

FALCOM PETROCHEMICAL ETF FUND

**CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2020
AND INDEPENDENT AUDITOR'S REVIEW REPORT**

FALCOM PETROCHEMICAL ETF FUND
CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2020

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Independent auditor's review report on the condensed interim financial statements

To the Unitholders and the Fund Manager of Falcom Petrochemical ETF Fund

Introduction

We have reviewed the accompanying interim statement of financial position of Falcom Petrochemical ETF Fund (the "Fund") as of June 30, 2020, and the related interim statements of comprehensive income, changes in equity attributable to the unitholders and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes (the "condensed interim financial statements"). The Fund Manager is responsible for the preparation and presentation of these condensed interim financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34"), as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410- "Review of interim financial information performed by the independent auditor of the entity", as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34, as endorsed in the Kingdom of Saudi Arabia.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read "Ali H. Al Basri", is written over a horizontal line.

Ali H. Al Basri
License Number 409

August 24, 2020

FALCOM PETROCHEMICAL ETF FUND**INTERIM STATEMENT OF FINANCIAL POSITION**

(All amounts are in Saudi Riyals unless stated otherwise)

	Note	As at June 30, 2020	As at December 31, 2019
Assets		(Unaudited)	(Audited)
Cash and cash equivalents		176,804	80,734
Financial assets at fair value through statement of income (FVSI)	5	8,232,824	9,017,331
Dividends receivable		10,504	-
Total assets		8,420,132	9,098,065
Liabilities			
Accrued management fees	6	10,229	11,406
Other liabilities		10,229	11,407
Total liabilities		20,458	22,813
Equity attributable to the unitholders		8,399,674	9,075,252
Number of units in issue (units)		325,000	325,000
Unit value (Saudi Riyals)		25.85	27.92

The accompanying notes on page 6 to page 8 form an integral part of these condensed interim financial statements.

FALCOM PETROCHEMICAL ETF FUND**INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

(All amounts are in Saudi Riyals unless stated otherwise)

	Note	For the six-month period ended June 30,	
		2020	2019
Income			
Dividends income		186,780	167,228
Loss on sale of financial assets at FVSI		-	(73,739)
(Loss)/ gain on change in fair value of financial assets at FVSI		(821,066)	340,445
Total (loss)/ income		(634,286)	433,934
Expenses			
Management and other fees	6	(20,646)	(25,856)
Other expenses		(20,646)	(25,856)
Total expenses		(41,292)	(51,712)
Net (loss)/ income for the period		(675,578)	382,222
Other comprehensive income for the period		-	-
Total comprehensive (loss)/ income for the period		(675,578)	382,222

The accompanying notes on page 6 to page 8 form an integral part of these condensed interim financial statements.

FALCOM PETROCHEMICAL ETF FUND
INTERIM STATEMENT OF CHANGES IN EQUITY
ATTRIBUTABLE TO THE UNITHOLDERS (UNAUDITED)
(All amounts are in Saudi Riyals unless stated otherwise)

	For the six-month period ended June 30,	
	2020	2019
Equity attributable to the unitholders as at January 1,	9,075,252	9,173,509
Total comprehensive (loss) / income for the period	(675,578)	382,222
Unitholders subscriptions and redemptions:		
Issuance of redeemable units during the period	-	2,462,614
Redemption of redeemable units during the period	-	<u>(2,459,284)</u>
Equity attributable to the unitholders as at June 30,	<u>8,399,674</u>	<u>9,559,061</u>

The movement in number of units

The movement in number of units for the six-month period ended June 30 is as follows:

	For the six-month period ended June 30,	
	2020	2019
Number of units at the beginning of the period	325,000	300,000
Issuance of redeemable units during the period	-	75,000
Redemption of redeemable units during the period	-	<u>(75,000)</u>
Number of units at the end of the period	<u>325,000</u>	<u>300,000</u>

The accompanying notes on page 6 to page 8 form an integral part of these condensed interim financial statements.

FALCOM PETROCHEMICAL ETF FUND**INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)**

(All amounts are in Saudi Riyals unless stated otherwise)

	For the six-month period ended June 30,	
	2020	2019
Cash flows from operating activities		
Net (loss)/ income for the period	(675,578)	382,222
Adjustments for non-cash items		
Loss on sale of financial assets at FVSI	-	73,739
Loss/ (gain) on change in fair value of financial assets at FVSI	821,066	(340,445)
Changes in operating assets and liabilities:		
Additions to financial assets at FVSI	(36,559)	(2,494,691)
Proceeds from sale of financial assets at FVSI	-	2,503,140
Dividends receivable	(10,504)	-
Accrued management fees	(1,177)	78
Other liabilities	(1,178)	77
Net cash generated from operating activities	96,070	124,120
Cash flows from financing activities		
Issuance of redeemable units during the period	-	2,462,614
Redemption of redeemable units during the period	-	(2,459,284)
Net cash generated from financing activities	-	3,330
Net increase in cash and cash equivalents	96,070	127,450
Cash and cash equivalents at the beginning of the period	80,734	64,606
Cash and cash equivalents at the end of the period	176,804	192,056

The accompanying notes on page 6 to page 8 form an integral part of these condensed interim financial statements.

FALCOM PETROCHEMICAL ETF FUND

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2020

(All amounts are in Saudi Riyals unless stated otherwise)

1. GENERAL

Falcom Petrochemical ETF Fund (the "Fund") is a fund established under contractual agreement between Falcom Financial Services (the "Fund Manager") and investors in the Fund (the "Unitholders"). The Fund aims to achieve capital growth and gains on the long term through inactive management of a basket of shares of companies in the petrochemical industry listed on the Saudi stock exchange for the purpose of achieving performance level similar to index performance before fees and expenses. The Fund is "open-ended" and does not normally distribute any dividends to the Unitholders. Instead, all profits collected in the Fund are reinvested and reflected in the price of the Fund's unit. The Fund may, at the discretion and approval of its Board of Directors, distribute excess liquidity in the form of distributions to the Unitholders.

The address of the Fund manager is as follows:

Falcom Financial Services
Olaya Street, P.O. 884
Riyadh 11421
Kingdom of Saudi Arabia

In dealing with the unitholders, the Fund Manager considers the Fund as an independent accounting unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund.

The Capital Market Authority (CMA) license was granted to the Fund on 11 Rajab 1431H (corresponding to June 23, 2010). The Fund commenced operations on July 5, 2010.

The Fund is subject to the provisions of the Investment Fund Regulations ("IFR") issued by the CMA on 3 Dhu al-Hijjah 1427H (corresponding to December 24, 2006) as amended by the CMA on 16 Shabaan 1437H (corresponding to May 23, 2016) which clarifies the requirements for the operation of the investment funds in the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 – "Interim Financial Reporting" (IAS 34), as endorsed in the Kingdom of Saudi Arabia. These condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2019.

These condensed interim financial statements have been prepared under the historical cost convention amended by the revaluation of financial assets at FVSI.

The principal accounting policies, estimates and assumptions used in the preparation of these condensed interim financial statements are consistent with those used in the preparation of the annual audited financial statements for the year ended December 31, 2019.

The Fund does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the interim statement of financial position. Instead, assets and liabilities are presented in order of liquidity.

The preparation of condensed interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions on accounting estimates are recognised in the year in which the estimates are revised and in any future years affected. No significant estimates or assumptions have been made in the preparation of these condensed interim financial statements.

The Fund is expected to retrieve or settle all its assets and liabilities within 12 months after the reporting date.

3. ADOPTION OF NEW STANDARDS AND AMENDMENTS TO EXISTING ACCOUNTING STANDARDS

New accounting standards and amendments to existing accounting standards effective from January 1, 2020 and onwards do not have any significant effect on the Fund's condensed interim financial statements.

FALCOM PETROCHEMICAL ETF FUND

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2020

(All amounts are in Saudi Riyals unless stated otherwise)

4. FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the condensed interim financial statements are measured using the currency of the primary economic environment in which the Fund operates (the "functional currency"). These condensed interim financial statements are presented in Saudi Riyals which is the Fund's functional and presentation currency.

5. FAIR VALUE ESTIMATION

The fair value of financial instruments traded in active markets are based on quoted market prices at the end of trading as at the reporting date. Instruments that have not been sold are valued on the valuation day based on the most recent bid price.

An active market is a market in which assets or liabilities are traded with sufficient movement and volume to provide price information on an ongoing basis. The carrying value less impairment provision of other receivables and carrying value of payables are assumed to approximate their fair values.

The fair value hierarchy consists of the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for assets and liabilities.

Investments are based on prices quoted in active markets classified as level 1, and include quoted equity instruments. The Fund does not adjust the quoted price for these instruments.

The following table includes the hierarchy analysis for the fair value of Fund's assets and liabilities (by class) measured at fair value as at June 30, 2020 and December 31, 2019:

As at June 30, 2020 (Unaudited)

Assets class	Level 1	Level 2	Level 3	Total
Financial assets at FVSI	8,232,824	-	-	8,232,824

As at December 31, 2019 (Audited)

Assets class	Level 1	Level 2	Level 3	Total
Financial assets at FVSI	9,017,331	-	-	9,017,331

6. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Within the normal course of business, the Fund deals with related parties that are in turn subject to the Fund's terms and conditions issued by the CMA. All transactions with related parties are approved by the Fund's Board.

The Fund Manager and companies related to the Fund manager are considered as related parties to the Fund.

Related party	Nature of transaction	Amount of transactions during the period ended June 30 (Unaudited)		Closing balance	
		2020	2019	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Falcom Financial services	Management and other fees	20,646	25,856	10,229	11,406
Falcom Financial services	(Disposal of)/ Investment in Fund units	(440,768)	1,874,587	6,479,689	6,920,457

FALCOM PETROCHEMICAL ETF FUND

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2020

(All amounts are in Saudi Riyals unless stated otherwise)

The Fund pays management fees, fees and other expenses calculated on each valuation day in the percentages shown below of the Fund's equity value.

	<u>Percentage</u>
Management fees	0.5%
Other fees and expenses, including:	
Administrative fees	0.22%
Custody fees	0.10%
Index fees	0.10%
Listing and recording fees	0.08%

In accordance with the terms and conditions of the Fund, the annual rate of the Fund's expenses shall not exceed 1% of the equity value. In addition, the Fund Manager refunds any other expenses paid on behalf of the Fund.

7. IMPACTS OF COVID-19 ON THE FUND

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by the Government to contain the virus have affected economic activity. We have taken several measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our people (such as social distancing and working from home).

At this stage, the impact on our business and results has been significant and based on our experience and market trend we expect the situation to normalise. As we operate in the equity market, we have found a decline in Tadawul's index with the outbreak of the pandemic due to uncertainty involved and thus decline in investment's value resulting in losses, though the situation has improved with the easing of lockdown restrictions from the month of June 2020 and therefore we expect the situation to improve further. We will continue to follow the Government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health and safety of our people.

8. LAST VALUATION DAY

The Fund units are valued, and the equity value is calculated at the end of each working day (valuation day). The last day of valuation was June 30, 2020.

9. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements were approved by the Fund's Board on August 23, 2020.