

Natuzzi S.p.A. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

44 Subsequent events

The following events have occurred in the period between the reporting date and the date of authorisation of these consolidated financial statements.

In August 2021, the Parent has entered into a “Subscription and Shareholders Agreement” (the “Agreement”) with Truong Thanh Furniture Corporation (“TTF”), a company incorporated under the laws of the Republic of Vietnam and which is engaged in production and distribution of furniture, to form a partnership aimed at strengthening the Group’s operations in the “Asia-Pacific” (APAC) region, excluding Greater China (the “Rest of the APAC Territory”). Based on such agreement, TTF will acquire up to a 20% stake in the Group’s subsidiary Natuzzi Singapore, which is engaged in sales and distribution of furniture and upholstery products under the trademarks of the Group in the Rest of the APAC Territory. Subject to certain terms and conditions set forth in this agreement and to obtaining the applicable authorizations by the relevant authorities, it is expected that such acquisition of the interest in Natuzzi Singapore by TTF will be carried out in the first months of 2022. In 2022, TTF obtained the relevant authorizations from the competent authorities and on March 28, 2022 made the payment of US \$ 5,357 (equivalent to 4,885) by subscribing shares equal to 20% of the subsidiary Natuzzi Singapore. Pursuant to this Agreement, the Parent maintains a majority of the board members of Natuzzi Singapore.

In January 2022, the Parent obtained a long-term loan from a financial institution, amounting to 4,000. This loan, which is guaranteed by an Italian governmental authority, has been made available by the Italian government as part of the COVID-19 measures to support businesses. Such loan has installments repayable on a quarterly basis starting from January 2023, after the 12-month interest-only period, and ending in January 2028. This long-term debt provides for variable interest installments determined based on the six-month Euribor (360) plus a 2.20% spread.

ITEM 19. EXHIBITS

- 1.1 [English translation of the by-laws \(*Statuto*\) of the Company, as amended and restated as of January 24, 2008 \(incorporated by reference to Exhibit 1.1 to the Form 20-F filed by Natuzzi S.p.A. with the Securities Exchange Commission on June 30, 2008, file number 001-11854\).](#)
- 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 \(incorporated by reference to the Form 20-F filed by Natuzzi S.p.A. with the Securities and Exchange Commission on April 30, 2019, file number 001-11854\).](#)
- 2.2 [Description of Securities registered under Section 12 of the Exchange Act \(incorporated by reference to Exhibit 2.2. to the Form 20-F filed by Natuzzi S.p.A. with the Securities and Exchange Commission on June 15, 2020, file number 001-11854\).](#)
- 4.1[^] [English translation of the Joint Venture Contract between Natuzzi S.p.A. and Jason Furniture \(Hangzhou\) CO., Ltd., dated March 22, 2018 \(incorporated by reference to Exhibit 4.8 to the Form 20-F filed by Natuzzi S.p.A. with the Securities and Exchange Commission on April 30, 2018, file number 001-11854\).](#)
- 4.2 [English summary of the agreement between the Company and INVEST 2003 S.r.l. dated February 28, 2020 \(incorporated by reference to Exhibit 4.12 to the Form 20-F filed by Natuzzi S.p.A. with the Securities and Exchange Commission on June 15, 2020, file number 001-11854\).](#)
- 4.3 [English translation of the New Framework Agreement for Assignment of Receivables between Natuzzi S.p.A. and Muttley S.r.l., dated July 22, 2020 \(incorporated by reference to Exhibit 4.13 to the Form 20-F filed by Natuzzi S.p.A. with the Securities and Exchange Commission on April 30, 2021, file number 001-11854\).](#)
- 4.4[†] [Sale and Purchase Agreement between Natuzzi S.p.A. and Vita Italia S.r.l., dated January 8, 2021 \(incorporated by reference to Exhibit 4.14 to the Form 20-F filed by Natuzzi S.p.A. with the Securities and Exchange Commission on April 30, 2021, file number 001-11854\).](#)
- 4.5^{*+} [English translation of the agreements among the Company, certain trade unions, Italian authorities and the individuals therein related to the Solidarity Facility, dated November 4 and November 5, 2021.](#)
- 4.6^{*+} [English translation of the agreement among the Company, certain trade unions, Italian authorities and the individuals therein related to the CIGS, dated February 13, 2022.](#)
- 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 Accounting 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.](#)
- 101^{*} XBRL Instance Document and related items.
- 101.INS^{*} Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
- 101.SCH^{*} Inline XBRL Taxonomy Extension Schema Document.
- 101.CAL^{*} Inline XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF^{*} Inline XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB^{*} Inline XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE^{*} Inline XBRL Taxonomy Extension Presentation Linkbase Document.
- 104^{*} Cover Page Interactive Data File (embedded within the Inline XBRL document).

* Filed herewith

† Portions of this exhibit (indicated by asterisks) have been omitted pursuant to Regulation S-K, Item 601(b)(10).

[^] Confidential treatment has been granted for certain portions of this exhibit. These portions have been omitted and filed separately with the SEC.

+ Schedules to this exhibit have been omitted pursuant to the Instructions as to Exhibits of Form 20-F.

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/ Antonio Achille

Name: Antonio Achille

Title: Chief Executive Officer

Date: May 2, 2022

Exhibit 4.5



SOLIDARITY AGREEMENT

On 4 November 2021, in Bari, at 10.30 a.m. and thereafter, at the Conference Hall of the Hotel Excelsior in Bari, the following trade unions organizations and trade union representatives meet – at the invitation of Natuzzi S.p.A. – in order to conduct the joint examination of the possibility of concluding, pursuant to Article 21(5) of Legislative Decree No. 148/2015, a solidarity agreement to avail of solidarity short-time work scheme payments under Article 21(1)(c) of Legislative Decree No. 148/2015. The following are present and have participated in the discussion:

Natuzzi S.p.A., represented by Messrs. Mario de Gennaro, Domenico Massaro and Maria Patrizia Ragazzo, assisted by Giuseppe Bisceglie of the Bari | Barletta-Andria-Trani chapter of the Confederation of Italian Industry (Confindustria Bari Bat) and by E. Claudio Schiavone.

The trade union organizations, the unitary trade union representative body (RSU) and the single trade union representative bodies (RSA), in the form of the national trade unions **FILLEACGIL, FILCACISL, FENEAL UIL, FILCAMS CGIL, FISASCAT CISL** and **UILTUCS UIL**, represented by Messrs. Tatiana Fazi, Claudio Sottile, Fabrizio Pascucci, Barbara Neglia, Marco Demurtas, and Antonio Vargiu, together with the Puglia regional and local branches, the Bari, Matera and Taranto local branches, as well as the unitary trade union and single trade union representative bodies of the Puglia and Basilicata production units and offices (as per the annex).

The Parties set out in the exordium hereto have engaged in discussion and joint examination following Natuzzi S.p.A.'s letter of 19 October 2021 on “Initiation of consultation and discussion for a company-wide collective bargaining agreement pursuant to Article 21(5) of Legislative Decree No. 148/2015 and Article 51 of Legislative Decree No. 81/2015”.

Whereas

- Natuzzi S.p.A., with headquarters at Via Iazzitiello 47 in Santeramo in Colle (VAT No. 03513760722), is the leading Italian company in the furniture industry.
- For social security purposes the Company is classified in the industrial sector.
- The Company's workforce totalled 1,957 employees as of 30 October 2021 (excluding executives) and consisted of the following:

| | |
|-----------------------------------|-------|
| (7) first-line managers | 96 |
| (8) office / intermediate workers | 449 |
| (9) factory workers | 1,412 |

The following are applied to the employees:

- (10) the National Collective Bargaining Agreement for employees of companies in the Wood and Furniture sector as regards 1,618 workers;
- (11) the National Collective Bargaining Agreement for employees of companies in the Tertiary, Distribution and Services sector as regards 339 workers.

This workforce is divided into the following production units as shown in the table below:

1. Iesce 1-Matera (MT) - Via Appia Antica s.c. Km. 13,500;
2. Iesce 2 -Santeramo in Colle (RA) - SS 271 for Matera - Km. 50,200;
3. Laterza (TA) - Contrada Madonna delle Grazie sn;
4. La Martella and FactoryOutlet - Matera (MT) – Zona Industriale La Martella;
5. Santeramo in Colle (BA) Experimental Lab., F&E, R&D, Maintenance and Offices - Via Iazzitiello 47;
6. Altamura Graviscella - Altamura (BA) Via Graviscella z.i.;
7. Milan (MI) - Via Durini.

And broken down by category as per the table below:

| Production Unit | Address | FIRST-LINE MANAGERS | OFFICE WORKERS | INTERMEDIATE WORKERS | FACTORY WORKERS | Total |
|-------------------------|--|--------------------------------|---------------------------|---------------------------------|----------------------------|--------------|
| Santeramo in Colle (BA) | Via Iazzitiello 47 | 87 | 283 | 14 | 93 | 477 |
| Santeramo in Colle (BA) | SS 271 for Matera Km 50,200 | 1 | 9 | 14 | 259 | 283 |
| Milan (MI) | Via Durini 24 | 3 | 4 | | | 7 |
| Matera (MT) | Via Appia Antica S.C. Km 13,500 | 2 | 3 | 9 | 185 | 199 |
| Matera (MT) | Industrial Zone Locality La Martella | 1 | 15 | 4 | 75 | 95 |
| Laterza (TA) | C.da Madonna delle Grazie | 2 | 22 | 28 | 380 | 432 |
| Altamura | Graviscella | | 15 | 29 | 420 | 464 |
| Total | | 96 | 351 | 98 | 1,412 | 1,957 |

- In a letter dated 19 October 2021 the Company convened the trade union organizations in order to carry out the prescribed discussion aimed at reaching a collective agreement that is a prerequisite for the application to avail of payments under a special short-time work scheme (CIGS) following the signing of a ‘defensive’ solidarity agreement pursuant to Article 21(1)(c) of Legislative Decree No. 148/2015.
- During the meeting the Company reiterated that it is strongly committed to industrial and commercial initiatives aimed at increasing competitiveness and strengthening its position on the market and consequently maintaining employment levels.
- The Company has pointed out that, despite the actions already taken as described above in executing the previous Business Plan and the associated agreements and investments, there are still major issues of competitiveness and product quality compared to the objectives set. This is due to the fact that, pending the implementation of the previous Business Plan, unforeseeable cyclical, commercial and health factors arose with economic effects that could potentially undermine the Company’s survival on the market.
- On the basis of the new Business Plan, which takes account of the factors that have arisen and that could not be foreseen in the previous one, the Group intends to keep pursuing its policy of strengthening the brand throughout the world by developing a commercial network aimed at increasing sales of its Italian output.
- For this reason the Company has confirmed that, with a view to relaunching production and gradually solving structural overstaffing, it has prepared the new Business Plan to be developed in accordance with the following guidelines:

1. refocusing of the organization to enhance the global value of the brands with recognition, in the value chain for the consumer, of the special knowledge and know-how of the places of production and related workers and craftsmanship of the Natuzzi brands;
 2. strong investment in retail, both directly-owned stores and franchising, in order to support a growth in sales and so-called ‘awareness’, i.e. the conscious sharing by the consumer of the Company’s values;
 3. rightsizing, i.e. organizational reorganization with the reskilling of internal human resources and the hiring of professionals with the missing skills that cannot be acquired through retraining processes;
 4. boosting of e-commerce as part of a multi-channel approach;
 5. regaining of competitiveness through investments in production sites, including for Natuzzi Italia output, in accordance with the new logic of Factory 4.0;
 6. redesign of the organizational processes as part of a Lean Organization approach, in the wake also of a specific and detailed analysis carried out on the matter;
 7. strengthening of corporate social responsibility initiatives with particular reference to issues of safety in the workplace, environmental protection and the welfare of workers, as always in a logic of general sustainability of the business.
- Within the framework of the dialogue and discussions that have been underway for some time with institutions and social partners, the Company has set itself the objective of avoiding traumatic solutions, in order to manage overstaffing through recourse to social safety net measures and tools supporting restructuring programs.

The Company proceeded to explain why achievement of the objectives of the Plan necessarily entails the reorganization, modification and upgrading of the processes of the Corporate/Office component in parallel with significant investments on the industrial side, all functional to redesigning the production lay out in accordance with the above mentioned logic of Factory 4.0 (cellular manufacturing).

The checkering-style upgrading of the production plants in order to achieve the foregoing aims will make it necessary to suspend production lines for the time strictly necessary for the reorganization/construction of the new facilities. From that standpoint the use of the social safety net measures outlined here becomes essential in order to ensure, without traumatic solutions or negative repercussions on local employment levels, the management of the human resources that will be surplus to requirements in the implementation of the process of change.

Moreover, these factors must be combined with the current unpredictability of the world supply chain that at this historical point in time is encountering significant operational disruption that inevitably

affects the competitiveness of the businesses and the continuity of plant operations, to the detriment of projected output. In fact, these past few months it has already been necessary to suspend the activities of part of the production plants and/or entire factories following delays and/or failures in the supply chain due to international shortages or transport problems. Unfortunately, those events are not circumscribed and/or have not ceased and at present it does not seem likely that they will be overcome in the short to medium term.

There is also the pandemic to contend with, a pandemic that is still in full flow and renders the future uncertain from the point of view of safeguarding employment.

- Therefore, the new Business Plan presupposes – for the completion of the program and the progressive reabsorption of the excess workforce – recourse to a short-time work scheme on foot of a solidarity agreement pursuant to Article 21(5) of Legislative Decree No. 148/2015 for a minimum time frame of 24 months.
- Consequently, it is necessary, for the reasons explained above, on the expiry of **the Solidarity Agreement** on the scheduled date of **6 November 2021**, to **sign a new solidarity agreement to accompany the Company through this delicate transition phase**. Failure to do so would result in a situation whereby **595 FTE workers**, between manufacturing/logistics and offices, would be structurally surplus to requirements.

Therefore, the Parties agree as follows:

- a) The recitals shall form an integral part of this Agreement.
- b) Natuzzi S.p.A. will apply to the Ministry of Labour – pursuant to Article 21 of Legislative Decree No. 148/2015 – to avail of special short-time work scheme payments on foot of a ‘defensive’ solidarity agreement for 24 months from 8 November 2021 to 7 November 2023 that may cover a maximum of 1,489 workers in the organizational and production units located in the Provinces of Bari, Matera, Taranto and Milan, specified below.

| Production Unit | Address | FIRST-LINE MANAGERS | OFFICE WORKERS | INTERMEDIATE WORKERS | FACTORY WORKERS | Total |
|-------------------------|---------------------------------|----------------------------|-----------------------|-----------------------------|------------------------|--------------|
| Santeramo in Colle (BA) | Via Iazzitiello 47 | 87 | 283 | 14 | 93 | 477 |
| Santeramo in Colle (BA) | SS 271 per Matera Km 50,200 | 1 | 9 | 14 | 259 | 283 |
| Milan (MI) | Via Durini 24 | 1 | 2 | | | 3 |
| Matera (MT) | Via Appia Antica S.C. Km 13,500 | 2 | 3 | 9 | 185 | 199 |
| Matera (MT) | Zona Industriale La Martella | 1 | 15 | 4 | 75 | 95 |
| Laterza (TA) | C.da Madonna delle Grazie | 2 | 22 | 28 | 380 | 432 |
| Total | | 94 | 334 | 69 | 992 | 1,489 |

* *

- c) Accordingly, the payments will be required for the duration of 24 months in light of the above.
- d) The reduction in working hours, compared with an average weekly working time of 40 hours, will be structured on a monthly basis and will entail an average reduction in working hours corresponding to 595 full-time equivalents, meaning a 40% reduction considering the number of potential workers affected equal to 1,489.
- e) Without prejudice to the average reduction of 40% in working hours, the maximum individual reduction will be implemented in such a way as to ensure compliance with the percentage set by Legislative Decree No. 148/2015 consisting of an average per capita reduction of 70% over the period that the payments are made.
- f) In the event of suspensions of work in individual production units that involve a portion of the workforce characterized – within the Company’s own organizational chart – by the same level and qualifications, the Company will proceed to distribute the hourly reduction under this Solidarity Agreement in such a way as to ensure homogeneous reduction mechanisms during the period of the Plan.
- g) Having regard to technical, organizational and production needs, including with reference to the current global supply chain situation and the trend of the flow of orders compared to market demand, taking into account the specific needs of individual Plants/Departments/Areas and in order to guarantee essential services, the Parties agree that different solutions may be required within the framework of the overall average reduction, both in vertical form (single days) and in horizontal form (hourly reduction on a daily basis). The above in relation to production rationalization and the needs of the various departments, in terms of productivity, quantity, quality and specific product features and in order to ensure adequate flexibility, rapid reaction times and manufacturing balance. A different hourly work schedule may be considered for personnel deemed to be irreplaceable due

to the specific skills that they possess in relation to their jobs or for personnel who cannot be replaced by colleagues of a similar level and with similar qualifications.

- h) The Parties acknowledge that in view of the organization of work, the system adopted is the only one possible from a technical standpoint and that the suspension of work and/or reduction of working hours, as agreed above, makes it possible to limit redundancies and make better use of the personnel. During the evaluation meetings, a discussion will be held with the social partners after the launch of the solidarity program and information will be provided on the distribution of the suspension of work and/or reduction of working hours on a horizontal and vertical basis, on the basis of and in accordance with technical, organizational, production and logistical requirements, order flows, the need for balance and the specific nature of each plant/department/area.
- i) With reference to the provisions of Article 21(5) of Legislative Decree No. 148/2015, the Parties expressly agree that, in the event of temporary needs for more work or replacement, without prejudice to the commensurate reduction in the short-time work scheme payments received, the working hours may be increased or the application of the social safety net measures may be temporarily suspended. Any such change shall be notified to the unitary trade union and single trade union representative bodies as well as to the Ministry of Labour and the National Social Security Institution (INPS) pursuant to Article 4 of Ministerial Decree No. 94033 of 13 January 2016.
- j) Any overtime work, in exceptional circumstances, will be subject to specific consultation with the unitary trade union representative body and trade union organizations.
- k) As a result of the above reduction in working hours, any direct, indirect and deferred remuneration as well as contractual and/or statutory benefits will be determined and paid in proportion to actual work performance in accordance with applicable law. With regard to statutory severance pay (TFR), the provisions of Article 21(5) of Legislative Decree No. 148/2015 will apply.
- l) The Company undertakes to advance the amount payable by INPS, quantified in accordance with the instructions issued by INPS. That amount will be equal to the short-time work scheme payment due as determined by law on the basis of the percentage of salary lost as a result of the reduction in working hours, subject to subsequent adjustment after the prescribed authorizations.
- m) In order to streamline inspections and make them more efficient, the Company will request that it be authorized to centralize them at the Bari local labour inspectorate (ITL).
- n) The measures set out in the program presented by the Company will be the subject matter of specific meetings between the Parties at the Company's offices, normally every two months or upon request, in order to assess the management of the Solidarity Agreement and developments in the Company's situation.

- o) The list of names of employees covered by the Solidarity Agreement application is attached hereto and forms an integral part hereof.
- p) In order to facilitate the reabsorption of the structurally excess workforce during the term of the Solidarity Agreement, alternative forms of managing it will also be assessed, through voluntary incentives, including steps aimed at meeting retirement requirements, support for entrepreneurship projects, redeployment within the framework of business plans for diversification of production, and permanent part-time agreements.

By signing these minutes the Parties acknowledge that they have concluded the joint examination and have reached the agreement referred to in Article 21(5) of Legislative Decree No. 148 of 2015 and have, by signing these minutes, remedied any formal defect.

Read, confirmed and signed

The Company
/SS/[ILLEGIBLE]

Trade Union Organizations
/SS/[ILLEGIBLE]

RSU
/SS/[ILLEGIBLE]

SOLIDARITY AGREEMENT

On 5 November 2021, in Bari, at 10.30 a.m. and thereafter, at the headquarters of the Bari | Barletta-Andria-Trani chapter of the Confederation of Italian Industry (Confindustria Bari Bat) in Bari, the following trade unions organizations and trade union representatives meet – at the invitation of Natuzzi S.p.A. – in order to conduct the joint examination of the possibility of concluding, pursuant to Article 21(5) of Legislative Decree No. 148/2015, a solidarity agreement to avail of solidarity short-time work scheme payments under Article 21(1)(c) of Legislative Decree No. 148/2015. The following are present and have participated in the discussion:

Natuzzi S.p.A., represented by Dr. Mario de Gennaro and Dr. Maria Patrizia Ragazzo, assisted by Giuseppe Bisceglie of the Bari | Barletta-Andria-Trani chapter of the Confederation of Italian Industry (Confindustria Bari Bat).

AND

- Confederation Cobas-Cobas of Private Work, represented by Dr. Felice Dileo;
 - Trade Union of Base Private Work, represented by Pierpaolo Corallo;
- together with the unitary trade union representative body (RSU) of Ginosa and the single trade union representative bodies (RSA) Cobasa Santeramo Corporate.

The Parties set out in the exordium hereto have engaged in discussion and joint examination following Natuzzi S.p.A.'s letter of 19 October 2021 on “Initiation of consultation and discussion for a company-wide collective bargaining agreement pursuant to Article 21(5) of Legislative Decree No. 148/2015 and Article 51 of Legislative Decree No. 81/2015”.

Whereas

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- For social security purposes the Company is classified in the industrial sector.
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3. Laterza (TA) - Contrada Madonna delle Grazie sn;
4. La Martella and FactoryOutlet - Matera (MT) – Zona Industriale La Martella;
5. Santeramo in Colle (BA) Experimental Lab., F&E, R&D, Maintenance and Offices - Via Iazzitiello 47;
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And broken down by category as per the table below:

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| Matera (MT) | Via Appia Antica S.C. Km 13,500 | 2 | 3 | 9 | 185 | 199 |
| Matera (MT) | Industrial Zone Locality La Martella | 1 | 15 | 4 | 75 | 95 |
| Laterza (TA) | C.da Madonna delle Grazie | 2 | 22 | 28 | 380 | 432 |
| Altamura | Graviscella | | 15 | 29 | 420 | 464 |
| Total | | 96 | 351 | 98 | 1,412 | 1,957 |

- In a letter dated 19 October 2021 the Company convened the trade union organizations in order to carry out the prescribed discussion aimed at reaching a collective agreement that is a prerequisite for the application to avail of payments under a special short-time work scheme (CIGS) following the signing of a ‘defensive’ solidarity agreement pursuant to Article 21(1)(c) of Legislative Decree No. 148/2015.
- During the meeting the Company reiterated that it is strongly committed to industrial and commercial initiatives aimed at increasing competitiveness and strengthening its position on the market and consequently maintaining employment levels.

- The Company has pointed out that, despite the actions already taken as described above in executing the previous Business Plan and the associated agreements and investments, there are still major issues of competitiveness and product quality compared to the objectives set. This is due to the fact that, pending the implementation of the previous Business Plan, unforeseeable cyclical, commercial and health factors arose with economic effects that could potentially undermine the Company's survival on the market.
- On the basis of the new Business Plan, which takes account of the factors that have arisen and that could not be foreseen in the previous one, the Group intends to keep pursuing its policy of strengthening the brand throughout the world by developing a commercial network aimed at increasing sales of its Italian output.
- For this reason the Company has confirmed that, with a view to relaunching production and gradually solving structural overstaffing, it has prepared the new Business Plan to be developed in accordance with the following guidelines:
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 2. strong investment in retail, both directly-owned stores and franchising, in order to support a growth in sales and so-called 'awareness', i.e. the conscious sharing by the consumer of the Company's values;
 3. rightsizing, i.e. organizational reorganization with the reskilling of internal human resources and the hiring of professionals with the missing skills that cannot be acquired through retraining processes;
 4. boosting of e-commerce as part of a multi-channel approach;
 5. regaining of competitiveness through investments in production sites, including for Natuzzi Italia output, in accordance with the new logic of Factory 4.0;
 6. redesign of the organizational processes as part of a Lean Organization approach, in the wake also of a specific and detailed analysis carried out on the matter;
 7. strengthening of corporate social responsibility initiatives with particular reference to issues of safety in the workplace, environmental protection and the welfare of workers, as always in a logic of general sustainability of the business.
- Within the framework of the dialogue and discussions that have been underway for some time with institutions and social partners, the Company has set itself the objective of avoiding traumatic solutions,

in order to manage overstaffing through recourse to social safety net measures and tools supporting restructuring programs.

The Company proceeded to explain why achievement of the objectives of the Plan necessarily entails the reorganization, modification and upgrading of the processes of the Corporate/Office component in parallel with significant investments on the industrial side, all functional to redesigning the production lay out in accordance with the above mentioned logic of Factory 4.0 (cellular manufacturing).

The checkering-style upgrading of the production plants in order to achieve the foregoing aims will make it necessary to suspend production lines for the time strictly necessary for the reorganization/construction of the new facilities. From that standpoint the use of the social safety net measures outlined here becomes essential in order to ensure, without traumatic solutions or negative repercussions on local employment levels, the management of the human resources that will be surplus to requirements in the implementation of the process of change.

Moreover, these factors must be combined with the current unpredictability of the world supply chain that at this historical point in time is encountering significant operational disruption that inevitably affects the competitiveness of the businesses and the continuity of plant operations, to the detriment of projected output. In fact, these past few months it has already been necessary to suspend the activities of part of the production plants and/or entire factories following delays and/or failures in the supply chain due to international shortages or transport problems. Unfortunately, those events are not circumscribed and/or have not ceased and at present it does not seem likely that they will be overcome in the short to medium term.

There is also the pandemic to contend with, a pandemic that is still in full flow and renders the future uncertain from the point of view of safeguarding employment.

- Therefore, the new Business Plan presupposes – for the completion of the program and the progressive reabsorption of the excess workforce – recourse to a short-time work scheme on foot of a solidarity agreement pursuant to Article 21(5) of Legislative Decree No. 148/2015 for a minimum time frame of 24 months.
- Consequently, it is necessary, for the reasons explained above, on the expiry of **the Solidarity Agreement** on the scheduled date of **6 November 2021**, to **sign a new solidarity agreement to accompany the Company through this delicate transition phase**. Failure to do so would result in a situation whereby **595 FTE workers**, between manufacturing/logistics and offices, would be structurally surplus to requirements.

Therefore, the Parties agree as follows:

- a) The recitals shall form an integral part of this Agreement.
- b) Natuzzi S.p.A. will apply to the Ministry of Labour – pursuant to Article 21 of Legislative Decree No. 148/2015 – to avail of special short-time work scheme payments on foot of a ‘defensive’ solidarity agreement for 24 months from 8 November 2021 to 7 November 2023 that may cover a maximum of 1,489 workers in the organizational and production units located in the Provinces of Bari, Matera, Taranto and Milan, specified below.

| Production Unit | Address | FIRST-LINE MANAGERS | OFFICE WORKERS | INTERMEDIATE WORKERS | FACTORY WORKERS | Total |
|-------------------------|---------------------------------|----------------------------|-----------------------|-----------------------------|------------------------|--------------|
| Santeramo in Colle (BA) | Via Iazzitiello 47 | 87 | 283 | 14 | 93 | 477 |
| Santeramo in Colle (BA) | SS 271 per Matera Km 50,200 | 1 | 9 | 14 | 259 | 283 |
| Milan (MI) | Via Durini 24 | 1 | 2 | | | 3 |
| Matera (MT) | Via Appia Antica S.C. Km 13,500 | 2 | 3 | 9 | 185 | 199 |
| Matera (MT) | Zona Industriale La Martella | 1 | 15 | 4 | 75 | 95 |
| Laterza (TA) | C.da Madonna delle Grazie | 2 | 22 | 28 | 380 | 432 |
| Total | | 94 | 334 | 69 | 992 | 1,489 |

* *

- c) Accordingly, the payments will be required for the duration of 24 months in light of the above.
- d) The reduction in working hours, compared with an average weekly working time of 40 hours, will be structured on a monthly basis and will entail an average reduction in working hours corresponding to 595 full-time equivalents, meaning a 40% reduction considering the number of potential workers affected equal to 1,489.
- e) Without prejudice to the average reduction of 40% in working hours, the maximum individual reduction will be implemented in such a way as to ensure compliance with the percentage set by Legislative Decree No. 148/2015 consisting of an average per capita reduction of 70% over the period that the payments are made.
- f) In the event of suspensions of work in individual production units that involve a portion of the workforce characterized – within the Company’s own organizational chart – by the same level and qualifications, the Company will proceed to distribute the hourly reduction under this Solidarity Agreement in such a way as to ensure homogeneous reduction mechanisms during the period of the Plan.

- g) Having regard to technical, organizational and production needs, including with reference to the current global supply chain situation and the trend of the flow of orders compared to market demand, taking into account the specific needs of individual Plants/Departments/Areas and in order to guarantee essential services, the Parties agree that different solutions may be required within the framework of the overall average reduction, both in vertical form (single days) and in horizontal form (hourly reduction on a daily basis). The above in relation to production rationalization and the needs of the various departments, in terms of productivity, quantity, quality and specific product features and in order to ensure adequate flexibility, rapid reaction times and manufacturing balance. A different hourly work schedule may be considered for personnel deemed to be irreplaceable due to the specific skills that they possess in relation to their jobs or for personnel who cannot be replaced by colleagues of a similar level and with similar qualifications.
- h) The Parties acknowledge that in view of the organization of work, the system adopted is the only one possible from a technical standpoint and that the suspension of work and/or reduction of working hours, as agreed above, makes it possible to limit redundancies and make better use of the personnel. During the evaluation meetings, a discussion will be held with the social partners after the launch of the solidarity program and information will be provided on the distribution of the suspension of work and/or reduction of working hours on a horizontal and vertical basis, on the basis of and in accordance with technical, organizational, production and logistical requirements, order flows, the need for balance and the specific nature of each plant/department/area.
- i) With reference to the provisions of Article 21(5) of Legislative Decree No. 148/2015, the Parties expressly agree that, in the event of temporary needs for more work or replacement, without prejudice to the commensurate reduction in the short-time work scheme payments received, the working hours may be increased or the application of the social safety net measures may be temporarily suspended. Any such change shall be notified to the unitary trade union and single trade union representative bodies as well as to the Ministry of Labour and the National Social Security Institution (INPS) pursuant to Article 4 of Ministerial Decree No. 94033 of 13 January 2016.
- j) Any overtime work, in exceptional circumstances, will be subject to specific consultation with the unitary trade union representative body and trade union organizations.
- k) As a result of the above reduction in working hours, any direct, indirect and deferred remuneration as well as contractual and/or statutory benefits will be determined and paid in proportion to actual work performance in accordance with applicable law. With regard to statutory severance pay (TFR), the provisions of Article 21(5) of Legislative Decree No. 148/2015 will apply.

- l) The Company undertakes to advance the amount payable by INPS, quantified in accordance with the instructions issued by INPS. That amount will be equal to the short-time work scheme payment due as determined by law on the basis of the percentage of salary lost as a result of the reduction in working hours, subject to subsequent adjustment after the prescribed authorizations.
- m) In order to streamline inspections and make them more efficient, the Company will request that it be authorized to centralize them at the Bari local labour inspectorate (ITL).
- n) The measures set out in the program presented by the Company will be the subject matter of specific meetings between the Parties at the Company's offices, normally every two months or upon request, in order to assess the management of the Solidarity Agreement and developments in the Company's situation.
- o) The list of names of employees covered by the Solidarity Agreement application is attached hereto and forms an integral part hereof.
- p) In order to facilitate the reabsorption of the structurally excess workforce during the term of the Solidarity Agreement, alternative forms of managing it will also be assessed, through voluntary incentives, including steps aimed at meeting retirement requirements, support for entrepreneurship projects, redeployment within the framework of business plans for diversification of production, and permanent part-time agreements.

By signing these minutes the Parties acknowledge that they have concluded the joint examination and have reached the agreement referred to in Article 21(5) of Legislative Decree No. 148 of 2015 and have, by signing these minutes, remedied any formal defect.

Read, confirmed and signed

The Company
/SS/[ILLEGIBLE]

Trade Union Organizations
/SS/[ILLEGIBLE]

RSU/RSA
/SS/[ILLEGIBLE]



RECORD OF AGREEMENT

Trade Union Consultation

pursuant to Articles 24 and 22-ter of Legislative Decree No. 148 of 14 September 2015

At 10 a.m. on the 8th day of the month of February in the year 2022, further to a request for trade union consultation pursuant to Article 24 of Legislative Decree No. 148/2015 sent by the Company Natuzzi S.p.A. and the subsequent calling of a meeting by the Chairman of the Monitoring Committee for the Economic Production System and Crisis Areas (SEPAC) of the Puglia Region, Leo Caroli, who chairs and coordinates the remotely-held meeting with the technical support of the secretary Savino Del Mastro, the following parties meet:

- the Puglia Region Monitoring Committee for the Economic Production System and Crisis Area: represented by the Chairman Leo Caroli and members Paolo Di Schiena, Basile Stefano and Rocco Santochirico;
- the Industrial Crisis Areas Section: represented by Elisabetta Biancolillo;
- the Puglia Regional Agency for Active Labour Policies (ARPAL): represented by Nicola Trisolini and Antonio Catella;
- Natuzzi S.p.A.: represented by Mario de Gennaro, Director of Human Resources and Legal WW, Maria Patrizia Ragazzo, for Trade Union Relations and HRBP Italy Manufacturing, and Leonardo Lamanna, as HR Operational and Labor Cost, assisted by Mr. Giuseppe Bisceglie of the Bari | Barletta-Andria-Trani chapter of the Confederation of Italian Industry (Confindustria Bari Bat) and the legal advisor Claudio Enrico Schiavone;
- the UIL Puglia trade union: represented by Andrea Torna;
- the FENEAL UIL trade union: represented by Fabrizio Pascucci, Mino Paolicelli and Saverio Loiudice;

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- the FILCA CISL trade union: represented by Claudio Sottile, Margherita Dell’Otto and Antonio Delle Noci;
- the FILLEA CGIL trade union: represented by Tatiana Fazi, Fernando Mega and Ignazio Marcello Savino;
- the FILCAMS CGIL trade union: represented by Barbara Neglia and Antonio Miccoli;
- the FISASCAT CISL trade union: represented by Maria Ruta;
- the USB Puglia trade union: represented by Pier Paolo Corallo;
- the COBAS-LP trade union: represented by Felice Dileo;
- all the local branches and unitary trade union representative bodies (RSU) / single trade union representative bodies (RSA) for FENEAL UIL, FILCA CISL, FILLEA CGIL, FILCAMS CGIL and the single trade union representative bodies for FISASCAT CISL, Puglia USB and Puglia COBAS.

Today’s meeting concerns the consultation initiated by the Company for the carrying out of the joint examination and the consequent application for a 12-month extension – pursuant to Article 22-ter of Legislative Decree No. 148/2015 – to the special short-time work scheme (CIGS) for business reorganization purposes in place at the Altamura Graviscella (BA) production unit, which currently has a workforce of 463 employees following the consensual termination, pending the consultation, of the employment contract of one employee.

The Parties conclude today’s discussions with the following outcome.

Whereas

- (17) The social safety net measures under the special short-time work scheme for business reorganization purposes in place at the Altamura Graviscella (BA) production unit initially scheduled to expire on 31 December 2020 will cease on 14 February 2022 following the end of the statutory extension thereof in the form of an ordinary short-time work scheme (CIGO) for COVID purposes.
- (18) Due to the changed scenario and for reasons already discussed that led to the Records of Agreement pursuant to Article 25(7) of Legislative Decree No. 148/2015 of 7 and 8 September 2021 and the subsequent Minutes of the meeting of 2 December 2021 held at the Puglia Region Monitoring Committee for the Economic Production System and Crisis Area, the Company proceeded to reformulate the original Project.
- (19) The new program has already led to the partial modification of the lay-out, the review of the plant engineering at the Altamura Graviscella (BA) facility, the setting up of the lines and equipment required for the production of the new line of living rooms with integrated and innovative processes.

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- (20) The letter of 4 January 2022 triggering the procedure pursuant to Article 24 of Legislative Decree No. 148/2015 for the granting of a 12-month extension pursuant to Article 22-ter of that same Legislative Decree contains a table setting out the investments planned for the completion of the works.
- (21) The action already taken as described above in executing the Business Plan and the associated Agreements, including those covering the changes compared to the initial project and the related reorganization program, are complex and of strategic importance that make it necessary to extend the social safety net measures.
- (22) To this end the Company has set out the training and retraining plan that, agreed between the Parties, is submitted to the Puglia Region for possible co-financing pursuant to Article 22-ter(3) of Legislative Decree No. 148/2015 as regards the measures falling within the remit of the Region in support of the redeployment plan for the workers managed through social safety net measures.
- (23) The Parties have also agreed on the need to set up further training programs, the technical details of which still have to be finalized and which will focus, in particular, on digitalization, automation, technological innovation, health and safety and corporate social responsibility. For those initiatives, a specific request for funding will be submitted to the National Agency for Active Labour Policies (ANPAL).
- (24) For the 463 workers concerned, as agreed by the Parties, the application to extend social safety net measures is a tool instrumental to the execution of the Business Plan and, at the same time, a necessary condition to save jobs as a result of the complex and detailed retraining program launched.
- (25) The Altamura Graviscella (BA) facilities have already started production and the reorganization and transformation process involving the adoption of new production technologies and a new organization of industrial processes and work is underway.
- (26) This makes it necessary to involve the entire workforce of the production unit concerned in the retraining program, with ensuing application for recourse to the special short-time work scheme in relation to the current workforce of 463, without prejudice to the statutory limits on work suspension percentages.
- (27) The application to extend the special short-time work scheme for business reorganization purposes at the Altamura Graviscella (BA) production unit, as per the agreed amendment thereof, is consistent with and confirms the rationale for the current measures in place. This is borne out by the causal relationship between the restructuring and reorganization activities underway and the workers in the special short-time work scheme, instrumental to upgrading the skills of personnel not included in the “Living Room Area” and their resulting use in the start-up and implementation of the innovative “Factory 4.0” project.

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The change regarding what the training concerns does not modify the criteria for selecting personnel, in line with applicable law.

- (28) Article 22-*ter* of Legislative Decree No. 148/2015, referred to in Article 234(200) of Law No. 234 of 30 December 2021, provides that special short-time work schemes can be extended by 12 months in order to support employment transitions at the end of schemes established for the purposes set out in Article 21(1)(a) and (b) on condition that certain prerequisites are met, as is the case here.
- (29) Having concluded the trade union phase, as borne out by the associated records of 17 and 18 January 2022 as well as those concerning training programs of 3 and 7 February 2022, all annexed hereto, the Company Natuzzi S.p.A., requested the Puglia Region (Monitoring Committee for the Economic Production System and Crisis Area) to summon the Parties to engage in the consultation prescribed by Article of 24 Legislative Decree No. 148/2015. At the end of that consultation, set for today's date the Parties have agreed what is set out below.

Therefore, the Parties

agree as follows:

- The recitals and annexes shall form an integral part of this Record of Agreement.
- At the end of the process referred to in Article 24 of Legislative Decree No. 148/2015, the Company shall apply for an extension to the special short-time work scheme for reorganization purposes from 14 February 2022 to 13 February 2023, pursuant to Article 22-*ter* of Legislative Decree No. 148/2015, subject to an application to be submitted in the manner and by the deadlines set forth in Article 25 of Legislative Decree No. 148/2015.
- In total, a maximum of 463 workers may be suspended on zero hours and/or may be assigned reduced working hours in connection with the further extension of the special short-time work scheme, within the limits of the law, as broken down by category in the following table:

| Category | No. |
|----------------------|------------|
| Office Workers | 15 |
| Intermediate Workers | 29 |
| Factory Workers | 419 |
| Total | 463 |

- For the purposes of the above, reference is made to the summary breakdown by job, category and level set out in the letter of 4 January 2022 commencing the procedure and the list of names attached hereto.
- The retraining program of the personnel engaged at the same time in the execution and development of the "Living Room 4.0 for the Upgrading of the Manufacturing Process Consistent with a Logic of

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Technological Taxonomy and Cellular Manufacturing” project is aimed at pursuing the agreed objective of redeployment of the personnel involved.

- The Parties will evaluate the possibility of availing of inter-sectoral funds and/or forms of co-financing provided by the Puglia Region within the framework of training and active labour policy measures.
- The personnel whose working hours are suspended under the special short-time work scheme belonging to areas with excess workers over and above those engaged in training and/or work will be subject to rotation as regards the periods of suspension. Rotation that – subject to different technical, organizational and production requirements – will be promptly highlighted to the unitary trade union representative bodies and will allow for a correct balance between the affected personnel with equivalent job descriptions.
- The Company will send the names of the personnel concerned to ANPAL for the purposes of the planned access to the “guarantee of employability of workers” (GOL) program.
- For the reasons underlying the Business Plan, namely the specialization in and the quality improvement of Divani&Divani output, the zero-hour work suspensions and/or daily/weekly/monthly reductions in working hours may be implemented in relation to positions and corresponding workers including though differentiating between department/plants and through diversified solutions for different job descriptions, all in order to ensure adequate flexibility and a balance between training and manufacturing activities. To this end, the Company and the unitary trade union representative bodies will continue to discuss issues regarding application as per current practice.
- Retraining will be implemented in line with the requirements of the Plan and in collaboration with Local Institutions and Social Partners in order to pursue programs facilitating “conversion” and updating of all the necessary skills. Particular attention will be paid to occupational safety issues in order to develop useful synergies to heighten the awareness of all actors on the topic of safeguarding the health of each employee and strengthening a culture aimed at improving the quality of life.
- It is understood that for any matters not expressly regulated by this agreement, reference is made to previous agreements on the subject matter.
- In order to allow the most comprehensive discussion on the Business Plan, all Parties will take action following this agreement to ensure that the Ministry for Economic Development (MISE) convenes the National Steering Committee established to that end.

With the signing of this Agreement, the procedure provided for by Legislative Decree No. 148/2015 will be deemed to have been carried out. Today’s consultation, after checking the regularity and functionality of the audio/video connection and identifying all participants, has been carried out by way of conference call due to the ongoing COVID-19 pandemic.

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Therefore, this Record of Agreement is ratified by each participating trade union organization, which, including on behalf of their own unitary trade union representative bodies, will send a copy of this agreement to the Puglia Region Monitoring Committee for the Economic Production System and Crisis Area, the Puglia Regional Agency for Active Labour Policies, Natuzzi S.p.A. and other trade union organizations, taking care to use the following wording when sending the document: *“The undersigned trade union organization, including on behalf of its own single trade union representative bodies, attaches to this certified e-mail the agreement on the special short-time work scheme reached on 8 February 2022, ratifying and confirming all parts and contents thereof”*.

Similarly, Natuzzi S.p.A. will send the same communication to the Puglia Region Monitoring Committee for the Economic Production System and Crisis Area, the Puglia Regional Agency for Active Labour Policies and the participating trade union organizations.

For the purposes of the validity of the agreement, the exchange and signing of this record of agreement – in the manner mentioned above – separately by each of the Parties in different places and at different times is to be considered as one single act and is fully valid for the purposes of the consent expressed and its legal effects. This record of agreement consists of 5 (five) pages and 3 (three) annexes (record of the preliminary agreement of 3 February 2022, record of the preliminary agreement of 7 February 2022 and the list of names of employees).

Read, confirmed and signed.

Natuzzi S.p.A. trade union organizations

Puglia Region Monitoring Committee for the Economic Production System and Crisis Area

Puglia Regional Agency for Active Labour Policies - Collective Disputes Office

RECORD OF PRELIMINARY AGREEMENT

At 3 p.m. on 3 February 2022 a conference call takes place with the following:

Natuzzi S.p.A. represented by Mario de Gennaro, Director of Human Resources Organization and Legal WW, Maria Patrizia Ragazzo, for Trade Union Relations and HRBP Italy Manufacturing, Leonardo Lamanna as HR Operational and Labor Cost, and Elisabetta Paradiso as Head of Training, assisted by Giuseppe Bisceglie of the Bari | Barletta-Andria-Trani chapter of the Confederation of Italian Industry (Confindustria Bari Bat) and by the legal advisor Claudio Enrico Schiavone;

the trade union organizations FENEAL UIL, FILCA CISL, FILLEA CGIL, FILCAMS CGIL, FISASCAT CISL B UILTCUS Puglia and Basilicata regions and specifically:

- FENEAL UIL represented by Mino Paolicelli and Saverio Loiudice;
- FILCA CISL represented by Margherita Dell’Otto and Antonio Delle Noci;
- FILLEA CGIL represented by Fernando Mega and Ignazio Marcello Savino;

and all the local branches and the unitary trade union representative bodies (RSU) and the single trade union representative bodies (RSA) for FENEAL UIL, FILCA CISL, FILLEA CGIL, FILCAMS CGIL, FISASCAT CISL and UILTCUS Puglia and Basilicata.

- 1) Today’s meeting, which follows that of the Record of the Preliminary Agreement signed between the Parties mentioned in the exordium hereto on 17 January 2022, concerns consultations on the training program and the associated training path.
- 2) That same Agreement, separately concluded between the Parties, will be incorporated into the more comprehensive agreement to be signed at the Puglia Region for the purposes of Article 22-ter of Legislative Decree No. 148/2015.

The Parties conclude today’s discussions with the following outcome.

Whereas

- The Parties signed a Preliminary Agreement on 17 January 2022, which is incorporated herein in full by reference, to extend the special short-time work scheme (CIGS) for business reorganization purposes from 14 February 2022 to 13 February 2023 (12 months), pursuant to Article 22-ter of Legislative Decree No. 148/2015 for 464 workers.
- The Altamura Graviscella (BA) facilities have already started production and the reorganization and transformation process is underway, which involves the adoption of new production technologies and a new organization of industrial process and work that require further training support for their complete functioning.

- To this end the Company, by means of this Agreement, will proceed to set out the contents of the training and retraining plan, which will also be submitted to the Puglia Region and the National Agency for Active Labour Policies (ANPAL) for possible co-financing pursuant to Article 22-ter(3) of Legislative Decree No. 148/2015 as regards the measures falling within the remit of the Region in support of the redeployment plan for the workers managed through social safety net measures.
- The Parties have thus agreed on the need to set up further training programs, the technical details of which still have to be finalized and which will focus, in particular, on digitalization, automation, technological innovation, health and safety and corporate social responsibility, as described in greater detail below.

Now therefore and in view of the summoning for the purposes of formalising the agreements before the relevant administrative authorities of the Puglia Region, the Parties

agree as follows:

- The retraining program of the personnel engaged at the same time in the execution and development of the “Living Room 4.0” project for the upgrading of the manufacturing process consistent with a logic of Technological Taxonomy is aimed at pursuing the agreed objective of the redeployment of personnel. It will be supported by the following Training Plan availing of inter-sectoral funds and/or forms of co-financing of the Puglia Region and/or ANPAL within the framework of training and active labour policy measures.
- Project Description: coherence and effectiveness of the Plan as measured against the intended purposes. Natuzzi S.p.A. has launched a business plan whose focus is to create an innovative model for the core manufacturing business in a “Living Room 4.0” logic with innovative processes, layout, machinery and work organization, which require specific training.
Factory 4.0 is based on the concept of just-in-time that includes within it different working phases: Cutting, Sewing, Assembly, Semi-finished and Finished Product, linked according to a logic of FIFO (first in first out), One Piece Flow.
The One Piece Flow method involves moving one piece at a time from one work station to another within a unit and/or department without staging.
In simple language, it means that the pieces to be produced are moved through the work phases from one location to another without any work-in-progress (WIP). The pieces are not stationary and the moved piece leaves space for the arrival of a new piece, coming from the previous work phase.

Another element that characterizes the work unit is management by taxonomic product family. A product family is the set of technically similar products that can be produced in the same work unit, using a similar production process and the same machines and working methods (clustering of products by commonality).

The new elements introduced by this new production logic have led the Company to invest in state-of-the-art production technologies. New machinery and equipment have been purchased for cutting coatings (laser cutting). A semi-automatic quality/packaging line has been installed to improve the efficiency of work phases and flows. The new logistics system has been set to tie in with internal movements using tools that facilitate agile and ergonomic handling. The Andon system with tablet has been introduced for real-time monitoring of workstation KPIs and rapid problem solving (quick response). The Wall Management system has been introduced for real-time shop floor management of all departments.

Therefore, it is essential to train staff to work in a Factory 4.0 where the human factor and expertise are central elements together with the ergonomics of the workplace and occupational health and safety.

Purpose of the training plan

The entire training plan pursues the general aim of modernizing the Production Lines and entails the identification of overall objectives, training actions, content, knowledge and the skills to be achieved.

Structure of the plan, training objectives and recipients of the training

Through its “Living Room 4.0” the Natuzzi Group intends to train its staff by supporting them in the development of skills and abilities needed not only for the new work process but necessary in a labour market that is undergoing a major technological change that ever more rapidly renders skills obsolete. Therefore, workers require upskilling and reskilling. The objectives stated in the National Recovery and Resilience Plan (PNRR) include that of “making European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of ecological and digital transitions”. This is the framework for the Company’s plan, which aims to train personnel in the use of new machinery and technological tools, which the Company has adopted and uses in its new Factory 4.0 in Altamura Graviscella (BA).

The plan is based on an interconnected architecture of actions deriving from an analysis of the new scenario and the new production process allied to an evaluation of the new activities envisaged. It has also been informed by a careful mapping of the skills currently possessed by the recipients of the training and the skills that need to be increased and improved to effectively support this important transition (skill gaps). The addressees of this plan need to be trained in the changes introduced by the new work process in order to acquire the expertise needed to use the new equipment. Therefore, they also need to bridge the skills gap in terms of working methods, new work phases and new scheduling

based on a logic of cadences. Above all, they need to know how to use the new high-tech machinery and the instrumentation adopted.

The training actions have been designed to meet the skills needs of the 3 homogeneous groups of recipients: Tutors (Action # 1), Line Operators (Action # 2) and Indirect Production Staff - Warehousemen and General Services (Action # 3).

The need emerged to design 3 training courses to achieve 3 overall objectives:

| Action # 1 | Tutor Training | |
|-------------------------|--|--|
| Training Unit | Knowledge and Skills | Contents |
| Living Room 4.0 concept | Knowledge and application of Lean Production Techniques. Knowledge and application of techniques of flexible production capacity across lines and cross-functionality of job descriptions. Knowledge and application of WIP (work in progress/advancement) evaluation and measurement techniques across workstations and lines to avoid production downtime. | Concepts and tools of lean production (5S, CEDAC, root causes analysis, poka-yoke, etc.) |
| | | Introduction to Living Room 4.0 |
| | | From the market to the production system: how to achieve flexibility |
| | | Concept of taxonomy and product clustering |
| | | Strategic realignment: from verticalization to differentiation |
| | | Logic of splitting modelling by taxonomic cluster |
| | | Defining features of the work units: setup, capacity, cadences |
| | | Ergonomics and economy of movement in the study of workstations and equipment |
| | | Balancing of lines: operational management in the department |
| | | Process Integration: Quality Control + Cleaning/Packaging |
| | | Process Integration: Joinery + Blanking |

| | | |
|---------------------------|---|---|
| Shop Floor Management | Knowledge and use of “Shopfloor Management 4.0” devices (managing and sharing of plant performance and individual workstation performance). | The Q6 Quality System |
| | | Quality in self-control: introduction of the Quality Gates |
| | | Shop Floor Management in real time |
| | | The Quick Response Team |
| | | KPIs: definition and monitoring systems |
| Technological Innovations | Knowledge and application of company-provided devices (tablets, etc.). | Standards and continuous improvement: approach to maintaining performance |
| | | Scheduling Logic (overview of Master Scheduling) |
| | | Technological innovation: the Andon system |
| | | Technological innovation: the Pick to Light system |
| | | Procurement Logic and system of logistics cadenced on suppliers |

| Action # 2 | | New Production Process Training for Line Operators | |
|-------------------------|---|--|--|
| Training Unit | Knowledge and Skills | Contents | |
| Living Room 4.0 Concept | Knowledge and application of Lean Production Techniques. Knowledge and application of techniques of flexible production capacity between lines and cross-functionality of job descriptions. | Concepts and tools of lean production (5S, CEDAC, root causes analysis, poka-yoke, etc.) | |
| | | Introduction to Living Room 4.0 | |
| | | Concept of taxonomy and product clustering | |
| | Knowledge and application of WIP (work in | Logic of splitting modelling by taxonomic cluster | |

| | | |
|---------------------------|--|---|
| | progress/advancement) evaluation and measurement techniques across workstations and lines to avoid production downtime. | Defining features of the work units: setup, capacity, cadences |
| | | Ergonomics and economy of movement in the study of workstations and equipment |
| | | Balancing of lines: operational management in the department |
| | | Process Integration: Quality Control + Cleaning/Packaging |
| | | Process Integration; Joinery + Blanking |
| Shop Floor Management | Knowledge and use of “Shopfloor Management 4.0” devices (managing and sharing of plant performance and individual workstation performance). | The Q6 Quality System |
| | | Quality in self-control: introduction of Quality Gates |
| | | Shop Floor Management in real time |
| | | The Quick Response Team |
| | | KPIs: definition and monitoring systems |
| Technological Innovations | Knowledge and application of company-provided devices (tablets, etc.) Practical use of software systems on iPad for monitoring and progress of production flows, downtime causes, and individual and collective performance. Use of operational tools for continuous improvement. | Standards and continuous improvement: approach to maintaining performance |
| | | Scheduling Logic (overview of Master Scheduling) |
| | | Technological innovation: the Andon system |
| | | Technological innovation: the Pick to Light system |
| | | Procurement Logic and system of logistics cadenced on suppliers |

| Action # 3 | New Production Process Training for Indirect Production Staff - Warehousemen and General Services | |
|---------------------------|--|--|
| Training Unit | Knowledge and Skills | Contents |
| Living Room 4.0 Concept | Knowledge and application of Lean Production Techniques. Knowledge and application of techniques of flexible production capacity across lines and cross-functionality of job descriptions. | Concepts and tools of lean production (5S, CEDAC, root causes analysis, poka-yoke, etc.) |
| | | Introduction to Living Room 4.0 |
| | | Concept of taxonomy and product clustering |
| | Knowledge and application of Techniques for evaluating and measuring WIP (work in progress/advancement) across workstations and work units to avoid production downtime. | Defining features of the work units: setup, capacity, cadences |
| | | Ergonomics and economy of movement in the study of workstations and equipment |
| | | Balancing of lines: operational management in the department |
| Shop Floor Management | Knowledge of use of “Shopfloor Management 4.0” devices (managing and sharing of plant performance and individual workstation performance). | The Q6 Quality System |
| | | Shop Floor Management in real time |
| | | The Quick Response Team |
| | | KPIs: definition and monitoring systems |
| Technological Innovations | Knowledge and application of company-provided devices (tablets, etc.). | Standards and continuous improvement: approach to maintaining performance |
| | | Scheduling Logic (overview of Master Scheduling) |
| | | Technological innovation: the Andon system |
| | | Technological innovation: the Pick to Light system |

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|--|--|---|
| | | Procurement Logic and system of logistics cadenced on suppliers |
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Training methods and teaching

The main location of the training will be in the Altamura Graviscella production plant and it will be delivered by internal and/or external instructors until January 2023. The Company has developed, defined, analysed and detailed the new production process. The internal instructors are engineers and experts who have worked for the Company for many years and have the knowledge and skills suitable to transfer know-how to their colleagues that this Plan concerns. The training content shown in the table above will be developed. The training will be delivered partly in a classroom as regards theory and partly in the department as regards the necessary application/practical training. The project structure is aimed at developing specific skills to achieve the overall objectives mentioned above.

For training action # 2, which involves the largest number of workers, about 32 editions are planned. The training will be carried out for groups of participants belonging to the same work unit. The work units consist of a minimum of 7 workers to a maximum of 11 (mechanized product line). The classrooms will be able to be organized so as to have up to 14 participants on average. For all the training actions it is envisaged that there will be 16 hours of theory in the classroom, while for the practical part a minimum of 140 hours up to a maximum of 250 hours on average is envisaged, save for any changes that may be made to this Plan.

Certification of skills

At the end of the training courses there will be a final test to certify the acquisition of skills to be developed under this Plan. Successful completion of the test will entitle the participant to a certificate of participation in the training course evidencing the skills acquired in accordance with the Guidelines of the Ministerial Decree of 5 January 2021. For this specific activity, the company will rely on a local accredited third party body for training and certification of skills.

Participation in the GOL (employment guarantee) program

In view of the forthcoming publication of the ANPAL call for applications to use the New Skills Fund refinanced with React-EU resources, the Company would reduce recourse to social safety net measures by relying on the development and upgrading of skills. Participants in the training actions would witness a change in their working hours envisaged by the short-time work scheme to be replaced by training hours.

- The Parties undertake to sign the accord formalizing this present agreement at the offices of the Region, keeping the contents and structure hereof unchanged.
- The Parties acknowledge that discussions have taken place to analyse the trends that have been recorded so far for the personnel involved in the retraining program taking place both in the new site of Altamura Graviscella (BA) and in the other training sites (PS and Laterza) and that visits with the unitary trade union representative bodies and the Secretariats have been scheduled for the Altamura Graviscella (BA) site in order to gain a better understanding of the technological and flow changes introduced.
- The Business Plan will be presented to the Ministry for Economic Development (MISE) at the relevant meeting yet to be convened, upon conclusion of the procedure for signing the extension agreement at the offices of the Puglia Region.
- It is understood that for any matters not expressly regulated by this agreement, reference is made to previous agreements on the subject matter.

Read confirmed and signed

The Company
/SS/[ILLEGIBLE]

Trade Union Organizations
/SS/[ILLEGIBLE]

RR.SS.UU./RR.SS.AA.
/SS/[ILLEGIBLE]

Confindustria Bari Bat
/S/[ILLEGIBLE]

RECORD OF PRELIMINARY AGREEMENT

At 11.30 a.m. on 7 February 2022 a conference call takes place with the following:

Natuzzi S.p.A. represented by Mario de Gennaro, Director of Human Resources Organization and Legal WW, Maria Patrizia Ragazzo, for Trade Union Relations and HRBP Italy Manufacturing, and Leonardo Lamanna as HR Operational and Labor Cost, assisted by Giuseppe Bisceglie of the Bari | Barletta-Andria-Trani chapter of the Confederation of Italian Industry (Confindustria Bari Bat) and by the legal advisor Claudio Enrico Schiavone;

and

the CONFEDERAZIONE COBAS - COBAS del Lavoro Privato trade union represented by Felice Dilelo; the UNIONE SINDACALE DI BASE - USB del Lavoro Privato trade union represented by Pierpaolo CORALLO;

as well as

the Ginosa unitary trade union representative body (RSU) / single trade union representative bodies (RSA) for COBAS and USB.

- Today's meeting, which follows that of the Record of the Preliminary Agreement signed between the Parties mentioned in the exordium hereto on 18 January 2022, concerns consultations on the training program and the associated training path.
- That same Agreement, separately concluded between the Parties, will be incorporated into the more comprehensive agreement to be signed at the Puglia Region for the purposes of Article 22-ter of Legislative Decree No. 148/2015.

The Parties conclude today's discussions with the following outcome.

Whereas

- ☐ The Parties signed a Preliminary Agreement on 18 January 2022, which is incorporated herein in full by reference, to extend the special short-time work scheme (CIGS) for business reorganization purposes from 14 February 2022 to 13 February 2023 (12 months), pursuant to Article 22-ter of Legislative Decree No. 148/2015 for 464 workers.
- ☐ The Altamura Graviscella (BA) facilities have already started production and the reorganization and transformation process is underway, which involves the adoption of new production technologies and a new organization of industrial process and work that require further training support for their complete functioning.

- To this end the Company, by means of this Agreement, will proceed to set out the contents of the training and retraining plan, which will also be submitted to the Puglia Region and the National Agency for Active Labour Policies (ANPAL) for possible co-financing pursuant to Article 22-ter(3) of Legislative Decree No. 148/2015 as regards the measures falling within the remit of the Region in support of the redeployment plan for the workers managed through social safety net measures.
- The Parties have thus agreed on the need to set up further training programs, the technical details of which still have to be finalized and which will focus, in particular, on digitalization, automation, technological innovation, health and safety and corporate social responsibility, as described in greater detail below.

Now therefore and in view of the summoning for the purposes of formalising the agreements before the relevant administrative authorities of the Puglia Region, the Parties

agree as follows:

A) The retraining program of the personnel engaged at the same time in the execution and development of the “Living Room 4.0” project for the upgrading of the manufacturing process consistent with a logic of Technological Taxonomy is aimed at pursuing the agreed objective of the redeployment of personnel. It will be supported by the following Training Plan availing of inter-sectoral funds and/or forms of co-financing of the Puglia Region and/or ANPAL within the framework of training and active labour policy measures.

B) Project Description: coherence and effectiveness of the Plan as measured against the intended purposes. Natuzzi S.p.A. has launched a business plan whose focus is to create an innovative model for the core manufacturing business in a “**Living Room 4.0**” logic with innovative processes, layout, machinery and work organization, which require specific training.

Factory 4.0 is based on the concept of just-in-time that includes within it different working phases: Cutting, Sewing, Assembly, Semi-finished and Finished Product, linked according to a logic of FIFO (first in first out), One Piece Flow.

The One Piece Flow method involves moving one piece at a time from one work station to another within a unit and/or department without staging.

In simple language, it means that the pieces to be produced are moved through the work phases from one location to another without any work-in-progress (WIP). The pieces are not stationary and the moved piece leaves space for the arrival of a new piece, coming from the previous work phase.

Another element that characterizes the work unit is management by taxonomic product family. A product family is the set of technically similar products that can be produced in the same work unit,

using a similar production process and the same machines and working methods (clustering of products by commonality).

The new elements introduced by this new production logic have led the Company to invest in state-of-the-art production technologies. New machinery and equipment have been purchased for cutting coatings (laser cutting). A semi-automatic quality/packaging line has been installed to improve the efficiency of work phases and flows. The new logistics system has been set to tie in with internal movements using tools that facilitate agile and ergonomic handling. The Andon system with tablet has been introduced for real-time monitoring of workstation KPIs and rapid problem solving (quick response). The Wall Management system has been introduced for real-time shop floor management of all departments.

Therefore, it is essential to train staff to work in a Factory 4.0 where the human factor and expertise are central elements together with the ergonomics of the workplace and occupational health and safety.

Purpose of the training plan

The entire training plan pursues the general aim of modernizing the Production Lines and entails the identification of overall objectives, training actions, content, knowledge and the skills to be achieved.

Structure of the plan, training objectives and recipients of the training

Through its “Living Room 4.0” the Natuzzi Group intends to train its staff by supporting them in the development of skills and abilities needed not only for the new work process but necessary in a labour market that is undergoing a major technological change that ever more rapidly renders skills obsolete. Therefore, workers require upskilling and reskilling. The objectives stated in the National Recovery and Resilience Plan (PNRR) include that of “making European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of ecological and digital transitions”. This is the framework for the Company’s plan, which aims to train personnel in the use of new machinery and technological tools, which the Company has adopted and uses in its new Factory 4.0 in Altamura Graviscella (BA).

The plan is based on an interconnected architecture of actions deriving from an analysis of the new scenario and the new production process allied to an evaluation of the new activities envisaged. It has also been informed by a careful mapping of the skills currently possessed by the recipients of the training and the skills that need to be increased and improved to effectively support this important transition (skill gaps). The addressees of this plan need to be trained in the changes introduced by the new work process in order to acquire the expertise needed to use the new equipment. Therefore, they also need to bridge the skills gap in terms of working methods, new work phases and new scheduling based on a logic of cadences. Above all, they need to know how to use the new high-tech machinery and the instrumentation adopted.

The training actions have been designed to meet the skills needs of the 3 homogeneous groups of recipients: Tutors (Action # 1), Line Operators (Action # 2) and Indirect Production Staff - Warehousemen and General Services (Action # 3).

The need emerged to design 3 training courses to achieve 3 overall objectives:

| Action # 1 | | Tutor Training | |
|-------------------------|--|--|--|
| Training Unit | Knowledge and Skills | Contents | |
| Living Room 4.0 concept | Knowledge and application of Lean Production Techniques. Knowledge and application of techniques of flexible production capacity across lines and cross-functionality of job descriptions. Knowledge and application of WIP (work in progress/advancement) evaluation and measurement techniques across workstations and lines to avoid production downtime. | Concepts and tools of lean production (5S, CEDAC, root causes analysis, poka-yoke, etc.) | |
| | | Introduction to Living Room 4.0 | |
| | | From the market to the production system: how to achieve flexibility | |
| | | Concept of taxonomy and product clustering | |
| | | Strategic realignment: from verticalization to differentiation | |
| | | Logic of splitting modelling by taxonomic cluster | |
| | | Defining features of the work units: setup, capacity, cadences | |
| | | Ergonomics and economy of movement in the study of workstations and equipment | |
| | | Balancing of lines: operational management in the department | |
| | | Process Integration: Quality Control + Cleaning/Packaging | |
| | | Process Integration: Joinery + Blanking | |
| Shop Floor Management | | The Q6 Quality System | |

| | | |
|---------------------------|---|---|
| | Knowledge and use of “Shopfloor Management 4.0” devices (managing and sharing of plant performance and individual workstation performance). | Quality in self-control: introduction of the Quality Gates |
| | | Shop Floor Management in real time |
| | | The Quick Response Team |
| | | KPIs: definition and monitoring systems |
| Technological Innovations | Knowledge and application of company-provided devices (tablets, etc.). | Standards and continuous improvement: approach to maintaining performance |
| | | Scheduling Logic (overview of Master Scheduling) |
| | | Technological innovation: the Andon system |
| | | Technological innovation: the Pick to Light system |
| | | Procurement Logic and system of logistics cadenced on suppliers |

| Action # 2 | | New Production Process Training for Line Operators | |
|-------------------------|--|--|--|
| Training Unit | Knowledge and Skills | Contents | |
| Living Room 4.0 Concept | Knowledge and application of Lean Production Techniques. Knowledge and application of techniques of flexible production capacity between lines and cross-functionality of job descriptions. | Concepts and tools of lean production (5S, CEDAC, root causes analysis, poka-yoke, etc.) | |
| | | Introduction to Living Room 4.0 | |
| | | Concept of taxonomy and product clustering | |
| | Knowledge and application of WIP (work in progress/advancement) evaluation and measurement | Logic of splitting modelling by taxonomic cluster | |
| | | Defining features of the work units: setup, capacity, cadences | |

| | | |
|---------------------------|---|---|
| | techniques across workstations and lines to avoid production downtime. | Ergonomics and economy of movement in the study of workstations and equipment |
| | | Balancing of lines: operational management in the department |
| | | Process Integration: Quality Control + Cleaning/Packaging |
| | | Process Integration; Joinery + Blanking |
| Shop Floor Management | Knowledge and use of “Shopfloor Management 4.0” devices (managing and sharing of plant performance and individual workstation performance). | The Q6 Quality System |
| | | Quality in self-control: introduction of Quality Gates |
| | | Shop Floor Management in real time |
| | | The Quick Response Team |
| | | KPIs: definition and monitoring systems |
| Technological Innovations | Knowledge and application of company-provided devices (tablets, etc.) Practical use of software systems on iPad for monitoring and progress of production flows, downtime causes, and individual and collective performance. Use of operational tools for continuous improvement. | Standards and continuous improvement: approach to maintaining performance |
| | | Scheduling Logic (overview of Master Scheduling) |
| | | Technological innovation: the Andon system |
| | | Technological innovation: the Pick to Light system |
| | | Procurement Logic and system of logistics cadenced on suppliers |

| | | |
|----------------------|--|-----------------|
| Action # 3 | New Production Process Training for Indirect Production Staff - Warehousemen and General Services | |
| Training Unit | Knowledge and Skills | Contents |

| | | |
|---------------------------|---|--|
| Living Room 4.0 Concept | Knowledge and application of Lean Production Techniques. Knowledge and application of techniques of flexible production capacity across lines and cross-functionality of job descriptions. | Concepts and tools of lean production (5S, CEDAC, root causes analysis, poka-yoke, etc.) |
| | | Introduction to Living Room 4.0 |
| | | Concept of taxonomy and product clustering |
| | Knowledge and application of Techniques for evaluating and measuring WIP (work in progress/advancement) across workstations and work units to avoid production downtime. | Defining features of the work units: setup, capacity, cadences |
| | | Ergonomics and economy of movement in the study of workstations and equipment |
| | | Balancing of lines: operational management in the department |
| Shop Floor Management | Knowledge of use of “Shopfloor Management 4.0” devices (managing and sharing of plant performance and individual workstation performance). | The Q6 Quality System |
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Read, confirmed and signed

COBAS AND USB-LP

Ginosa RSU/RSA

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/SS/[ILLEGIBLE]

The Company

/SS/[ILLEGIBLE]

Confindustria Bari Bat

/S/[ILLEGIBLE]

List of Significant Subsidiaries:

| Name | Percentage of 31/12/2021 | Percentage of 31/12/2020 | Share/ quota capital | Ownership registered office | Activity |
|--------------------------------------|-----------------------------|-----------------------------|-------------------------|----------------------------------|----------|
| Italsofa Romania S.r.l. | 100.00 | 100.00 | RON 109,271,750 | Baia Mare, Romania | (1) |
| Natuzzi (China) Ltd | 100.00 | 100.00 | CNY 106,414,300 | Shanghai, China | (1) |
| Italsofa Nordeste S/A | 100.00 | 100.00 | BRL 159,300,558 | Salvador de Bahia, Brazil | (1) |
| Natco S.p.A. | 99.99 | 99.99 | EUR 4,420,000 | Santeramo in Colle, Italy | (2) |
| IMPE S.p.A. | — | 100.00 | EUR 1,000,000 | Bari, Italy | (3) |
| Nacon S.p.A. | 100.00 | 100.00 | EUR 2,800,000 | Santeramo in Colle, Italy | (4) |
| Lagene S.r.l. | 100.00 | 100.00 | EUR 10,000 | Santeramo in Colle, Italy | (4) |
| Natuzzi Americas Inc. | 100.00 | 100.00 | USD 89 | High Point, N. Carolina, USA | (4) |
| Natuzzi Florida LLC | 51.00 | 51.00 | USD 4,955,186 | High Point, N. Carolina, USA | (4) |
| Natuzzi Iberica S.A. | 100.00 | 100.00 | EUR 386,255 | Madrid, Spain | (4) |
| Natuzzi Switzerland AG | 100.00 | 100.00 | CHF 2,000,000 | Dietikon, Switzerland | (4) |
| Natuzzi Services Limited | 100.00 | 100.00 | GBP 25,349,353 | London, UK | (4) |
| Natuzzi UK Retail Limited | 70.00 | 70.00 | GBP 100 | Cardiff, UK | (4) |
| Natuzzi Germany Gmbh | 100.00 | 100.00 | EUR 25,000 | Köln, Germany | (4) |
| Natuzzi Japan KK | 93.00 | 100.00 | JPY 28,000,000 | Tokyo, Japan | (4) |
| Natuzzi Russia OOO | 100.00 | 100.00 | RUB 8,700,000 | Moscow, Russia | (4) |
| Natmx S.DE.R.L.DE.C.V | 100.00 | 99.00 | MXN 68,504,040 | Mexico City, Mexico | (4) |
| Natuzzi France S.a.s. | 100.00 | 100.00 | EUR 200,100 | Paris, France | (4) |
| Natuzzi Oceania PTI Ltd | 93.00 | 100.00 | AUD 320,002 | Sydney, Australia | (4) |
| Natuzzi Singapore PTE. LTD. | 93.00 | 100.00 | USD 2,297,207 | Singapore, Republic of Singapore | (4) |
| Natuzzi Netherlands Holding | 100.00 | 100.00 | EUR 34,605,000 | Amsterdam, Holland | (5) |
| Natuzzi Trade Service S.r.l. | 100.00 | 100.00 | EUR 14,000,000 | Santeramo in Colle, Italy | (6) |
| Softaly (Furniture) Shanghai Co. Ltd | — | 96.50 | CNY 100,000 | Shanghai, China | (6) |
| Natuzzi India Furniture PVT Ltd | — | 100.00 | INR 16,200,000 | New Delhi, India | (6) |
| Italsofa Shanghai Ltd | — | 96.50 | USD 5,000,000 | Shanghai, China | (6) |

- (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) Dormant

I, Antonio Achille, certify that:

1. I have reviewed this annual report on Form 20-F of Natuzzi S.p.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: **May 2, 2022**

/s/ Antonio Achille

Name: Antonio Achille

Title: Chief Executive Officer

I, Giuseppe Cacciapaglia, certify that:

1. I have reviewed this annual report on Form 20-F of Natuzzi S.p.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: **May 2, 2022**

/s/ Giuseppe Cacciapaglia

Name: Giuseppe Cacciapaglia

Title: Chief Accounting Officer

Exhibit 13.1

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Natuzzi S.p.A. (the “Company”) does hereby certify, to such officer’s knowledge, that:

The Annual Report on form 20-F for the year ended **December 31, 2021** (the “Form 20-F”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: **May 2, 2022**

/s/ Antonio Achille
Antonio Achille
Chief Executive Officer

Dated: **May 2, 2022**

/s/ Giuseppe Cacciapaglia
Giuseppe Cacciapaglia
Chief Accounting Officer

A signed original of this written statement required by Section 906 has been provided to Natuzzi S.p.A. and will be retained by Natuzzi S.p.A. and furnished to the Securities and Exchange Commission or its staff upon request.