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SEC 1 Sector Classification – Basis for Conclusions

DISCLAIMER

This Basis for Conclusions accompanies, but is not part of, Exposure Draft ESRS SEC 1 Sector Classification. It summarises the considerations of the EFRAG SR TEG / and EFRAG SRB and the references to other standard setting initiatives or regulations used in developing the contents of the Exposure Draft.

SEC 1 Sector Classification – Basis for Conclusions

| | |
|---|----|
| SEC 1 Sector Classification – Basis for Conclusions | 1 |
| Sector classification..... | 4 |
| NACE code classification | 6 |
| Several industries in one sector standard..... | 6 |
| Disaggregation level..... | 6 |
| Treatment of wholesale and retail sale activities | 8 |
| Treatment of leasing activities | 8 |
| NACE 2-1..... | 11 |
| NACE Class adaptations..... | 11 |
| Why ESRS sector classification cannot be reconciled with the EU Taxonomy activities | 18 |
| Why not developing sectors along the value chain? | 20 |
| Mapping with other frameworks | 20 |
| Application requirements..... | 21 |
| Sectorial comments..... | 21 |
| Agriculture, Farming and Fishing..... | 21 |
| Forestry and Wood products | 23 |
| Construction and engineering..... | 23 |
| Power production and energy utilities..... | 23 |
| Water and Waste services..... | 23 |
| Recreation and Leisure..... | 23 |
| Capital markets..... | 24 |
| Credit institutions..... | 24 |
| Insurance..... | 25 |
| Health care and services | 25 |
| Aerospace, defence and services | 25 |
| Chemicals and polymers | 26 |
| Construction materials..... | 26 |

SEC 1 Sector Classification – Basis for Conclusions

| | |
|--|----|
| Electronics and electrical equipment..... | 26 |
| Food and Beverages | 26 |
| Machinery and equipment..... | 27 |
| Metal processing | 27 |
| Motor vehicles..... | 27 |
| Pharma and biotechnology | 27 |
| Textiles, Accessories, Footwear and Jewelleries..... | 27 |
| Mining, Quarrying and Coal | 28 |
| Oil and gas | 28 |
| Real estate and services | 29 |
| Education..... | 29 |
| Professional services | 30 |
| ANNEX: Reconciliation of ESRS sector mapping with other classification systems | 31 |
| Glossary | 47 |

Sector classification

- 1 The objective of this chapter is to describe the process followed in defining the [draft] Exposure Draft for European Sustainability Reporting Standards for SEC 1 Sector Classification and General requirements.
- 2 The development of the SEC 1 Sector Classification has initially leveraged upon preparatory work done by the Project Task Force on European Sustainability Reporting Standards (PTF-ESRS), in particular the work of Cluster 7.
- 3 The initial sector classification, and the scope of sectors, were a first time discussed with Sector Community members during 27 workshops which were held in June-July 2022.
- 4 In October-December of the same year additional workshops were held with the respective Sector Community members to discuss the eight high priority sectors to be developed first (Mining, Quarrying and Coal, Oil and Gas, Textiles, Footwear and Jewellery, Road Transport, Agriculture, Food and Beverages, Motor vehicles, Energy production and Utilities).
- 5 The ESRS SEC 1 Sector Classification, which builds upon the principles set out by ESRS 1 and ESRS 2, was discussed at the following EFRAG meetings:
 - (a) SR TEG meetings: 3 February 2023, 21 February 2023, 2 March 2023, 6 March 2023, 15 and 18 January 2024, 7 March 2024, 19 March 2024, 21 March 2024, 25 April 2024, 8 May 2024 and 12 September 2024;
 - (b) SRB meetings 8 March 2023, 14 March 2023, 24 January 2024 and 4 June 2024.
- 6 In their initial discussions, SR TEG and SRB mainly suggested enhancing the sector classification with the following elements:
 - (a) Adding examples demonstrating the use of [multiple] ESRS sector standards in various situations;
 - (b) Adding mappings to other sustainability and regulatory frameworks;
 - (c) Clarifying the relationship between ESRS Sector standards and the EU Taxonomy activities;
 - (d) The approach to sector materiality;
 - (e) The general approach used in defining sector relevant information;
 - (f) Adding sales activities in the manufacturing when relevant.
- 7 EFRAG SR TEG recommend the sector classification to SRB for consultation in their meeting of 2 March 2023. EFRAG SRB conditionally approved the sector classification on 14 March 2023. Given the temporarily change in EFRAG's work priorities that occurred at that time, the discussion was followed upon again early 2024.
- 8 In February 2024, the EFRAG Secretariat organised 11 workshops that were open to Sector Community members to discuss the classification itself, the sector definitions and grouping of NACE economic activities.
- 9 During 2024, SR TEG and SRB discussed the following elements:
 - (a) Update of the sector classification to NACE 2.1 which will be applicable from 2025;
 - (b) Treatment of manufacturing, distribution and leasing;
 - (c) Decided not to align ESRS Sector standards with EU Taxonomy activities as the co-existence of different reporting requirements with each different aggregation levels may stand in the way of a clear communication from undertakings on their activities;
 - (d) The merge of a number of sectors:

SEC 1 Sector Classification – Basis for Conclusions

- (i) Tobacco sector was incorporated into “Agriculture, Farming and Fishing” and “Food and Beverages”;
 - (ii) “Gaming” sector was incorporated into “Recreation and Leisure”;
 - (iii) “Marketing” sector was incorporated into “Professional services”;
 - (iv) “Paper and Wood products” sector was merged with “Forestry” to become “Forestry and Wood products”;
 - (v) “Sports equipment” and “Construction and Furnishings” were merged into “Household goods n.e.c.”. To build this sector additional economic activities from other sectors were added to this sector.
- (e) The creation of a new sector “Bio-energy”;
- (f) Integration of the February 2024 workshops comments into the sector classification.
- 10 Simultaneously, work started on the development of the financial sector standards: Credit institutions, Insurance and Capital markets with the help of three dedicated sector panels. SEC 1 incorporates the work of these sector panels.
- 11 On 8 May 2024 EFRAG SR TEG recommended the SEC 1 ED (except bio-energy and financial institutions) to the SRB for approval.
- (a) Sixteen SR TEG members approved: Chiara Del Prete, Jose M Moneva, Beiersdorf Kati, Sigurt Vitols, Per Tornqvist, Philippe Diaz, Sandra Adler, Carlota de Paula Coelho, Piotr Biernacki, Vanya Rusinova, Jean-François Coppenolle, Luca Bonaccorsi, Klaus Hufschlag, Luis Piacenza, Signe Andreasen Lysgaard and PierMario Barzaghi.
 - (b) Ten SR TEG members abstained:
 - (i) One SR TEG member, Luc Hendrickx, abstained as he did not have time to consult with stakeholders and he noted to express a view when finalising the standard;
 - (ii) Four SR TEG members, Varela Nieto, Giulia Genuardi, Eric Duvaud and Anne-Claire Ducrocq considered that first the sustainability matters per each sector ESRS should be developed, before the classification can be established.
 - (iii) Five SR TEG members: Elena Philipova, Julia Kölzer, Robert Adamczyk, Fiona Watson and Olivier Scherer abstained because they only joined SR TEG recently. These members will form an opinion during the consultation and take a position in the final vote when the standard will be issued.
 - (c) Two SR TEG members were not present at the meeting: Christoph Toepfer and Antonino Vaccaro.
- 12 On 4 June 2024 SRB approved the SEC 1 ED subject to a number of comments.
- (a) Fourteen SRB members approved: Patrick de Cambourg, Kerstin Lopatta, Grégoire de Montchalin, Salvador Marin, Anina Tanhuanpää, Luc Vansteenkiste, Thomas Roulland, Simon Braaksma, Carlos Moreno, Charlotte Söderlund, Begoña Giner and Filip Gregor. Monika Brom and Kristian Koktvedgaard approved the ED noting their preference for starting the consultation in July and that their vote could change if the consultation would have to be launched in autumn.
 - (b) Two SRB members abstained: Laurence Rivat and Marcello Bianchi. They consider necessary to issue the list of sustainability matters at the same time the sector classification is issued.
 - (c) Seven SRB members were absent: Wim Bartels, Tegwen Le Berthe, Alexander Bassen, Stefan Schnell, David Vermijs, Thierry Philipponat and Isabelle Schömann.

- (d) There were no objections.

NACE code classification

- 13 NACE is the Statistical Classification of Economic Activities in the European Community. It is part of the European legislative framework and through that referenced in other reporting frameworks such as the EBA Pillar 3 ESG reporting requirements. Relying on NACE codes as the basis tool for building [draft] ESRS Sector standards has the practical benefit of integrating the [draft] ESRS Sector standards into the wider European legislative and regulatory framework, leading to interoperability between all its components.
- 14 Business activities of undertakings are seldom monolithic, often undertakings exercise several business activities next to or complementary to each other. Scoping out a sector description is therefore a balancing act between bringing together business activities subject to similar sustainability impacts, risks, and opportunities without affecting undertakings that are effectively unrelated to the core business activity of that sector. For example, many mining undertakings also process the metals they have excavated. However, most of the disclosure requirements that are set for mining undertakings are quite different than the ones defined for metal processing undertakings. An undertaking that has solely metal processing activities would not provide useful sustainability information relying on the [draft] ESRS Mining, Quarrying and Coal because its material sustainability matters are different. Instead, in case of an undertaking combining both activities it will apply both sector standards [draft] ESRS Mining, Quarrying and Coal as well as [draft] ESRS Metal processing.

Several industries in one sector standard

- 15 The [draft] ESRS Sector Classification is divided into 35 sectors. This contrasts for example with the number of SASB industries which are 77 in total. It implies that several [draft] ESRS sectors include more than one industry which are combined because they are subject to the same sustainability impacts, risks and opportunities. For example, the [draft] ESRS Sector Standard on Mining, Quarrying and Coal incorporates the segments Mining, Quarries, Coal Mining and Services to these industries. EFRAG SR TEG and SRB discussed what should be the appropriate granularity. The proposed granularity is the result of a trade-off between a more meaningful aggregation of disclosures (which would correspond to a more granular system) and a more feasible standard setting approach (which would correspond to a lower number of Exposure Drafts to be produced). EFRAG considers that the compromised reached in the proposal is a reasonable one, thanks to the use of navigation tables. A navigation table in each [draft] ESRS Sector standard allows to determine which disclosure requirements are deemed material to a subsector, i.e. one level down the granularity at ESRS sector level. This allows, on one hand, to have an operable overall sector standard setting plan and, on the other hand, to achieve a meaningful result. .

Disaggregation level

- 16 For some sectors, current practice and other existing frameworks and standards show several disclosures disaggregated by location at operational site level or at country, asset or project level, i.e., at the disaggregation level. The following paragraphs present the tentative guidance that the SRB intends to follow in determining the appropriate level of disaggregation for a specific datapoint when developing a [draft] Sector ESRS.

- 17 A requirement to disclose information at individual site or asset level would in general be considered as appropriate when the general criteria in ESRS 1 on level of disaggregation (see paragraphs 54-57) would require disaggregated information. The decision of whether to require disaggregation of information at the operational site level and of whether to limit it to key operational sites or at a higher level of aggregation shall reflect the relevance of the resulting information compatibly with this relevance and the cost/benefit profile of the disclosures.
- 18 Consistent with ESRS 1, appropriate factors must be considered to define the appropriate level of granularity by keeping a focus on the necessity of the resulting information in order:
- (a) to be relevant;
 - (b) not to obscure the specificity and context necessary to convey a complete understanding of the information; and
 - (c) not to aggregate material information items that have a different nature.
- 19 When developing requirements for a [draft] sector ESRS, the following three general principles are applied.
- (a) Proportionate scope: The level of disaggregation required in a [draft] sector ESRS shall be aligned with the level at which the sustainability impacts occur. In some cases information on material impacts is more relevant at operational site level or local area level instead of at consolidated level. In that case the [draft] sector standard will in principle require to disaggregate up to that specific level the information stemming from the datapoints that cover the sustainability matter concerned.
 - (b) Material aspects affecting a specific site: When specific events or aspects, which are linked to a specific operational site or specific local area, trigger material changes in the impact profile of the undertaking, the sector-specific [draft] ESRS standard will in principle require disaggregation at the level of this specific site or local area.
 - (c) Alternative information based on internal control: In developing the required level of disaggregation, before defining a granularity at operational site level, the [draft] sector ESRS should consider whether relevant information can be obtained otherwise, e.g., by requiring disclosing alternative information based on the internal control evidence of the undertaking.

Treatment of wholesale and retail sale activities

- 20 The economic sales activities are grouped in NACE Section G which includes the Classes 46 Wholesale trade and 47 Retail trade.
- 21 EFRAG considered an alternative approach, where all these sales activities were grouped together in the separate sector "Sales and Trade". During the SEC 1 workshops held in February 2024 with the sector communities this approach received many comments. Constituents thought that bringing all sales activities together (irrespective of what is being sold) created an artificial split between the sales and production activities of a particular product or service. Also there were concerns of how to achieve the desired level in commonality in IROs between sales and production activities. I.e. the fear that IROs solely based on warehousing, logistics and transport do not "tell the entire story" of the IROs such a distributor is subject to.
- 22 To address these concerns EFRAG assigned the specialised sales activities (wholesale and retail) to the relating manufacturing sectors as a separate subsector. This allows specialised distributors to first apply the disclosures in the relevant subsector of the sector standard it is subject to. Secondly, supply chain related disclosures can be found in the same sector standard (in the manufacturing subsector). In case of an integrated entity (combining both manufacturing and sales) it would apply both subsectors of the sector standard it is subject to.
- 23 Non-specialised sales (retail and wholesale) remain grouped under the Sales and Trade sector. As these entities sell many products from different sectors it would otherwise be impossible to assign them to relevant manufacturing sector(s).

Treatment of leasing activities

- 24 Most operational leasing activities can be found in NACE Section O Administrative and support service activities under the NACE Class 77 Rental and Leasing activities. Note that NACE uses the terms "rental" and "leasing" interchangeably. Financial leasing activities can be found under the NACE Class L.64.91 Financial leasing.
- 25 There are however more NACE Classes that refer to leasing activities. Under the SEC¹ Sector classification financial leasing is assigned to the Credit Institutions sector, while operational leasing activities are assigned to the manufacturing sectors they relate to, as part of the distribution subsector of each ESRS sector.
- 26 The following table lists the different NACE Classes that refer to leasing activities as well as the ESRS Sectors that harbour them:

| ESRS Sector | NACE Class |
|----------------------------------|---|
| Agriculture, Farming and Fishing | A.01.61 Support activities for crop production |
| Forestry | A.02.40 Support services to forestry |
| Power production and utilities | D.35.14 Distribution of electricity |
| Power production and utilities | D.35.22 Distribution of gaseous fuels through mains |
| Water and Waste | E.36.00 Water collection, treatment and supply |
| Construction and Engineering | F.43.99 Other specialised construction activities n.e.c. |
| Sales and Trade | G.47.91 Intermediation service activities for non-specialised retail sale |
| Road Transport | H.49.33 On-demand passenger transport service activities by vehicle with driver |
| Road Transport | H.49.41 Freight transport by road |

SEC 1 Sector Classification – Basis for Conclusions

| ESRS Sector | | NACE Class |
|---|---------|--|
| Road Transport | H.49.42 | Removal services |
| Other transportation | H.50.10 | Sea and coastal passenger water transport |
| Other transportation | H.50.20 | Sea and coastal freight water transport |
| Other transportation | H.50.30 | Inland passenger water transport |
| Other transportation | H.50.40 | Inland freight water transport |
| Other transportation | | |
| Road Transport | H.52.24 | Cargo handling |
| Other transportation | H.51.10 | Passenger air transport |
| Other transportation | H.51.21 | Freight air transport |
| Information Technology | K.63.10 | Computing infrastructure, data processing, hosting and related activities |
| Credit Institutions | L.64.91 | Financial leasing |
| Real estate and services | M.68.20 | Rental and operating of own or leased real estate |
| Real estate and services | M.68.31 | Intermediation service activities for real estate services |
| Real estate and services | M.68.32 | Other real estate activities on a fee or contract basis |
| Motor vehicles | O.77.11 | Rental and leasing of cars and light motor vehicles |
| Motor vehicles | O.77.12 | Rental and leasing of trucks |
| Household goods | O.77.21 | Rental and leasing of recreational and sports goods |
| Household goods | | |
| Textiles, Accessories, Footwear and Jewelleries | | |
| Agriculture, Farming and Fishing | O.77.22 | Rental and leasing of other personal and household goods |
| Machinery and Equipment | O.77.31 | Rental and leasing of agricultural machinery and equipment |
| Machinery and Equipment | O.77.32 | Rental and leasing of construction and civil engineering machinery and equipment |
| Information technology | O.77.33 | Rental and leasing of office machinery, equipment and computers |
| Other transportation | O.77.34 | Rental and leasing of water transport equipment |
| Other transportation | O.77.35 | Rental and leasing of air transport equipment |
| Machinery and Equipment | | |
| Motor vehicles | | |
| Other transportation | | |
| Recreation and Leisure | O.77.39 | Rental and leasing of other machinery, equipment and tangible goods n.e.c. |
| Household goods | | |
| Medical instruments | | |
| Agriculture, Farming and Fishing | | |

SEC 1 Sector Classification – Basis for Conclusions

| ESRS Sector | NACE Class |
|-------------------------|---|
| Media and communication | |
| Professional Services | Leasing of intellectual property and similar products, except copyrighted works |
| 0.77.40 | |
| Professional Services | Intermediation service activities for rental and leasing of cars, motorhomes and trailers |
| 0.77.51 | |
| Professional Services | Intermediation service activities for rental and leasing of other tangible goods and non-financial assets |
| 0.77.52 | |
| Recreation and Leisure | Amusement and recreation activities n.e.c. |
| S.93.29 | |

- 27 All leasing activities under NACE refer solely to the lessor perspective. Reporting from the lessee side does not affect the SEC 1 Sector Classification for two reasons:
- (a) all leasing in the NACE Classification refers to the lessor perspective, and
 - (b) all undertakings in the economy can act as lessees of different underlying items.
- 28 To identify who should report on the IROs associated to the leased asset, EFRAG looks at who is entitled during the reporting period to the right-to-use of the underlying asset. No difference is considered between operational leasing and financial leasing, as they expose undertakings to substantially the same impacts. In practice, it is usually the lessee who manages and operates the underlying asset, thereby having right-to-use it during the lease period.
- 29 EFRAG observes that, fundamentally, for impacts there is no difference in the sustainability matters and disclosure requirements between "bought" and "leased" underlying assets. For example, a leased car pollutes as much as a purchased one, and this principle applies to other impact related sustainability matters that relate to the underlying assets.
- 30 EFRAG considered whether for financial materiality (disclosure on material risks and opportunities) the same approach used for impacts would be appropriate or whether there should be an approach closer to the financial reporting approach. Based on IFRS accounting standards, a financial lease is treated similarly to a lending transaction, where the lessee recognises in its accounts the risks and rewards associated to the ownership of the asset (i.e. the asset is recognised on balance sheet, as well as a financial liability associated to it). On the contrary, operating leases are treated as service contracts, where the lessee only recognises the fees corresponding to the rentals of the reporting period.
- 31 EFRAG considers that the same approach as for impacts should also be adopted for the risks and opportunities. This is because what matters in sustainability reporting is not the financial risks and rewards arising from the ownership of the asset, differently from what is done in financial reporting. Here the focus is on risks and opportunities arising from impacts, dependencies or other factors (e.g. systemic regulation) pertaining with the specific sustainability matter.
- 32 For example, an undertaking (lessee) that aims to reduce its GHG emissions, may ask the lessor to provide electrical cars for its fleet. While this would help in reducing the greenhouse gas impact of the undertaking, it will result in a higher financial impact as electrical cars are generally more expensive than cars with a combustion engine. As such, the proposed approach would allow to capture the financial risks associated to climate change arising from the use of the leased asset.
- 33 However, as part of the value chain reporting, the lessor would have to report the material impacts deriving from its downstream relationships. EFRAG considers that, for example, if a lessor leases a car fleet to a logistic company, including in the sustainability statement of

the lessor the Scope 3 GHG emissions of those cars (that are used by the logistic company) would provide relevant information. From a practical point of view, the lessor could prepare an estimate of Scope 3 GHG emissions based on the number of kilometres for the period and this in an information to which in general they have access.

NACE 2-1

- 34 NACE rev. 2.1 will be used for European statistics from 2025 onwards and was adopted by the European Commission in October 2022. NACE rev. 2.1 introduces new concepts at all levels of the classification and restructures a number of the existing headings. In particular, some noteworthy changes are:
- (a) Insertion of implementation rules for agriculture, newspapers, journals, and periodicals specifying how to classify certain of these activities. For example, using number of hours worked to classify vertically integrated agricultural activities:
 - (i) Expansion and adding of sustainability related activities;
 - (ii) More detailed remediation activities, including storage of captured carbon dioxide;
 - (iii) Waste treatment, energy and materials recovery;
 - (iv) Engineering, testing, scientific research activities; ...
 - (b) Modernising the list of economic activities eg:
 - (i) Crypto activities are added to the financial sector;
 - (ii) Addition of specialised construction activities;
 - (iii) More explicit description of activities in relation to biofuels;
 - (iv) Addition of non-scheduled passenger transport by road;
 - (v) Clarification that in-store and online sales are not separated as most retail activities operate both together. Activities are not separated based on the distribution channels but on what is being sold and the targeted customer group (retail or wholesale);
 - (vi) Expansion of intermediation activities relating to economic activities as such transport, tutorial activities, real estate, IT, ...
 - (vii) 3D printing;
 - (viii) Expansion of medical activities; ...
- 35 Given the first application date of NACE 2-1 (2025) EFRAG has decided to base the ESRS sector classification on this new NACE version.

NACE Class adaptations

- 36 The NACE classification is at the core of how the ESRS Sectors have been composed. The advantage of this classification is that provides an exhaustive list of economic activities at a given moment in time. This contrasts for example with the EU Taxonomy which focuses on a specific set of activities with a particular objective. Using NACE thus allows to provide sector specific disclosures for the entire economic universe, not only some selected activities.
- 37 Of course, NACE as the economic universe it depicts, is subject to evolution where some economic activities become outdated and finally disappear while new economic activities are being created and gain importance. As NACE is regularly updated, also ESRS Sectors will share the same faith. Hence, SEC 1 is based on the most recent version of NACE 2.1.

SEC 1 Sector Classification – Basis for Conclusions

- 38 While NACE is an enumeration of economic activities, an ESRS Sector combines a number of these activities which are exercised by a group of undertakings that usually compete for delivering products or services to their client base. Within one sector also specialisation can occur, i.e. specialised suppliers that develop and deliver mostly custom-made subassemblies are also counted within the same ecosystem described as "sector". In addition, some economic activities are not specific to one sector but can be exercised within multiple sectors.
- 39 The ESRS Sectors use NACE Classes (4-digit level) as the basis for composing sectors. While granular, in some cases it is not enough to reflect the above. Further NACE Classes may combine different economic activities that are naturally not being exercised by the same undertakings.
- 40 Considering the above, it has been necessary to adapt the sector classification as follows:
- (a) Some NACE Classes are used more than once to reflect that these economic activities can be exercised under different sectors; and
 - (b) Some NACE Classes are split into their composing economic activities, especially where those economic activities belong to different sectors.
- 41 The table below provides an overview of NACE Classes that are used more than once in the Sector Classification:

| NACE Class | ESRS Sectors applied to | Clarification |
|--|---|--|
| A.02.20 Logging | Forestry and Wood products Bioenergy | Processing and transformation of biological raw materials into fuels is a better fit to Bioenergy sector |
| C.15.12 Manufacture of luggage, handbags, saddlery and harness of any material | Household goods Textiles, Accessories, Jewelry | These activities are pursued by both sectors |
| C.16.26 Manufacture of solid fuels from vegetable biomass | Forestry and Wood products Bioenergy | Processing and transformation of biological raw materials into fuels is a better fit to Bioenergy sector |
| C.19.20 Manufacture of refined petroleum products and fossil fuel products | Oil and Gas Bioenergy | Processing and transformation of biological raw materials into fuels is a better fit to Bioenergy sector |
| C.20.51 Manufacture of liquid biofuels | Chemicals Bioenergy | Processing and transformation of biological raw materials into fuels is a better fit to Bioenergy sector |
| C.25.99 Manufacture of other fabricated metal products n.e.c. | Household goods Construction materials Metal processing | NACE 25.99 is a "catch-all" NACE Class combining very different activities |
| C.26.11 Manufacture of electronic components | Electronics and electrical equipment Information Technology | C.26.11 Manufacture of electronic components |
| C.26.30 Manufacture of communication equipment | Electronics and electrical equipment Aerospace, defence and services | These activities are pursued by both sectors |

SEC 1 Sector Classification – Basis for Conclusions

| NACE Class | ESRS Sectors applied to | Clarification |
|---|--|---|
| C.26.51 Manufacture of instruments and appliances for measuring, testing and navigation | Electronics and electrical equipment Aerospace, defence and services | These activities are pursued by both sectors |
| C.26.52 Manufacture of watches and clocks | Household goods n.e.c. Textiles, Accessories, Jewelry Electronics and electrical equipment | Wrist watches form part of Textiles, Accessories and Jewelry, other watches and clocks can be classified under Electronics and electrical equipment or under Household goods n.e.c. |
| C.27.20 Manufacture of batteries and accumulators | Electronics and electrical equipment Chemicals | These activities are pursued by the three sectors. |
| C28.13 Manufacture of other pumps and compressors | Machinery and equipment Motor vehicles | These activities are pursued by both sectors |
| C.28.30 Manufacture of agricultural and forestry machinery | Machinery and equipment Motor vehicles | These activities are pursued by both sectors |
| C29.31 Manufacture of electrical and electronic equipment for motor vehicles | Electronics and electrical equipment Motor vehicles | These activities are pursued by both sectors |
| C.30.92 Manufacture of bicycles and invalid carriages | Household goods Medical instruments | Invalid carriages are better fitting to the Medical instruments sector |
| C.30.99 Manufacture of other transport equipment n.e.c. | Machinery and equipment Household goods | NACE 30.99 is a "catch-all" NACE Class combining very different activities |
| C.32.99 Other manufacturing n.e.c. | Textiles, Accessories, Footwear and Jewelleries Forestry and wood products Chemicals and polymers Metal processing Household goods Machinery and equipment Food and Beverages Professional services | NACE 32.99 is a "catch-all" NACE Class combining very different activities |
| C.33.16 Repair and maintenance of civilian air and spacecraft | Other transportation Aerospace, defence and services | These activities are pursued by both sectors |
| C.33.20 Installation of industrial machinery and equipment | Machinery and equipment Information technology | Installation of mainframes and similar computers is better placed |

SEC 1 Sector Classification – Basis for Conclusions

| NACE Class | ESRS Sectors applied to | Clarification |
|---|---|--|
| | | under the sector Information technology |
| C.35.12 Production of electricity from renewable sources | Power production and energy utilities Bioenergy | Processing and transformation of biological raw materials into fuels is a better fit to Bioenergy sector |
| C.35.21 Manufacture of gas | Power production and energy utilities Bioenergy | Processing and transformation of biological raw materials into fuels is a better fit to Bioenergy sector |
| D.35.30 Steam and air conditioning supply | Power production and energy utilities Water and Waste | Important range of activities described within this NACE code (e.g. production and distribution of steam, hot water, storage of thermal energy etc.) refers to district heating and cooling activities, which are commonly carried out by UPE undertakings |
| E.38.32 Landfilling or permanent storage | Water and Waste services Mining, quarrying and Coal | The NACE Class includes permanent underground storage of waste in a deep geological cavity, eg a salt or potassium mine and includes storage of captured carbon dioxide. The first activity is standing practice in the mining sector to store mining waste in both solid and liquid form. |
| F.41.00 Construction of residential and non-residential buildings | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.42.21 Construction of utility projects for fluids | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.42.22 Construction of utility projects for electricity and telecommunications | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.42.91 Construction of water projects | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.43.11 Demolition | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.43.12 Site preparation | Construction and Engineering Real estate Mining, quarrying and coal | REITS and mining undertakings also pursue these building activities |
| F.43.13 Test-drilling and boring | Construction and Engineering Real estate | REITS also pursue these building activities |

SEC 1 Sector Classification – Basis for Conclusions

| NACE Class | ESRS Sectors applied to | Clarification |
|---|--|---|
| F.43.21 Electrical installation | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.43.23 Installation of insulation | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.43.31 Plastering | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.43.32 Joinery installation | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.43.33 Floor and wall covering | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.43.34 Painting and glazing | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.43.35 Other building completion and finish | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.43.41 Roofing activities | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.43.50 Specialised construction activities in civil engineering | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.43.60 Intermediation service activities for specialised construction services | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.43.91 Masonry and bricklaying activities | Construction and Engineering Real estate | REITS also pursue these building activities |
| F.43.99 Other specialised construction services n.e.c. | Construction and Engineering Real estate | REITS also pursue these building activities |
| G.46.12 Activities of agents involved in the wholesale of fuels, ores, metals and industrial chemicals | Oil and Gas Mining, Quarrying and Coal Metal Processing Chemicals | NACE 46.12 is a NACE Class combining different activities |
| G.46.13 Activities of agents involved in the wholesale of timber and building materials | Forestry Construction and engineering | NACE 46.13 is a NACE Class combining different activities |
| G.46.14 Activities of agents involved in the wholesale of machinery, industrial equipment, ships and aircraft | Machinery and equipment Other transportation | NACE 46.14 is a NACE Class combining different activities |

SEC 1 Sector Classification – Basis for Conclusions

| NACE Class | ESRS Sectors applied to | Clarification |
|--|--|--|
| G.46.47 Wholesale of household, office and shop furniture, carpets and lighting equipment | Household goods Textiles, Accessories, Footwear and Jewelleries Electronics and electrical equipment | NACE 46.45 is a NACE Class combining different activities |
| G.46.50 Wholesale of information and communication equipment | Information technology Electronics and electrical equipment | NACE 46.50 is a NACE Class combining different activities |
| G.46.81 Wholesale of solid, liquid and gaseous fuels and related products | Oil and gas Bioenergy | Processing and transformation of biological raw materials into fuels is a better fit to Bioenergy sector |
| G.46.83 Wholesale of wood, construction materials and sanitary equipment | Forestry and wood products Construction and Engineering Construction Materials | NACE 46.83 is a NACE Class combining different activities |
| G.47.40 Retail sale of information and communication equipment | Information technology Electronics and electrical equipment | NACE 47.40 is a NACE Class combining different activities |
| G.47.55 Retail sale of furniture, lighting equipment, tableware and other household articles | Household goods Electronics and electrical equipment | NACE 47.55 is a NACE Class combining different activities |
| G.47.76 Retail sale of flowers, plants, seeds, fertilisers, pets and pet food | Agriculture Food and Beverages Mining, Quarrying and Coal | NACE 47.76 is a NACE Class combining different activities |
| H.52.10 Warehousing and storage | Other transportation Road transport | Warehousing and cargo handling are part of both sectors. |
| H.52.21 Service activities incidental to land transportation | Other transportation Road transport | Servicing activities are part of both sectors. |
| H.52.24 Cargo handling | Other transportation Road transport | Warehousing and cargo handling are part of both sectors. |
| H.52.25 Logistics service activities | Other transportation Road transport | Warehousing and cargo handling are part of both sectors. |
| H.52.26 Other support activities for transportation | Other transportation Road transport | Support activities are part of both sectors. |
| H.52.32 Intermediation service activities for passenger transportation | Other transportation Road transport | Intermediation service activities are part of both sectors. |
| H.53.10 Postal activities under universal service obligation | Other transportation Road transport | Postal services are part of both sectors, as postal services are not limited to transport by road. |

SEC 1 Sector Classification – Basis for Conclusions

| NACE Class | ESRS Sectors applied to | Clarification |
|--|--|--|
| H.53.20 Other postal and courier activities | Other transportation Road transport | Postal services are part of both sectors, as postal services are not limited to transport by road. |
| H.53.30 Intermediation service activities for postal and courier activities | Other transportation Road transport | Postal services are part of both sectors, as postal services are not limited to transport by road. |
| L.64.99 Other financial service activities, except insurance and pension funding n.e.c | Capital Markets Insurance | NACE 64.99 is a "catch-all" NACE Class combining very different activities |
| N.72.10 Research and experimental development on natural sciences and engineering | Professional services Pharma and biotechnology | These activities are pursued by both sectors |
| N.74.99 All other professional, scientific and technical activities n.e.c. | Professional services Recreation and Leisure | NACE 74.99 is a "catch-all" NACE Class combining very different activities |
| O.77.22 Rental and leasing of other personal and household goods | Household goods Textiles, Accessories, Footwear and Jewelleries Agriculture, Farming and Fishing | NACE 77.22 is a "catch-all" NACE Class combining different activities |
| O.77.39 Rental and leasing of other machinery, equipment and tangible goods n.e.c. | Machinery and Equipment Motor vehicles Other transportation Recreation and Leisure Household goods Medical instruments Agriculture, Farming and Fishing Media and communication | NACE 77.39 is a "catch-all" NACE Class combining very different activities |
| Q.86.92 Patient transport by ambulance | Healthcare and services Road transport Other transportation | The economic activity relates essentially to transport and the proposed sector classification does not differentiate between the type of cargo |
| Q.86.99 Other human health activities n.e.c. | Health care and services Road transport Other transportation Professional services | While most activities relate to healthcare some specific activities are a best fit to other sectors |
| R.88.89 Other social work activities without accommodation n.e.c. | Professional services | While most activities relate to Professional services some specific |

SEC 1 Sector Classification – Basis for Conclusions

| NACE Class | ESRS Sectors applied to | Clarification |
|--|---|---|
| | Recreation and Leisure | activities are a best fit to Recreation and Leisure |
| T.94.99 Activities of other membership organisations n.e.c | Professional services Recreation and Leisure | While most activities relate to Professional services some specific activities are a best fit to Recreation and Leisure |
| T.95.29 Repair and maintenance of personal and household goods | Household durables Textiles, Accessories, Footwear and Jewelleries | These activities are pursued by both sectors |

Why ESRS sector classification cannot be reconciled with the EU Taxonomy¹ activities

- 42 The EU Taxonomy is a classification system, establishing a list of environmentally sustainable economic activities and aims in steering sustainable investment and implement the European green deal. That goal is different from the development of [draft] ESRS Sector standards which is to support the disclosure requirements that are connected to the sector(s) where an undertaking is active in.
- 43 Disclosures relating to the EU Taxonomy activities are incorporated in the agnostic ESRS requirements. ESRS 2, SBM 1 requires undertakings to disclose a disaggregation of revenues derived from coal, from oil and from gas, as well as the revenues derived from Taxonomy-aligned economic activities related to fossil gas as required under Article 8(7)(a) of Commission Delegated Regulation 2021/2178.
- 44 In addition to this, ESRS E1-1 Climate change requires undertakings to disclose as part of their transition plan for climate change key performance indicators of EU Taxonomy aligned CapEx and where relevant the CapEx plans. For undertakings with economic activities that are covered by delegated regulations on climate adaptation or mitigation under the Taxonomy Regulation, an explanation of any objective or plans (CapEX, CapEx plans, OpEX) that the undertaking has for aligning its economic activities (revenues, CapEx, OpEx) with the criteria established in Commission Delegated Regulation 2021/2139 is requested.
- 45 ESRS E2-2 which relates to actions and resources related to pollution, notes that undertakings may specify where they meet the Do No Significant Harm criteria for pollution prevention and control.
- 46 In accordance with ESRS E4-1 which relates to transition plans on biodiversity, undertakings may explain any objective or plans (CapEX, CapEx plans) that it has for aligning its economic activities (revenues, CapEx) with the criteria on biodiversity established in the EU Taxonomy regulation.
- 47 In addition to the above, EFRAG has considered whether the EU Taxonomy activities should be aligned with the ESRS Sector framework. An analysis of this has shown the following issues.

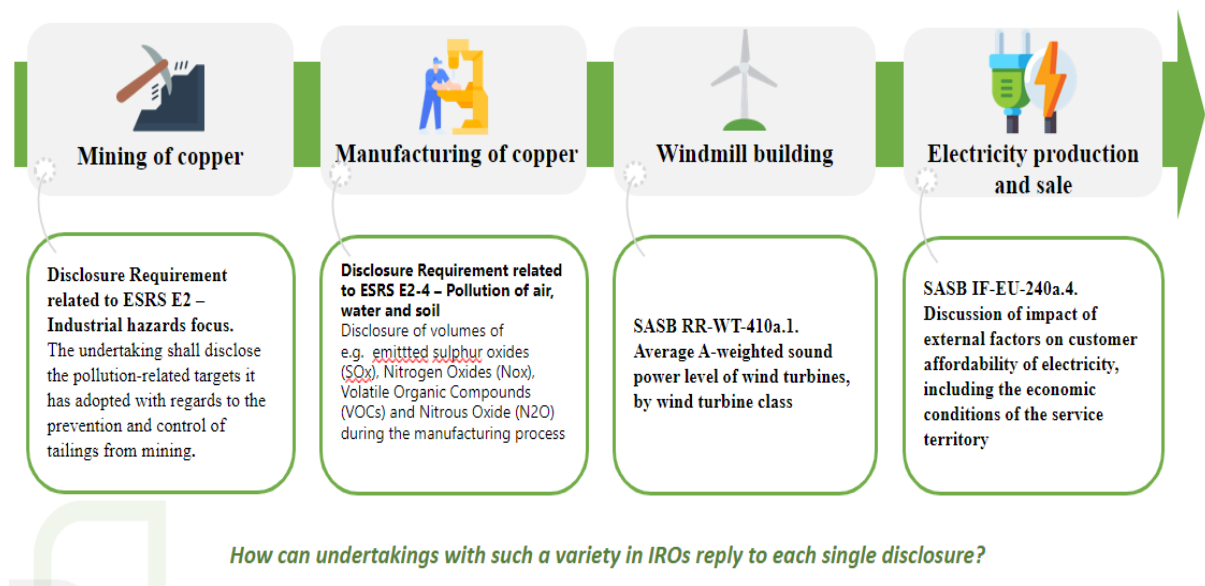
¹ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

- 48 Compared to most of the data requested under a [draft] ESRS Sector standard, the EU Taxonomy activities refer to only a (small) part of the scope of an ESRS Sector standard, leading to a very granular data output.
- 49 The EU Taxonomy classification, while integrating NACE, does not allow a one-to-one relationship with NACE in all cases. In about half of the circumstances the relationship is characterised by a “1 to n” relationship. It means that the same EU Taxonomy activity occurs under multiple sectors. This has the following consequences:
- (a) Considering from the EU Taxonomy perspective: one Taxonomy activity can relate to multiple sectors – creating an “in between” or “supra sector” level of data higher than sector specific data, but lower than the agnostic data level; and
 - (b) Considering from the ESRS perspective: one sector can host multiple EU Taxonomy activities (in the current state of available EU Taxonomy activities – 20 to 30 or more) leading to breaking down sector data in a very granular format if integrated. This leads to data collection per EU Taxonomy activity.
- 50 The EU Taxonomy refers in some cases to NACE activities with 2 digits or 3 digits only. In contrast, ESRS Sector standards are built on NACE activities defined with 4 digits, so more detailed. As a result, one EU Taxonomy activity can refer to different underlying ESRS sectors.
- 51 Similar EU Taxonomy activities can affect different ESRS Sectors subject to the EU Taxonomy environmental objective involved. This implies that if a party wants to collect revenue data for climate change mitigation purposes, these data need to be separately identified from the revenue data for other environmental objectives.
- 52 Some EU Taxonomy activities are “unassigned” to any NACE code, which will require judgement to assign them to one or more particular ESRS Sectors.
- 53 Finally, the development of EU Taxonomy activities is still ongoing, so any alignment would only be partial.
- 54 When discussing the relationship EU Taxonomy and ESRS Sector standards with financial sector specialists, most agreed there was no need to align the scope of the ESRS Sector standards with the EU Taxonomy activities. Several reasons were provided for that view:
- (a) The financial sector is in need for a view of the total revenue amount related to EU Taxonomy activities, but there is no need to collect individual EU Taxonomy activities revenue data per sector. As mentioned above, one sector can host 20 to 30 or more different EU Taxonomy activities;
 - (b) The difficulties in collection of data from different industries is not related to the relationship EU Taxonomy vs ESRS Sector standards, instead these are caused by:
 - (i) The large majority of loans granted to undertakings are general purpose loans, ie the bank providing the loan has no detailed view on how the undertaking spends the money, let alone if the investments done thanks to the loan relate to one or another EU Taxonomy activity, entirely or partly;
 - (ii) For most of the loans there is no information available which legal entity within the undertaking’s overall structure will use the loan received.
 - (c) The EU Taxonomy encodes different activities similarly, which leads to identification of EU Taxonomy activities per environmental objective as discussed above.
- 55 These issues cannot be resolved within the ESRS framework but relate more to the detailed loan arrangements between financial institutions and their corporate clients.

56 EFRAG has discussed the above elements with representatives of the Platform on Sustainable Finance during which the above elements have been considered. As the agnostic ESRS standards already incorporate reference to the EU Taxonomy activities and a detailed mapping at sector level may – given the difficulties described above – could be misleading, EFRAG has chosen not to integrate the EU Taxonomy activities into the ESRS Sector standards.

Why not developing sectors along the value chain?

- 57 During the February 2024 workshops, several sector Community members suggested that undertakings should apply, besides sector standards relating to their own activities, also sector standards that relate to their value chain(s). EFRAG notes that while each sector will have to report on their value chain IROs, it is not feasible to affect the sector boundary for this. To explain this, let's go through one value chain in relation to the excavation of copper ore all through the delivery of electricity by a utility undertaking.
- 58 In identifying relevant disclosures for each step in the value chain, we rely on different sources. For the excavation of copper ore we have taken an example from the [draft] ESRS “Mining, Quarrying and Coal”. For the manufacturing of copper we rely on ESRS E2 “Pollution”, for windmill building on SASB “Wind Technology and project developers” and for electricity production and sale on SASB “Electric Utilities and power generators”.
- 59 ESRS sectors are built by grouping undertakings which have similar IROs, and thus with the expectation that a large majority of the grouped undertakings will come to the same outcome in assessing whether sustainability matters (and the related disclosures) are material to them.
- 60 In contrast, by grouping undertakings along the value chain, as illustrated below, that expectation may not be realistic. In addition, there is not one single value chain, but multiple value chains may occur. Those difficulties are an important reason not to determine the sector boundary based upon the value chain. Instead, each sector undertaking will have to report on their material value chain IROs.



Mapping with other frameworks

61 ESRS Sector standards have been mapped by EFRAG Secretariat with the following frameworks:

- (a) Pillar III (EBA Implementing Technical Standards on Pillar III disclosures on environmental, social and governance risks);
 - (b) SASB industries (Sustainability Accounting Standards Board);
 - (c) GRI (Global Reporting Initiative); and
 - (d) FINREP (EBA Implementing Technical Standards on Financial Reporting according to IFRS).
- 62 The mappings with Pillar III and FINREP will allow banks to align the ESRS Sector requirements with their regulatory reporting requirements of their lending books.
- 63 The mappings with SASB industries and GRI will allow undertakings that are already applying these frameworks to situate themselves within the ESRS framework. As the development of ESRS Sector standards is still ongoing, further changes may be brought forward to these mappings, if need be. These mappings are available in the Annex to this document.

Application requirements

- 64 The application requirements aim at demonstrating the use of ESRS Sector standards under different circumstances. They are hypothetical examples that allow undertakings to understand how and when to apply one or more ESRS Sector standards.

Sectorial comments

- 65 In February 2024 EFRAG held 11 workshops with the respective Sector Communities of each ESRS Sector standard during which several changes to the classification were discussed. The comments that arose during these workshops and the extent and the reasons why they have been integrated in the Sector Classification are explained below.

Agriculture, Farming and Fishing

Dealing with Tobacco

- 66 EFRAG has decided not to create a separate ESRS sector on tobacco but instead to incorporate the related activities into the Agriculture and Food and beverage sectors by assigning the respective NACE Classes A.01.15 Growing of tobacco and C.12.00 Manufacture of tobacco products to these respective sectors. The reasons behind this decision were as follows:
- 67 The growing of tobacco is highly similar to the growing of other crops and thus subject to the same impacts and sustainability matters.
- 68 The Food and Beverage sector already includes the production of alcoholic beverages which have negative health effects. That is found similar to the manufacturing of tobacco. Given its specificities, the inclusion of tobacco manufacturing would fit as a subsector within the Food and Beverage sector.
- 69 Also, tobacco being a high impact sector, its inclusion in the first set of ESRS Sector standards to be developed, allows to address the issues arising in this sector earlier than otherwise.
- 70 One member of the Sector Community disagreed with this decision and advocated the creation of a dedicated tobacco standard. They noted that in 2021, the EU adopted Europe's Beating Cancer Plan including a measurable target to reduce tobacco use by 5% by 2040. In order to achieve this objective several EU directives in relation to the production, use and advertising for tobacco are being revised. They argue that in order to align with these EU goals the creation of a separate Tobacco sector is necessary.

- 71 In addition, they point out that the proposed tobacco sector is to cover new and emerging products (heated tobacco products, nicotine pouches, e-cigarettes, vapes/puffs and other Electronic Nicotine Delivery Systems (ENDS)). In their view these devices for consuming of tobacco products should not be categorised separately as they are manufactured and sold by the same companies producing traditional tobacco products. Treating these new products together with traditional tobacco products would also ensure consistency and coherence with the regulatory framework.
- 72 EFRAG has sympathy for these arguments but notes that Europe’s Beating Cancer plan does not solely target reduction in smoking. In contrast it is more comprehensive and addresses in addition i) the reduction of harmful alcohol consumption, ii) health promotion through healthy diets and physical activity, iii) reduction of environmental pollution, iv) reduction of exposure to hazardous substances and radiation and v) preventing cancers caused by infections.
- 73 EFRAG acknowledges that smoking contributes highly to the occurrence of lung cancer and – to a lesser extent – to stomach cancer or cervical cancer. In contrast the excessive use of alcohol and unhealthy diet leading to obesity contribute to the occurrence of colorectal cancer, breast cancer or prostate cancer.
- 74 Given the above EFRAG considers that its approach to include the manufacturing of tobacco – together with the newly emerging tobacco products – into the sector standard on Food and Beverages fits well with the Beating Cancer Plan of the EU. This because it will allow a comprehensive approach regards the EU goal to reduce the occurrence of cancers by addressing not only smoking, but also alcohol production and the use of unhealthy foods.

Biofuels - bioenergy

- 75 EFRAG has created a new sector on Bioenergy. Please refer to that chapter for the reasons of doing so.

Boundaries between “Agriculture, Farming and Fishing” and “Food and Beverages”

- 76 Some Sector Community members questioned the development of two ESRS standards and argued for an integration of those standards.
- 77 EFRAG acknowledges that the “Agriculture, Farming and Fishing” sector is part of the value chain of the “Food and Beverages” sector but this is not a sufficient reason to merge both sectors. EFRAG notes that while both sectors share few sustainability matters (e.g. food safety), they differ in many other areas such as GMO management or animal welfare. Also, other sustainability frameworks use different sectors for these economic activities, so a merge between both would hamper the interoperability between ESRS sectors and other sustainability frameworks.

Additional mappings

- 78 Some Sector Community members suggested to include additional mappings such as with the Best Available Techniques (BAT) or the wider environmental legislation. EFRAG notes that this is part of each individual sector development and falls therefore out of scope of the sector classification itself.

Specialised sales and leasing activities

- 79 Specialised wholesale and retail sale activities are included in this sector. They relate to the sale of, amongst others, agricultural raw materials, live animals, grain, unmanufactured tobacco, seeds and flowers. Attention is drawn to the fact that the NACE Class “G.47.76 Retail sale of flowers, plants, seeds, fertilisers, pets and pet food” is used in multiple sectors as it combines different materials.

SEC 1 Sector Classification – Basis for Conclusions

- 80 NACE Class “O.77.22 Rental and leasing of other personal and household goods” also covers the rental of flowers and plants. NACE Class “O.77.39 Rental and leasing of other machinery, equipment and tangible goods n.e.c.” includes the rental and leasing of animals such as herds and racehorses.

Forestry and Wood products

- 81 Because of the high degree of vertical integration the sectors “Forestry” and “Wood and paper products” have been merged into the newly combined sector “Forestry and Wood products”.

Specialised sales and leasing activities

- 82 Specialised wholesale and retail sale activities are included in this sector. They relate to the sale of, amongst others, timber, newspapers and wood.
- 83 NACE Class “G.46.13 Activities of agents involved in the wholesale of timber and building materials” includes the wholesale of timber, pallets and wooden containers and their parts. NACE Class G.47.62 Retail sale of newspapers and other periodical publications and stationary” includes the sale of periodicals and journals and paper. NACE Class “G.46.83 Wholesale of wood, construction materials and sanitary equipment” includes the wholesale of wood in the rough, products of primary processing of wood, pallets, other load boards of wood and barrels, raw and assembled wood flooring”.

Construction and engineering

- 84 Some Sector Community members noted that several construction activities were also executed by REITS in the Real estate sector. As a result several NACE Divisions are used more than once: F.41 Construction of residential and non-residential buildings, F.42 Civil engineering and F.43 Specialised construction activities.

Power production and energy utilities

Storage of thermal energy

- 85 Storage of thermal energy is captured by NACE Class D.35.30 Steam and air conditioning supply. This NACE Class is used multiple times.

Biofuels - bioenergy

- 86 EFRAG has created a new sector on Bioenergy. Please refer to that chapter for the reasons of doing so.

Water and Waste services

Storage of thermal energy and carbon capture

- 87 Storage of thermal energy is captured by NACE Class “D.35.30 Steam and air conditioning supply”. This NACE Class is used multiple times.
- 88 Carbon capture and storage is captured by NACE Class “E.39.00 Remediation activities and other waste management activities”.

Recreation and Leisure

Dealing with Gaming

- 89 EFRAG has decided to integrate gambling and betting activities into the Recreation and Leisure sector. These activities are often not exercised in isolation. Casinos may offer different entertainment activities to their guests including concerts, shows or magic performances. Also, spa and wellness or massage are offered next to buffets and restaurants or snack bars. Also in online gaming players are offered virtual rewards,

bonuses and other experience enhancing items. Further, some computer games include elements of gaming.

- 90 EFRAG fully acknowledges the negative compulsive habit impacts of gaming (including the knock-on effects resulting from that such as indebtedness) but sees this as insufficient to address this through a separate sector. Recreational activities, including gaming, will share several sustainability matters such as dealing with waste, energy consumption, emissions related to transport of guests coming to the events, (excessive) water use in potential water scarce areas, health related issues (prevention of alcohol abuse or creation of smoke free areas) and more. For these reasons EFRAG is of the view Gaming is a best fit with the other Recreational activities.

Specialised sales and leasing activities

- 91 NACE Class “G.47.69 Retail sale of cultural and recreational goods n.e.c.” includes, amongst others, the sale of recorded media, musical instruments or the activities of commercial art galleries.
- 92 NACE Class “O.77.39 Rental and leasing of equipment for events, fairs and exhibitions” includes, amongst others, the rental of equipment for events e.g. for rigging power, light, sound and stage equipment, the rental of furniture for events, fairs and exhibitions or the rental and leasing of slot machines.

Capital markets

Financial conglomerates

- 93 Generally, the activities of holding companies and head offices are not classified in one specific sector as they may relate to any of the ESRS Sectors. As an exception, activities of eligible holding undertakings owning controlling levels of equity and with the sole purpose of owning subsidiaries active in asset management, banking or insurance are included in the sector scope. Only holdings that are on the list of financial conglomerates in execution of Directive 2002/87/EC (FICOD) are eligible.

REITS

- 94 Real estate investment trusts are part of NACE Division 68. In distinguishing if real estate activities fall under [draft] ESRS Real Estate or [draft] ESRS Capital Markets, EFRAG relies on the following principle. If an undertaking physically holds the buildings, infrastructure or other real estate, that undertaking will follow the requirements of [draft] ESRS Real Estate. In contrast, if an undertaking hold shares in a REITS as an investment, that undertaking will follow the [draft] ESRS Capital Markets for those investments. This principle is also followed by other sustainability standard setters such as ISSB and GRI and hence enhances interoperability of the ESRS framework.

Credit institutions

Financial conglomerates

- 95 Generally, the activities of holding companies and head offices are not classified in one specific sector as they may relate to any of the ESRS Sectors. As an exception, activities of eligible holding undertakings owning controlling levels of equity and with the sole purpose of owning subsidiaries active in asset management, banking or insurance are included in the sector scope. Only holdings that are on the list of financial conglomerates in execution of Directive 2002/87/EC (FICOD) are eligible.

Insurance

Financial conglomerates

- 96 Generally, the activities of holding companies and head offices are not classified in one specific sector as they may relate to any of the ESRS Sectors. As an exception, activities of eligible holding undertakings owning controlling levels of equity and with the sole purpose of owning subsidiaries active in asset management, banking or insurance are included in the sector scope. Only holdings that are on the list of financial conglomerates in execution of Directive 2002/87/EC (FICOD) are eligible.

Pension funds

- 97 NACE Class “L.65.30 Pension funding” is part of the Insurance sector as these are seen as highly similar to life insurance products. A pension fund can be seen as a type of investment fund which aims to provide retirement income. These products include a mortality or morbidity cover which is subject to the same IROs as other life insurance products.

Health care and services

Miscellaneous

- 98 Several sector Community members suggested including animal testing in the sector. EFRAG notes that animal testing is not an economic activity as such under NACE and thus cannot be addressed when defining the boundary of the sector. In contrast EFRAG acknowledges that, animal testing as a practice, is to be addressed in identifying “animal welfare” as a relevant sustainability matter for this sector.
- 99 NACE Class “R.88.91 Child-day care activities” has been re-allocated from Health care and services to the Education sector. This because related impacts relate more to educational and social elements and also the value chain for this activity is closer to educational activities.

Aerospace, defence and services

- 100 EFRAG agreed with the comments from several sector Community members to change the previous sector name “Defence” into “Aerospace, defence and services” to better capture the activities (aeronautics, space and defence) within the sector and to align with other sustainability frameworks.
- 101 One sector Community member argued for separating the defence activities from civil aerospace and civil space activities due to the unique sustainability impacts, risks and opportunities these activities have. In addition, given the high government involvement several sustainability metrics often used in the civil aerospace area are subject to confidentiality restrictions in the defence area. EFRAG acknowledges this but notes that this can be addressed using different subsectors.
- 102 EFRAG disagrees with the argument that the use of subsectors increases the reporting burden. Sector specific disclosures relate to the exercise of economic activities, this implies that undertakings that are active in only one subsector generally need not to apply the disclosures of other subsectors. This reduces the reporting burden instead of increasing it. In some cases disclosures may affect different subsectors within one overall sector but also this does not increase the reporting burden as it allows horizontally integrated undertakings to capture all activities within those cross-subsector disclosures.

Space industry

- 103 To better reflect the activities occurring in this sector few NACE activities have been added. NACE Class C.26.30 Manufacture of communication equipment and NACE Class C.26.51 Manufacture of instruments and appliances for measuring, testing and navigation already used in the Electronics and electrical equipment sector was added to this sector. Also NACE

SEC 1 Sector Classification – Basis for Conclusions

Class C.33.16 Repair and maintenance of civilian air and spacecraft, already used in the Other transportation sector, was added. EFRAG notes that not for all cutting-edge activities within the space industry NACE descriptions are (already) available.

- 104 For the space industry, the manufacturing of transmitting or receiving antennae and GPS devices will be important, respectively under NACE Class C.26.30 and C.26.51.
- 105 EFRAG notes that part of the space industry activities is putting satellites into orbit or beyond. The manufacturing of such satellites is covered by NACE Class C.30.31 Manufacture of civilian air and spacecraft and related machinery which is part of the Aerospace, defence and services sector.

Chemicals and polymers

Biofuels - bioenergy

- 106 EFRAG has created a new sector on Bioenergy. Please refer to that chapter for the reasons of doing so.

Construction materials

Ceramics

- 107 Ceramics are non-metallic mineral products which are used for high-temperature industrial applications in different processes. These activities have been added to the Construction materials sector and include several NACE Classes. In particular NACE Classes C.23.42 Manufacture of ceramic sanitary fixtures, C. 23.42 Manufacture of ceramic insulators and insulating fitting, C.23.44 Manufacture of other technical ceramic products and C.23.45 Manufacture of other ceramic products.
- 108 In contrast, NACE Class C.23.41 Manufacture of ceramic household and ornamental articles is included in the Household goods n.e.c. sector.

Refractory products

- 109 Refractory products are materials created by kneading, molding and drying and used for high-temperature industrial applications e.g. steel, metal, cement, glass and ceramic production, waste incineration, petrochemical processes etc. Different types exist such as fired, non-fired refractories but also clay and high alumina bricks. These activities have been added to the Construction Materials sector and are captured by the NACE Class C.23.20 Manufacture of refractory products.

Electronics and electrical equipment

- 110 Several NACE Classes which relate to consumer electronics have been assigned the Household goods n.e.c. sector. These relate to C.26.40 Manufacture of consumer electronics, C.27.51 Manufacture of electric domestic appliances and C.27.52 Manufacture of non-electric domestic appliances.

Specialised sales and leasing activities

- 111 NACE Class G.47.55 Retail sale of furniture, lighting equipment, tableware and other household articles includes, amongst others, lighting equipment and solar household appliances.

Food and Beverages

Dealing with Tobacco

- 112 Please refer to “Agriculture, Farming and Fishing”.

Boundaries between “Agriculture, Farming and Fishing” and “Food and Beverages”

- 113 Please refer to “Agriculture, Farming and Fishing”.

Preparation of meals

- 114 For preparation of meals a distinction is made whether they are for postponed consumption or for immediate consumption. Meals prepared for postponed consumption are part of NACE Class C.10.85 Manufacture of prepared meals and dishes and are part of this sector, in contrast, meals prepared for immediate consumption are part of NACE Division 56 and are part of the Food and Beverages *services* sector.

Machinery and equipment

Abrasives

- 115 Abrasives are sharp and/or hard materials used to wear away the surface of softer, less resistant materials. They are used for grinding, cutting, honing, polishing, sanding and so on. Examples are grinding wheels, fibre discs, flap discs or abrasive belts which are generally mounted on machines. These activities have been added to the Machinery and Equipment sector and are captured by the NACE Class C.23.91 Manufacture of abrasive products.

Metal processing

- 116 The sector is divided in two subsectors, metal manufacturing and metal processing. The first subsector relates to the production of iron and steel, while the second subsector includes casting of iron, steel and other (non-ferrous) metals, the manufacture of metal structures and metal industrial goods.

Motor vehicles

- 117 EFRAG notes that for hydrogen powertrain technologies no specific NACE 2.1 class details this, so no explicit reference is made to this in description of activities of the sector (for more background on hydrogen in general please refer to Oil and Gas).

Pharma and biotechnology

Research and development

- 118 The scope of activities under NACE Class 72.10 Research and experimental development on natural sciences and engineering is used twice, once in this sector and once in the Professional Services sector. The activities covered are broad and also refer to research and development on agricultural, forestry and fisheries as well as natural sciences and engineering.

Textiles, Accessories, Footwear and Jewellery

Jewellery

- 119 Few sector Community members noted that the Jewellery sector differs from the Textiles sector in impacts, technologies used and distribution channels. EFRAG acknowledges this but notes that jewellery form a separate subsector within the Textiles, Accessories, Footwear and Jewellery sector. This allows to address the different impacts jewellery are subject to. While jewellery could alternatively be considered as a Household good, EFRAG notes that there is more affinity with textiles in the following areas: responsible resource use (while precious metals and gems are extracted from the earth, polyester clothes find their origin in petroleum), use of chemicals and the resulting pollution, waste generation, labour practices and violation of human rights and packaging.

Specialised sales and leasing activities

- 120 NACE Class G.46.47 Wholesale of household, office and shop furniture, carpets and lighting equipment includes, amongst others, the wholesale of carpets.

- 121 NACE Class G.47.53 Retail sale of carpets, rugs, wall and floor covering includes, amongst others, retail sale of carpets, rugs, curtains and net curtains.
- 122 NACE Class O.77.22 Rental and leasing of other personal and household goods includes, amongst others, rental of curtains, costumes, wedding dresses and shoes.

Mining, Quarrying and Coal

Salt mining

- 123 One sector Community member argued to include salt mining into the Agriculture, Farming and Fishing sector. EFRAG disagrees and notes that besides the harvesting of sea salt (solar evaporation), other methods such as deep shaft mining or the drilling of a well into a salt deposit layer rely on mining techniques and create similar IROs as other mine operations (industrial hazards, water usage, affected communities, ...).

Geophysical activities

- 124 Geophysical, geologic, seismic surveying and hydrologic surveying activities are part of NACE Class 71.12 Engineering activities and related technical consultancy, which itself sits within the Professional Services sector. These subsurface activities are done by specialised undertakings that provide their services not only to the mining industry, but also for oil and gas undertakings, windfarm builders, infrastructure projects and so on. These activities can be land based or marine based. EFRAG disagrees with including these activities in the mining sector as the related impacts for these activities differ from the pure mining activities (amongst others in relation to habitat destruction, waste, water pollution, deforestation, less impact on communities, less energy intensity, ...)

Oil and gas

Hydrogen

- 125 Hydrogen is explicitly mentioned as part of the following NACE economic activities:
- (a) C.20.11 Manufacture of industrial gases – production of hydrogen, not for energy supply through a network (Chemicals and polymers);
 - (b) C.35.21 Manufacture of gas – manufacture of hydrogen for the provision as a gaseous fuel through a permanent supply network (Power production and Energy Utilities);
 - (c) C.35.24 Storage of gas as part of network supply services – storage of hydrogen gas (Power production and Energy Utilities);
 - (d) G.46.85 Wholesale of chemical products – wholesale of hydrogen (Chemicals and polymers); and
 - (e) G.47.30 Retail sale of automotive fuel – retail sale of hydrogen for motor vehicles and motorcycles (Oil and gas).
- 126 Hydrogen is a molecule that can be produced from variety of feedstocks and through a number of technical routes, including, but not limited to:
- (a) Steam reforming (with or without carbon capture and storage);
 - (b) Electrolysis (based on fossil or non-fossil derived electricity);
 - (c) Biomass to hydrogen processes (pyrolysis, gasification, anaerobic digestion).
- 127 Depending on the feedstock and technical configuration of the process (feedstock origin, carbon capture and storage presence) the carbon footprint of production can vary.

- 128 The processes above can be taking place within the defined boundaries of economic activities. Production of hydrogen at certain characteristics is outlined in NACE 35.21 Manufacture of gas or 20.11 Manufacture of industrial gases.
- 129 It should be highlighted that NACE defines economic activity as one that 'takes place when resources such as capital goods, labour, manufacturing techniques or intermediary products are combined to produce specific goods or services. Thus, an economic activity is characterised by an input of resources, a production process and an output of products (goods or services)'. An activity may consist of one simple process, but 'may also cover a whole range of sub-processes, each mentioned in different categories of the classification (for example, the manufacturing of a car consists of specific activities such as casting, forging, welding, assembling, painting, etc.)'. Consequently, a specific production process (such as electrolysis, or steam reforming), or an output of products (such as hydrogen) may be present within a number of different economic activities, and thus different ESRS sectors.
- 130 At the same time, it should be emphasised that the technologies and solutions related to production of specific resources are a subject to constant evolution. Restricting an individual specific resource, process or output to a specific sector (or a group of sectors) may introduce limitations for the undertakings and creates risks of misalignments with the market landscape.

Real estate and services

Cleaning services

- 131 Several sector Community members noted that the IROs relating to cleaning services are very different from those relating to real estate activities. EFRAG acknowledges this comment and has included these activities within the Professional services sector.

REITS

- 132 Real estate investment trusts are part of NACE Division 68. In distinguishing if real estate activities fall under [draft] ESRS Real Estate or [draft] ESRS Capital Markets, EFRAG relies on the following principle. If an undertaking physically holds the buildings, infrastructure or other real estate, that undertaking will follow the requirements of [draft] ESRS Real Estate. In contrast, if an undertaking hold shares in a REITS as an investment, that undertaking will follow the [draft] ESRS Capital Markets for those investments. This principle is also followed by other sustainability standard setters such as ISSB and GRI and hence enhances interoperability of the ESRS framework.

Residential care

- 133 One sector Community member suggested to include residential care activities within the sector. These activities are part of NACE Division 87 Residential care activities and are included in the Healthcare and services sector. EFRAG disagrees with including these activities within the real estate sector because the difference in IROs both types of activities are subject to in, amongst others, the following areas: quality of care, social inclusion and fighting loneliness, exploitation of age-friendly environments. In addition, the construction and ownership of many of the elderly homes is separated from the economic activity of residential care which is taken care of by other companies.

Education

Child-day care

- 134 Child-day-care activities (NACE Class R.88.91) have been incorporated into this sector because of commonalities in areas such as, but not limited to, community engagement, resource management and equity and inclusion.

Professional services

Marketing

- 135 Marketing activities have been integrated into the Professional services sector. This relates to the following activities. NACE Class N.73.11 Activities of advertising agencies, N.73.12 Media representation, N.73.20 Market research and public opinion polling and N.73.30 Public relation and communication activities.
- 136 One sector Community member noted that marketing activities rely on access to personal data and therefore should be treated under a separate standard. EFRAG acknowledges the relationship between marketing activities and the importance of data but notes this is not different from other professional services such as legal, accounting, auditing and tax consultancy activities. EFRAG notes that there are common IROs in relation to customer relationships and social responsibility that bind these activities together.

ANNEX: Reconciliation of ESRS sector mapping with other classification systems

137 This annex provides a reconciliation of the ESRS sector mapping with the following classification systems:

- (a) Pillar III (EBA Implementing Technical Standards on Pillar III disclosures on environmental, social and governance risks)
- (b) SASB industries (Sustainability Accounting Standards Board) [PLEASE NOTE THAT AT THE TIME OF DRAFTING THIS DOCUMENT WE HAVE RECEIVED INITIAL RESPONSES TO THE MAIN GAP ANALYSIS FROM ISSB STAFF WHICH NEED TO BE PROCESSED];
- (c) GRI (Global Reporting Initiative) [PLEASE NOTE THAT AT THE TIME OF DRAFTING THIS DOCUMENT WE HAVE RECEIVED INITIAL RESPONSES TO THE MAIN GAP ANALYSIS FROM THE GRI STAFF WHICH NEED TO BE PROCESSED; and
- (d) FINREP (EBA Implementing Technical Standards on Financial Reporting according to IFRS).

ESRS sector – Pillar III mapping

138 This mapping has included the new NACE Section J “Publishing, broadcasting and content production and distribution activities” under NACE 2.1.

| ESRS Sector | Pillar III ESG |
|---------------------------------------|---|
| Agriculture, Farming and Fishing | A. Agriculture, forestry and fishing Wholesale and retail trade Exposures to other sectors (NACE codes K, N - V) |
| Forestry and Wood products | A. Agriculture, forestry and fishing C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials C.17 - Manufacture of pulp, paper and paperboard C.32 - Other manufacturing n.e.c. Wholesale and retail trade |
| Construction and Engineering | F.41 - Construction of residential and non-residential buildings F.42 - Civil engineering F.43 - Specialised construction activities |
| Power Production and Energy Utilities | D35.1 - Electric power generation, transmission and distribution |

SEC 1 Sector Classification – Basis for Conclusions

| | |
|---------------------------------|---|
| | <p>D35.11 - Production of electricity²</p> <p>D35.2 - Manufacture of gas; distribution of gaseous fuels through mains</p> <p>D35.3 - Steam and air conditioning supply</p> |
| Water and Waste Services | <p>D35.3 - Steam and air conditioning supply</p> <p>E - Water supply; sewerage, waste management and remediation activities</p> |
| Recreation and Leisure | <p>Wholesale and retail trade</p> <p>Exposures to other sectors (NACE codes K, N - V)</p> |
| Capital Markets | L - Financial and insurance activities |
| Credit Institutions | L - Financial and insurance activities |
| Insurance | L - Financial and insurance activities |
| Health Care and Services | Exposures to other sectors (NACE codes K, N - V) |
| Accommodations | I - Accommodation and food service activities |
| Food and Beverage Services | I - Accommodation and food service activities |
| Household goods n.e.c. | <p>C.15 – Manufacture of leather and related products of other materials</p> <p>C.23 - Manufacture of other non-metallic mineral products</p> <p>C.25 – Manufacture of other fabricated metal products, except machinery and equipment</p> <p>C.26 – Manufacture of computer, electronic and optical products</p> <p>C.27 – Manufacture of electrical equipment</p> <p>C.28 - Manufacture of machinery and equipment n.e.c.</p> <p>C.30 - Manufacture of other transport equipment</p> <p>C.31 – Manufacture of furniture</p> <p>C.32 - Other manufacturing</p> <p>Wholesale and retail trade</p> <p>Exposures to other sectors (NACE codes K, N - V)</p> |
| Aerospace, defence and services | <p>C.25 – Manufacture of other fabricated metal products, except machinery and equipment</p> <p>C.26 – Manufacture of computer, electronic and optical products</p> |

² Although not explicitly stated in the EBA tables, it is assumed this incorporates both production from both renewable and non-renewable sources (NACE 35.11 and 35.12)

SEC 1 Sector Classification – Basis for Conclusions

| | |
|--------------------------------------|---|
| | <p>C.30 - Manufacture of other transport equipment</p> <p>C.33 Repair, maintenance and installation of machinery and equipment</p> <p>H. 51 Air transport</p> <p>Exposures to other sectors (NACE codes K, N - V)</p> |
| Chemicals and polymers | <p>C.20 - Production of chemicals and chemical products</p> <p>C.22 - Manufacture of rubber and plastic products</p> <p>C.27 – Manufacture of electrical equipment</p> <p>C.32 - Other manufacturing</p> |
| Bioenergy | <p>A. Agriculture, forestry and fishing</p> <p>C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials</p> <p>C.19 - Manufacture of coke and refined petroleum products</p> <p>C.20 - Production of chemicals and chemical products</p> <p>D35.1 - Electric power generation, transmission and distribution</p> <p>D35.2 - Manufacture of gas; distribution of gaseous fuels through mains</p> <p>Wholesale and retail trade</p> |
| Construction Materials | <p>C.23 - Manufacture of other non-metallic mineral products</p> <p>C.25 - Manufacture of fabricated metal products, except machinery and equipment</p> <p>Wholesale and retail trade</p> |
| Electronics and electrical equipment | <p>C.26 - Manufacture of computer, electronic and optical products</p> <p>C.27 - Manufacture of electrical equipment</p> <p>C.29 - Manufacture of motor vehicles, trailers and semi-trailers</p> <p>C.33 – Repair, maintenance and installation of machinery and equipment</p> <p>Wholesale and retail sale</p> <p>Exposures to other sectors (NACE codes K, N - V)</p> |
| Food and Beverages | <p>C.10 - Manufacture of food products</p> <p>C.11 - Manufacture of beverages</p> <p>C.12 - Manufacture of tobacco products</p> <p>C.32 – Other manufacturing n.e.c.</p> |

SEC 1 Sector Classification – Basis for Conclusions

| | |
|---|---|
| | Wholesale and retail trade |
| Machinery and Equipment | <p>C.23 – Manufacture of other non-metallic mineral products</p> <p>C.28 - Manufacture of machinery and equipment n.e.c.</p> <p>C.30 - Manufacture of other transport equipment</p> <p>C.32 – Other manufacturing</p> <p>C.33 – Repair, maintenance and installation of machinery and equipment</p> <p>Wholesale and retail trade</p> <p>Exposures to other sectors (NACE codes K, N – V)</p> |
| Medical Instruments | <p>C.26 – Manufacture of computer, electronic and optical products</p> <p>C.30 – Manufacture of other transport equipment</p> <p>C.32 – Other manufacturing</p> <p>Wholesale and retail trade</p> <p>Exposures to other sectors (NACE codes K, N – V)</p> |
| Metal Processing | <p>C.24 – Manufacture of basic metals</p> <p>C.25 – Manufacture of fabricated metal products, except machinery and equipment</p> <p>C.32 – Other manufacturing</p> <p>C.33 – Repair, maintenance and installation of machinery and equipment</p> <p>Wholesale and retail trade</p> |
| Motor Vehicles | <p>C.22 - Manufacture of rubber and plastic products</p> <p>C.27 – Manufacture of electrical equipment</p> <p>C.28 – Manufacture of machinery and equipment</p> <p>C.29 - Manufacture of motor vehicles, trailers and semi-trailers</p> <p>C.30 - Manufacture of other transport equipment</p> <p>Wholesale and retail trade</p> <p>Exposures to other sectors (NACE codes K, N - V)</p> |
| Pharma and Biotechnology | <p>C.21 - Manufacture of basic pharmaceutical products and pharmaceutical preparations</p> <p>Wholesale and retail trade</p> <p>Exposures to other sectors (NACE codes K, N - V)</p> |
| Textiles, Accessories, Footwear and Jewelleries | <p>C.13 - Manufacture of textiles</p> <p>C.14 - Manufacture of wearing apparel</p> |

SEC 1 Sector Classification – Basis for Conclusions

| | |
|----------------------------|---|
| | <p>C.15 - Manufacture of leather and related products of other materials</p> <p>C.32 - Other manufacturing</p> <p>Wholesale and retail trade</p> <p>Exposures to other sectors (NACE codes K, N - V)</p> |
| Mining, Quarrying and Coal | <p>B.05 - Mining of coal and lignite</p> <p>B.07 - Mining of metal ores</p> <p>B.08 - Other mining and quarrying</p> <p>B.09 - Mining support service activities</p> <p>C.19 - Manufacture of coke and refined petroleum products</p> <p>C.20 – Production of chemicals and chemical products</p> <p>E.38 – Waste collection, recovery and disposal activities</p> <p>F. 43 – Specialised construction activities</p> <p>Wholesale and retail trade</p> |
| Oil and Gas | <p>B.06 - Extraction of crude petroleum and natural gas</p> <p>B.09 – Mining support service activities</p> <p>C.19 – Manufacture of coke and refined petroleum products</p> <p>H.49 - Land transport and transport via pipelines</p> <p>Wholesale and retail trade</p> |
| Real Estate | <p>F.41 – Construction of residential and non-residential buildings</p> <p>F.42 – Civil engineering</p> <p>F.43 – Specialised construction activities</p> <p>M - Real estate activities</p> <p>Exposures to other sectors (NACE codes K, N - V)</p> |
| Sales and Trade | <p>G - Wholesale and retail trade</p> <p>Exposures to other sectors (NACE codes K, N - V)</p> |
| Education | <p>Exposures to other sectors (NACE codes K, N - V)</p> |
| Professional Services | <p>C.32 – Other manufacturing</p> <p>Exposures to other sectors (NACE codes K, N - V)</p> |
| Information Technology | <p>C.26 - Manufacture of computer, electronic and optical products</p> <p>C.33 – Repair, maintenance and installation of machinery and equipment</p> <p>Wholesale and retail trade</p> |

SEC 1 Sector Classification – Basis for Conclusions

| | |
|-------------------------|---|
| | <p>J. Publishing, broadcasting and content production and distribution activities</p> <p>Exposures to other sectors (NACE codes K, N – V)</p> |
| Media and Communication | <p>C.18 – Printing and reproduction of recorded media</p> <p>J. Publishing, broadcasting and content production and distribution activities</p> <p>Wholesale and retail trade</p> <p>Exposures to other sectors (NACE codes K, N - V)</p> |
| Other Transportation | <p>C.33 – Repair, maintenance and installation of machinery and equipment</p> <p>H.49 - Land transport and transport via pipelines</p> <p>H.50 - Water transport</p> <p>H.51 - Air transport</p> <p>H.52 – Warehousing, storage and support activities for transportation</p> <p>Exposures to other sectors (NACE codes K, N - V)</p> |
| Road Transport | <p>H.49 - Land transport and transport via pipelines</p> <p>H.52 – Warehousing, storage and support activities for transportation</p> <p>H.53 - Postal and courier activities</p> <p>Exposures to other sectors (NACE codes K, N - V)</p> |

SEC 1 Sector Classification – Basis for Conclusions

ESRS sector – SASB industry mapping³

| ESRS Sector | SASB industries |
|---------------------------------------|--|
| Agriculture, Farming and Fishing | Agricultural Products Food Retailers & Distributors Meat, poultry and dairy Tobacco |
| Forestry and Wood products | Forestry Management Building Products & Furnishings Household & Personal Products Media & Entertainment Pulp & Paper Products Containers & Packaging Biofuels |
| Construction and Engineering | Engineering & Construction Services Home Builders Water Utilities & Services Solar Technology & Project Developers Wind Technology & Project Developers Electrical & Electronic Equipment |
| Power production and Energy Utilities | Electric utilities & power generators Oil & Gas – Exploration & Production Oil & Gas – Refining & Marketing Oil & Gas - Services Gas Utilities & Distributors |
| Water and Waste Services | Water Utilities & Services Waste Management Electric Utilities & Power Generators |
| Recreation and Leisure | Professional & Commercial Services Leisure Facilities Media & Entertainment Casinos & Gaming |

³ This table will have to be reviewed subject to the development of the ESRS sector standards as the final content of the standards does differ from the draft versions based on which this table was developed.

SEC 1 Sector Classification – Basis for Conclusions

| | |
|--------------------------------------|---|
| Capital Markets | Asset Management & Custody Activities Investment Banking & Brokerage Security & Commodity Exchanges |
| Credit Institutions | Asset Management & Custody Activities Commercial Banks Mortgage Finance Consumer Finance |
| Insurance | Insurance Managed Care |
| Health Care and Services | Health Care Delivery |
| Accommodations | Hotels & Lodging |
| Food and Beverage Services | Restaurants |
| Household goods n.e.c. | Household & Personal Products Appliance Manufacturing Apparel, Accessories & Footwear Multiline & Specialty Retailers Electrical & Electronic Equipment Media & Entertainment Industrial Machinery & Goods Leisure Facilities Toys & Sporting Goods |
| Aerospace, defence and services | Aerospace & Defence |
| Bioenergy | Biofuels |
| Chemicals and polymers | Chemicals Household & Personal Products Fuel Cells & Industrial Batteries Containers & Packaging |
| Construction Materials | Construction Materials Containers & Packaging Electrical & electronic Equipment Industrial Machinery & Goods |
| Electronics and electrical equipment | Semiconductors Household & Personal products Solar Technology & Project Developers |

SEC 1 Sector Classification – Basis for Conclusions

| | |
|---|---|
| | <p>Wind Technology & Project Developers</p> <p>Electrical & Electronic Equipment</p> <p>Electronic Manufacturing Services & Original Design Manufacturing</p> <p>Appliance Manufacturing</p> <p>Fuel Cells & Industrial Batteries</p> <p>Hardware</p> |
| Food and Beverages | <p>Meat, Poultry & Dairy</p> <p>Agricultural Products</p> <p>Alcoholic Beverages</p> <p>Non-alcoholic Beverages</p> <p>Processed Foods</p> <p>Tobacco</p> <p>Food Retailers & Distributors</p> |
| Machinery and Equipment | <p>Electrical & Electronic Equipment</p> <p>Wind Technology & Project Developers</p> <p>Industrial Machinery & Goods</p> |
| Medical Instruments | <p>Medical Equipment & Supplies</p> |
| Metal Processing | <p>Iron & Steel Producers</p> <p>Containers & Packaging</p> <p>Electrical & Electronic Equipment</p> <p>Metals & Mining</p> |
| Motor Vehicles | <p>Automobiles</p> <p>Auto Parts</p> <p>Car Rental & Leasing</p> <p>Fuel Cells and Industrial Batteries</p> |
| Pharma and Biotechnology | <p>Chemicals</p> <p>Health Care Distributors</p> <p>Drug Retailers</p> |
| Textiles, Accessories, Footwear and Jewelleries | <p>Apparel, Accessories & Footwear</p> <p>Household & Personal Products</p> |
| Mining, Quarrying and Coal | <p>Metals & Mining</p> <p>Coal Operations</p> |
| Oil and Gas | <p>Oil & Gas – Exploration & Production</p> |

SEC 1 Sector Classification – Basis for Conclusions

| | |
|-------------------------|--|
| | <p>Oil & Gas – Midstream</p> <p>Oil & Gas – Refining & Marketing</p> <p>Oil & Gas - Services</p> |
| Real Estate | <p>Home Builders</p> <p>Real Estate</p> <p>Engineering & Construction Services</p> <p>Real Estate & Services</p> <p>Professional & Commercial Services</p> <p>Water Utilities and Services</p> |
| Sales and Trade | Multiline & Specialty Retailers & Distributors |
| Education | Education |
| Professional Services | <p>Professional & Commercial Services</p> <p>Advertising & Marketing</p> <p>Car Rental & Leasing</p> <p>Leisure Facilities</p> <p>Containers & Packaging</p> <p>Health Care Delivery</p> |
| Information Technology | <p>Software & IT services</p> <p>Media & Entertainment</p> <p>Electronic Manufacturing Services & Original Design Manufacturing</p> <p>Hardware</p> |
| Media and Communication | <p>Appliance Manufacturing</p> <p>Media & Entertainment</p> <p>Internet Media & Services</p> <p>Pulp & Paper Products</p> <p>Telecommunication Services</p> |
| Other Transportation | <p>Automobiles</p> <p>Air freight & Logistics</p> <p>Airlines</p> <p>Cruise Lines</p> <p>Marine Transportation</p> <p>Rail Transportation</p> <p>Road Transportation</p> |

SEC 1 Sector Classification – Basis for Conclusions

| | |
|----------------|---------------------|
| Road Transport | Road Transportation |
|----------------|---------------------|

ESRS sector – GRI mapping

139 It is noted that the final GRI sector classification is decided upon by the GSSB (Global Sustainability Standards Board) and till that decision the table below is provisional only. The GSSB decides the final scope of each sector at the inception of each project and is open to the inclusion of new sectors.

| [draft] ESRS sector | GRI sectors |
|---|---|
| Agriculture, Farming and Fishing | Agriculture, aquaculture and fishing ⁴ |
| Forestry and Wood products | Forestry |
| Construction and Engineering | Construction |
| Power Production and Energy Utilities | Utilities Renewable energy |
| Water and Waste Services | Utilities |
| Recreation and Leisure | n/a |
| Capital Markets | Capital Markets |
| Credit Institutions | Banking |
| Insurance | Insurance |
| Health Care and Services | Managed healthcare |
| Accommodations | Hotels |
| Food and Beverage Services | Restaurants |
| Household goods n.e.c. | Household goods |
| Aerospace, defence and services | Aerospace and defence |
| Bioenergy | |
| Chemicals and polymers | Chemicals |
| Construction Materials | Construction materials |
| Electronics and electrical equipment | Electronics |
| Food and Beverages | Food and Beverages |
| Machinery and Equipment | Machinery and Equipment |
| Medical Instruments | Medical equipment and services |
| Metal Processing | Metal processing |
| Motor Vehicles | Automotive |
| Pharma and Biotechnology | Pharmaceuticals |
| Textiles, Accessories, Footwear and Jewelleries | Textiles and apparel |

⁴ GRI 11, 12, 13 and 14 do not include sales activities.

SEC 1 Sector Classification – Basis for Conclusions

| | |
|----------------------------|--|
| Mining, Coal and Quarrying | Coal ⁴ Mining ⁴ |
| Oil and Gas | Oil and Gas ⁴ |
| Real Estate | Real estate |
| Sales and Trade | Retail |
| Education | Educational services |
| Professional Services | Packaging Commercial services Security services and correctional facilities |
| Information Technology | Software |
| Media and Communication | Media and communication |
| Other Transportation | Transportation infrastructure Shipping Airlines Trading, distribution and logistics |
| Road Transport | Trucking Trading, distribution and logistics |
| | Non-profit |

ESRS SECTOR– FINREP mapping

140 The FINREP mapping has been made with FINREP table 6 Breakdown of non-trading loans and advances to non-financial corporations by NACE codes and FINREP table 20 Geographical breakdowns by residence of the counterparty of loans and advances other than held for trading to non-financial corporations by NACE codes.

141 FINREP groups exposures by NACE Sections which is a high level of aggregation. In contrast, ESRS uses disaggregation by NACE Classes and in specific cases even more detailed. Also, some ESRS Classes are used multiple times. This implies that parts of multiple ESRS sectors can be aligned with one NACE Section.

142 This mapping has included the new NACE Section J “Publishing, broadcasting and content production and distribution activities” under NACE 2.1.

| ESRS Sector standards | FINREP – table 6/table 20 |
|--|-----------------------------------|
| Agriculture, Farming and Fishing Forestry and Wood products | Agriculture, forestry and fishing |

SEC 1 Sector Classification – Basis for Conclusions

| | |
|---|---|
| Bioenergy | |
| Mining, coal and quarrying Oil and gas | Mining and Quarrying |
| Aerospace, defence and services Construction materials Chemicals and polymers Electronics and electrical equipment Food and beverages Forestry and Wood products Household goods Machinery and equipment Medical instruments Metal processing Motor vehicles Pharma and biotech Textiles, Accessories, Footwear and Jewelleries Mining, coal and quarrying Media and communication Information technology Other transportation Bioenergy | Manufacturing |
| Power production and Energy utilities Water and waste Bioenergy | Electricity, gas, steam and air conditioning supply |
| Power production and Energy utilities Construction and engineering Water and waste Mining, Quarrying and Coal | Water supply |
| Construction and engineering Real estate | Construction |
| Agriculture, Farming and Fishing Forestry and Wood products Household goods n.e.c. Recreation and Leisure | Wholesale and retail trade |

SEC 1 Sector Classification – Basis for Conclusions

| | |
|---|--|
| <p>Construction Materials</p> <p>Electronics and electrical equipment</p> <p>Food and Beverages</p> <p>Machinery and Equipment</p> <p>Medical instruments</p> <p>Metal processing</p> <p>Motor vehicles</p> <p>Pharma and biotech</p> <p>Textiles</p> <p>Mining, Quarrying and Coal</p> <p>Oil and gas</p> <p>Information technology</p> <p>Media and communication</p> <p>Sales and trade</p> <p>Bioenergy</p> | |
| <p>Aerospace, defence and services</p> <p>Other transportation</p> <p>Road transport</p> | <p>Transport and storage</p> |
| <p>Accommodations</p> <p>Food and beverages services</p> | <p>Accommodation and food service activities</p> |
| <p>Recreation and leisure</p> <p>Information technology</p> <p>Media and communication</p> | <p>Information and communication</p> |
| <p>Capital markets</p> <p>Credit institutions</p> <p>Insurance</p> | <p>Financial and insurance activities</p> |
| <p>Real estate</p> | <p>Real estate services</p> |
| <p>Recreation and Leisure</p> <p>Health care and services</p> <p>Pharma and biotech</p> <p>Education</p> <p>Real estate</p> <p>Education</p> <p>Professional services</p> | <p>Professional, scientific and technical activities</p> |

SEC 1 Sector Classification – Basis for Conclusions

| | |
|---|--|
| <p>Agriculture, Farming and Fishing</p> <p>Recreation and Leisure</p> <p>Household goods n.e.c.</p> <p>Electronics and electrical equipment</p> <p>Machinery and Equipment</p> <p>Medical instruments</p> <p>Motor vehicles</p> <p>Real estate</p> <p>Sales and trade</p> <p>Information technology</p> <p>Media and communication</p> <p>Professional services</p> <p>Other transportation</p> <p>Road transport</p> | <p>Administrative and support service activities</p> |
| <p>n/a</p> | <p>Public administration and defence, compulsory social security</p> |
| <p>Education</p> | <p>Education</p> |
| <p>Health care and services</p> | <p>Human health services and social work activities</p> |
| <p>Recreation and leisure</p> | <p>Arts, entertainment and recreation</p> |
| <p>Recreation and Leisure</p> <p>Electronics and electrical equipment</p> <p>Education</p> <p>Professional services</p> <p>Media and communication</p> | <p>Other services</p> |

Glossary

| Abbreviations | Stands for |
|---------------|--|
| AR | Application Requirement |
| ARC | Alarm receiving centres |
| BAT | Best Available Techniques |
| CEN | Comité Européen de Normalisation |
| CHP | Combined heat and power |
| CSRD | Corporate Sustainability Reporting Directive |
| EBA | European Banking Authority |
| EC | European Community |
| EEC | European Economic Community |
| ED | Exposure Draft |
| EMS | Electronic Manufacturing services |
| ENDS | Electronic Nicotine Delivery System |
| ESRS | European Sustainability Reporting Standards |
| EU | European Union |
| IFRS | International Financial Reporting Standards |
| FICOD | Financial Conglomerates Directive 2002/87/EC |
| FINREP | Financial Reporting |
| GMO | Genetically Modified Organism |
| GRI | Global Reporting Initiative |
| GSSB | Global Sustainability Standards Board |
| IEA | International Energy Agency |
| IRO | Impacts, risks and opportunities |
| ISSB | International Sustainability Standards Board |
| MA | Materiality assessment |

SEC 1 Sector Classification – Basis for Conclusions

| | |
|-------|--|
| MiFID | Markets in Financial Instruments Directive 2014/65/EU |
| NACE | Nomenclature générale des Activités Economiques dans les Communautés Européennes |
| ODM | Original Design Manufacturing |
| PTF | Project Task Force |
| RED | Renewable Energy Directive |
| REITS | Real Estate Investment Trust |
| SASB | Sustainability Accounting Standards Board |
| SEC | Sector Classification |
| UDB | Union Database for Biofuels |
| VoIP | Voice over Internet Protocol |