

# UNITED CORPORATIONS LIMITED



SECOND QUARTER REPORT

SEPTEMBER 30, 2016



# UNITED CORPORATIONS LIMITED

Incorporated under the Laws of Canada



## THE PERIOD AT A GLANCE (Unaudited)

|   | As at Sept. 30<br>2016 | As at March 31<br>2016 |
|---|------------------------|------------------------|
| Net equity value per Common Share <sup>(1)</sup>  | \$ 126.07              | \$ 120.66              |
| Net assets <sup>(2)</sup>                         | \$ 1,545,076           | \$ 1,479,121           |
| Number of Common Shares outstanding at period end | 12,194,193             | 12,194,193             |

|   | Six months ended<br>September 30 |           |
|---|----------------------------------|-----------|
|   | 2016                             | 2015      |
| Net investment income per Common Share <sup>(1)</sup> | \$ 1.22                          | \$ 1.38   |
| Dividends per Common Share                            |                                  |           |
| Quarterly   | \$ 0.40                          | \$ 0.40   |
| Additional <sup>(3)</sup>                             | \$ 1.33                          | \$ 1.00   |
| Net income (loss) per Common Share                    | \$ 7.14                          | \$ (0.28) |
| Net investment income <sup>(2)</sup>                  | \$ 15,041                        | \$ 17,075 |

<sup>(1)</sup> See Management's Discussion and Analysis for Use of Non-GAAP Measures.

<sup>(2)</sup> In thousands of Canadian dollars.

<sup>(3)</sup> This additional dividend represents the annual distribution of the prior year's annual net investment income after payment of Preferred Share dividends and quarterly Common Share dividends.

The financial statements have been prepared under International Financial Reporting Standards ("IFRS").

### NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The Company's external auditors, PricewaterhouseCoopers LLP, have not performed a review of these interim financial statements of United Corporations Limited.

# UNITED CORPORATIONS LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the unaudited interim condensed financial performance and financial condition of United Corporations Limited ("United" or the "Company") for the second quarter of fiscal 2017 should be read in conjunction with: the March 31, 2016 Annual Report, including the MD&A, the Company's audited annual financial statements and the notes and supplementary financial information; the Company's MD&A and unaudited interim condensed financial statements and notes for the previous quarter of fiscal 2017; and the unaudited interim condensed financial statements and notes contained in this report. These unaudited interim condensed financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"), as set out in the Handbook of the Chartered Professional Accountants of Canada. The reporting currency for the Company is the Canadian dollar, and all amounts in the following discussion are in Canadian dollars.

This MD&A may contain certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events mentioned in this discussion to differ materially from actual results or events. No assurance can be given that results, performance or achievement expressed in, or implied by, any forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

### The Company

United is a closed-end investment corporation that trades on the Toronto Stock Exchange. United is an investment vehicle for long-term growth through investments in common equities, as management believes that over long periods of time, common equities, as an asset class, will outperform fixed-income instruments or balanced funds. From time to time, however, assets of the Company may be invested in interest-bearing short-term securities pending the selection of suitable equity investments.

The Company has been a closed-end investment corporation since 1929 and has never bought back its Common Shares. The Common Shares have traded at a discount to their net asset value, ranging from a 40% discount to a 15% discount over the past 10 years. Management believes that shareholders who have invested in the Common Shares of the Company recognize that the Common Shares of the Company usually trade at a discount to their net asset value.

Closed-end investment corporations have the following benefits: they often allow investors the opportunity to purchase assets at a discounted price; they have management expense ratios which are generally much lower than those for actively-managed open-ended funds; and the management of a closed-end investment corporation's portfolio is not impacted by shareholder subscription or redemption activities.

United has no plans to become an open-ended investment fund.

The majority of the Company's investment portfolio is actively managed by Jarislowsky Fraser Limited ("Jarislowsky") and ValueInvest Asset Management S.A. ("ValueInvest"). Each of the managers has a global equity mandate. As of September 30, 2016, \$707,064,000 (March 31, 2016 - \$678,642,000) and \$833,008,000 (March 31, 2016 - \$796,173,000) of equity investments were managed by Jarislowsky and ValueInvest, respectively.

Jarislowsky is a global investment manager whose head office is in Montreal, Quebec, with offices in Toronto, Calgary, Vancouver, and New York. Jarislowsky selects investments using a long-term bottom-up investment philosophy, which is to purchase good companies with strong economics and management, whose shares are selling below Jarislowsky's estimate of intrinsic value. The portfolio normally consists of 45 - 75 investments and includes publicly traded equity securities of companies outside of Canada, with between 80% - 100% allocated to non-cyclical blue chip industry leaders with large capitalizations, and the balance allocated to cyclical smaller market capitalization companies. The target geographic mix expressed as a percentage of the portfolio is generally U.S. equities 30 - 70%; international equities 30 - 70%; and emerging markets 0 - 10%.

ValueInvest is a global investment manager whose head office is in the Grand Duchy of Luxembourg. ValueInvest provides portfolio advisory services to Canadian clients through Pier 21 Asset Management Inc., a registered portfolio manager based in Montreal, Quebec. ValueInvest's investment objective is to provide long-term growth primarily through capital appreciation, by investing in a portfolio of common stocks and equivalent securities of major companies around the world. The investment philosophy rests on its core conviction that long-term preservation and accumulation of wealth can best be achieved through a combination of attractive valuations and thorough assessment of the quality of the businesses. There is no target geographic mix for the portfolio. The portfolio normally consists of 30 - 80 companies.

# UNITED CORPORATIONS LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company also has a long-term investment in Algoma Central Corporation ("Algoma"), a public shipping company. Algoma is a related party and is a reporting issuer which trades on the Toronto Stock Exchange with a profile on SEDAR. The investment in Algoma is consistent with the Company's investment strategy and contributes to achieving the investment objective of the Company. Further related party information is provided in Note 11 to the financial statements in the 2016 Annual Report and in the schedule of investment portfolio in this interim report beginning on page 14.

### Investment Strategy

The objective of the Company is to earn an above-average rate of return, primarily through long-term capital appreciation and dividend income. Short-term volatility is expected and tolerated. Management remains confident that the Company's investment strategy will reward shareholders over the long-term.

The investment portfolio of the Company comprises a mix of predominantly foreign equities. Net equity value and net investment income may vary significantly from period to period depending on the economic environment and market conditions.

### Use of Non-GAAP Measures

This MD&A contains references to "net equity value per Common Share" and "net investment income per Common Share". These terms do not have any standardized meanings in GAAP and therefore may not be comparable to similar measures presented by other companies. Current Canadian generally accepted accounting principles is IFRS for these financial statements. The Company believes that these measures provide information useful to our shareholders in evaluating the Company's financial results.

Net equity value per Common Share is used by investors and management as a comparison to the market price of its Common Shares to determine the discount or premium at which the Company's Common Shares are trading, relative to the net equity value per Common Share. In order to determine its net equity value per Common Share, the Company deducts the cost of redemption of its Preferred Shares from its net assets.

Net investment income per Common Share is used by both investors and management to assess the approximate amount of dividends to be distributed on Common Shares. In order to determine its net investment income per Common Share, the Company deducts the dividends paid on its Preferred Shares.

Net equity value per Common Share is calculated as follows (in thousands of dollars, except number of Common Shares and per Common Share amounts):

|  | <b>September 30<br/>2016</b> | March 31<br>2016 |
|--|------------------------------|------------------|
| Net assets                                   | <b>\$ 1,545,076</b>          | \$ 1,479,121     |
| Deduct:                                      |                              |                  |
| Cost of redemption                           |                              |                  |
| First Preferred Shares                       | <b>1,567</b>                 | 1,567            |
| 1959 and 1963 Series Second Preferred Shares | <b>6,180</b>                 | 6,180            |
|  | <b>7,747</b>                 | 7,747            |
| Net equity value                             | <b>\$ 1,537,329</b>          | \$ 1,471,374     |
| Common Shares outstanding                    | <b>12,194,193</b>            | 12,194,193       |
| Net equity value per Common Share            | <b>\$ 126.07</b>             | \$ 120.66        |

# UNITED CORPORATIONS LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Net investment income per Common Share is calculated as follows (in thousands of dollars, except number of Common Shares and per Common Share amounts):

|  | Three months ended<br>September 30 |            | Six months ended<br>September 30 |            |
|--|------------------------------------|------------|----------------------------------|------------|
|  | 2016                               | 2015       | 2016                             | 2015       |
| Net income (loss)  | \$ 57,675                          | \$ 13,398  | \$ 87,240                        | \$ (3,281) |
| Add (deduct):  |                                    |            |                                  |            |
| Fair value change in investments   | (61,992)                           | (8,441)    | (83,226)                         | 23,465     |
| Tax on fair value change in investments  | 8,214                              | 1,119      | 11,027                           | (3,109)    |
| Net investment income <sup>1</sup>   | 3,897                              | 6,076      | 15,041                           | 17,075     |
| Deduct:  |                                    |            |                                  |            |
| Dividends paid on Preferred Shares   | 95                                 | 95         | 189                              | 189        |
| Net investment income, net of dividends<br>paid on Preferred Shares <sup>1</sup> | \$ 3,802                           | \$ 5,981   | \$ 14,852                        | \$ 16,886  |
| Common Shares outstanding  | 12,194,193                         | 12,194,193 | 12,194,193                       | 12,194,193 |
| Net investment income per Common Share <sup>1</sup>                              | \$ 0.31                            | \$ 0.49    | \$ 1.22                          | \$ 1.38    |

<sup>1</sup> On an after-tax basis.

### Net Equity Value per Common Share

The Company's net equity value per Common Share increased to \$126.07 at September 30, 2016 compared to \$121.55 at June 30, 2016 and \$120.66 at March 31, 2016. With dividends reinvested at month-end net equity values, the net equity value return for the quarter was 3.9% (2016 - 1.0%) and 6.0% (2016 - (0.2%)) year to date.

Investments managed by ValueInvest presented a pre-tax year-to-date total return of 6.9% (2016 - 3.0%), whereas investments managed by Jarislowsky had a total return of 8.0% (2016 - (3.1%)).

As the Company is a taxable Canadian corporation, the Company's net equity value is net of a provision for income taxes on net investment income and net realized gains on investments, and net of a deferred income tax provision on its change in unrealized appreciation of investments.

In Canadian dollar terms, total returns (capital gains plus dividends) for United's net equity value and stock market indices, were as follows:

|                         | Three months ended<br>September 30 | Six months ended<br>September 30 |
|-------------------------|------------------------------------|----------------------------------|
|                         | (%)                                |                                  |
| United net equity value | 3.9                                | 6.0                              |
| MSCI World Index        | 5.9                                | 7.5                              |
| S&P 500 Index           | 4.7                                | 7.6                              |
| S&P/TSX Composite Index | 5.5                                | 10.8                             |

# UNITED CORPORATIONS LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Growth in Net Equity Value ("NAV")

Set out below is a table that shows annual growth in NAV in each of the past 10 fiscal years:

#### Annual growth in NAV\*

|      | NAV per Common Share | Annual Growth |
|------|----------------------|---------------|
|      |                      | (%)           |
| 2007 | \$ 86.03             | 13.7          |
| 2008 | 77.18                | (9.4)         |
| 2009 | 54.81                | (28.1)        |
| 2010 | 67.33                | 24.4          |
| 2011 | 71.82                | 7.9           |
| 2012 | 72.32                | 1.9           |
| 2013 | 82.03                | 15.7          |
| 2014 | 99.50                | 23.2          |
| 2015 | 117.86               | 20.2          |
| 2016 | 120.66               | 4.0           |

#### Compound annual growth\*

|                        |     |
|------------------------|-----|
| 2007 - 2016 - 10 years | 6.1 |
|------------------------|-----|

\*This chart was drawn from the individual annual reports and any NAV amounts prior to 2014 have not been restated for any subsequent changes in accounting policies.

## Operating Results

### Net income

The Company reported net income for the second quarter of fiscal 2017 of \$57,675,000 compared to \$13,398,000 in fiscal 2016. On a year-to-date basis, net income was \$87,240,000 compared to a net loss of \$3,281,000 in fiscal 2016. Net income per Common Share for the second quarter of fiscal 2017 increased to \$4.72 compared to \$1.10 for fiscal 2016. On a year-to-date basis net income per share was \$7.14 compared to a net loss of \$0.28 per share in fiscal 2016.

The Company's fair value change in investments for the second quarter of fiscal 2017 was \$61,992,000 compared to \$8,441,000 for the same period in fiscal 2016. On a year-to-date basis the fair value change in investments was a gain of \$83,226,000 compared to a loss of \$23,465,000 for the six months ended September 30, 2015. European and Asian investments were large contributors to the investment performance representing 45% (\$28,183,000) and 29% (\$17,858,000), respectively, of the second quarter fair value investment gains.

The significant contributors to the year-to-date investment performance included Adidas AG, Computer Sciences Corporation, and Pfizer Inc., with fair value investment gains of \$6,052,000, \$5,257,000 and \$4,815,000 respectively. The largest detractors were Staples Inc., Hormel Foods Corporation and Orange S.A. with fair value investment losses of \$4,893,000, \$3,191,000 and \$2,847,000 respectively.

The net realized gain was \$12,949,000 for the second quarter of fiscal 2017 compared to \$33,347,000 for the same period in the prior year. On a year-to-date basis, the net realized gain was \$35,652,000 compared to a net realized gain of \$49,592,000 in fiscal 2016. The largest year-to-date contributors to the net realized gain in fiscal 2017 were the sales of Koninklijke Ahold Delhaize NV, Adidas AG and FamilyMart Co., Ltd. offset by a net realized loss in Standard Chartered plc.

# UNITED CORPORATIONS LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Quarterly Results

#### *Net investment income*

The Company's net investment income in the second quarter of fiscal 2017 decreased to \$3,897,000 compared to \$6,076,000 for the second quarter of fiscal 2016. On a year-to-date basis, net investment income decreased to \$15,041,000 from \$17,075,000 for the same period in the prior year. On a per Common Share basis, net investment income for the quarter decreased to \$0.31 in 2017 compared to \$0.49 in 2016 and on a year-to-date basis decreased to \$1.22 in 2017 compared to \$1.38 in 2016.

Foreign dividend income in the second quarter decreased to \$6,560,000 from \$9,710,000 for the same quarter in the prior year and on year-to-date basis decreased to \$23,363,000 from \$26,105,000 in fiscal 2016. The decrease in the second quarter and year-to-date foreign dividend income is attributed to a special cash dividend of \$3,161,000 received in the prior fiscal year from Kraft Foods Group, Inc. prior to its merger with H.J. Heinz Holding Corporation.

Expenses during the quarter increased to \$2,047,000 in fiscal 2017 compared to \$1,921,000 for the same period in the prior year, and on a year-to-date basis increased to \$4,222,000 compared to \$3,894,000 in the prior year. The majority of the increase relates primarily to an increase in investment management and administrative costs resulting from a higher investment portfolio compared to the prior year. Office and miscellaneous expenses year to date include additional stock exchange filing fees.

The following table summarizes various financial results on a quarterly basis for the eight most recent quarters (in thousands of dollars, except per Common Share amounts):

|                                    | <b>Sept. 30<br/>2016</b> | June 30<br>2016 | March 31<br>2016 | Dec. 31<br>2015 | Sept. 30<br>2015 | June 30<br>2015 | March 31<br>2015 | Dec. 31<br>2014 |
|------------------------------------|--------------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|
| Investments                        | <b>\$ 1,582,130</b>      | \$ 1,525,816    | \$ 1,519,665     | \$ 1,590,388    | \$ 1,454,582     | \$ 1,451,038    | \$ 1,481,971     | \$ 1,321,516    |
| Net investment income <sup>1</sup> | <b>\$ 3,897</b>          | \$ 11,144       | \$ 4,837         | \$ 4,433        | \$ 6,076         | \$ 10,999       | \$ 4,616         | \$ 3,966        |
| Net income (loss)                  | <b>\$ 57,675</b>         | \$ 29,565       | \$ (60,699)      | \$ 120,478      | \$ 13,398        | \$ (16,679)     | \$ 152,813       | \$ 64,244       |
| Per Common Share:                  |                          |                 |                  |                 |                  |                 |                  |                 |
| Net investment income <sup>1</sup> | <b>\$ 0.31</b>           | \$ 0.91         | \$ 0.39          | \$ 0.36         | \$ 0.49          | \$ 0.89         | \$ 0.37          | \$ 0.32         |
| Net income (loss)                  | <b>\$ 4.72</b>           | \$ 2.42         | \$ (4.99)        | \$ 9.87         | \$ 1.10          | \$ (1.38)       | \$ 12.52         | \$ 5.26         |
| NAV                                | <b>\$ 126.07</b>         | \$ 121.55       | \$ 120.66        | \$ 125.85       | \$ 116.18        | \$ 115.28       | \$ 117.86        | \$ 105.54       |

<sup>1</sup> On an after-tax basis.

Investment income is derived primarily from dividend income that is earned by the Company. While North American investments usually pay regular quarterly dividends, investments outside of North America often pay less frequently. In general, dividends earned on investments outside of North America peak in the first quarter of the fiscal year. From time to time, the Company receives additional one-time dividends arising from significant corporate transactions. There is no guarantee that the Company will receive dividend income on its investments at current dividend payout levels.

Overall returns are determined by the performance of the investment managers of the portfolio and may fluctuate significantly as illustrated by the past eight quarters. The returns generated by the investment managers may not correlate with benchmark returns.



# UNITED CORPORATIONS LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Share Data

As at September 30, 2016, the following shares were issued and outstanding: 52,237 First Preferred Shares, 80,290 1959 Series Second Preferred Shares, 119,710 1963 Series Second Preferred Shares, and 12,194,193 Common Shares.

### Liquidity and Capital Resources

The Company's dividend policy is to distribute annual net investment income, after payment of Preferred Share dividends, in the form of Common Share dividends.

The Company pays quarterly dividends on its Common and Preferred Shares February, May, August and November of each year with an additional Common Share dividend representing the balance of net investment income for the previous fiscal year. The quarterly dividend is \$0.20 per Common Share and \$0.375 per Preferred Share.

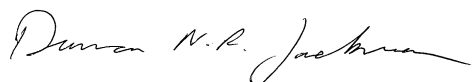
During the first fiscal quarter, the Company paid an additional cash dividend of \$1.33 (2016 - \$1.00) per Common Share representing the balance of net investment income for the previous fiscal year.

The Company's dividend policy is established by the Board of Directors at its discretion and is subject to change.

### Additional Information

Additional information relating to United, including the Company's Annual Information Form, is available at [www.sedar.com](http://www.sedar.com).

United's website, [www.ucorp.ca](http://www.ucorp.ca), also provides further information on the Company, including historical information on the net equity value per Common Share which is updated weekly.



Duncan N.R. Jackman  
Chairman and President

November 1, 2016

# UNITED CORPORATIONS LIMITED

## STATEMENTS OF NET ASSETS (Unaudited)

|   | September 30<br>2016 | March 31<br>2016    |
|---|----------------------|---------------------|
|   | (000's)              |                     |
| <b>ASSETS</b>                               |                      |                     |
| Cash and cash equivalents                   | \$ 18,011            | \$ 17,187           |
| Investments (Note 4)                        | 1,582,130            | 1,519,665           |
| Receivable in respect of investments sold   | 199                  | —                   |
| Dividends and interest receivable           | 2,844                | 2,453               |
| Income taxes receivable                     | 5,399                | —                   |
| Other assets                                | 2,375                | 1,957               |
|   | <b>1,610,958</b>     | <b>1,541,262</b>    |
| <b>LIABILITIES</b>                          |                      |                     |
| Accrued expenses                            | 930                  | 916                 |
| Payable in respect of investments purchased | 1,049                | —                   |
| Income taxes payable                        | —                    | 3,701               |
| Deferred tax liabilities                    | 63,903               | 57,524              |
|   | <b>65,882</b>        | <b>62,141</b>       |
| <b>NET ASSETS</b>                           | <b>\$ 1,545,076</b>  | <b>\$ 1,479,121</b> |
| <b>SHAREHOLDERS' EQUITY</b>                 |                      |                     |
| Share capital                               | \$ 541,000           | \$ 541,000          |
| Retained earnings                           | 1,004,076            | 938,121             |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>           | <b>\$ 1,545,076</b>  | <b>\$ 1,479,121</b> |

(See accompanying notes)

# UNITED CORPORATIONS LIMITED

## STATEMENTS OF OPERATIONS (Unaudited)

|  | Three months ended Sept. 30 |           | Six months ended Sept. 30 |            |
|--|-----------------------------|-----------|---------------------------|------------|
|  | 2016                        | 2015      | 2016                      | 2015       |
|  | (000's)                     |           |                           |            |
| <b>INCOME</b>                                  |                             |           |                           |            |
| Dividends                                      |                             |           |                           |            |
| Foreign  | \$ 6,560                    | \$ 9,710  | \$ 23,363                 | \$ 26,105  |
| Canadian                                       | 254                         | 254       | 508                       | 508        |
|  | <b>6,814</b>                | 9,964     | <b>23,871</b>             | 26,613     |
| Interest and securities lending income         | 189                         | 145       | 379                       | 343        |
| Fair value change in investments (Note 5)      | 61,992                      | 8,441     | 83,226                    | (23,465)   |
|  | <b>68,995</b>               | 18,550    | <b>107,476</b>            | 3,491      |
| <b>EXPENSES</b>                                |                             |           |                           |            |
| Investment management and administrative costs |                             |           |                           |            |
|  | 1,764                       | 1,662     | 3,469                     | 3,288      |
| Transfer, registrar and custody fees           | 116                         | 108       | 241                       | 258        |
| Office and miscellaneous                       | 60                          | 44        | 275                       | 125        |
| Directors' and officer's remuneration          | 90                          | 86        | 194                       | 185        |
| Professional fees                              | 17                          | 21        | 43                        | 38         |
|  | <b>2,047</b>                | 1,921     | <b>4,222</b>              | 3,894      |
| <b>INCOME (LOSS) BEFORE INCOME TAXES</b>       | <b>66,948</b>               | 16,629    | <b>103,254</b>            | (403)      |
| Provision for income taxes                     | 9,273                       | 3,231     | 16,014                    | 2,878      |
| <b>NET INCOME (LOSS)</b>                       | <b>\$ 57,675</b>            | \$ 13,398 | <b>\$ 87,240</b>          | \$ (3,281) |
| <b>EARNINGS (LOSS) PER COMMON SHARE</b>        |                             |           |                           |            |
| <b>BASIC AND DILUTED</b>                       | <b>\$ 4.72</b>              | \$ 1.10   | <b>\$ 7.14</b>            | \$ (0.28)  |

(See accompanying notes)

# UNITED CORPORATIONS LIMITED

## STATEMENTS OF CHANGES IN EQUITY (Unaudited)

|                              | Share<br>capital  | Retained<br>earnings | Total               |
|------------------------------|-------------------|----------------------|---------------------|
|                              |                   | (000's)              |                     |
| <b>At April 1, 2016</b>      | <b>\$ 541,000</b> | <b>\$ 938,121</b>    | <b>\$ 1,479,121</b> |
| Net income for the period    | —                 | 87,240               | 87,240              |
| <b>Dividends</b>             |                   |                      |                     |
| First Preferred Shares       | —                 | (39)                 | (39)                |
| Second Preferred Shares      | —                 | (150)                | (150)               |
| Common Shares                | —                 | (21,096)             | (21,096)            |
| <b>At September 30, 2016</b> | <b>\$ 541,000</b> | <b>\$ 1,004,076</b>  | <b>\$ 1,545,076</b> |
| <br>                         |                   |                      |                     |
| At April 1, 2015             | \$ 541,000        | \$ 903,951           | \$ 1,444,951        |
| Net loss for the period      | —                 | (3,281)              | (3,281)             |
| <b>Dividends</b>             |                   |                      |                     |
| First Preferred Shares       | —                 | (39)                 | (39)                |
| Second Preferred Shares      | —                 | (150)                | (150)               |
| Common Shares                | —                 | (17,072)             | (17,072)            |
| <b>At September 30, 2015</b> | <b>\$ 541,000</b> | <b>\$ 883,409</b>    | <b>\$ 1,424,409</b> |

(See accompanying notes)

# UNITED CORPORATIONS LIMITED

## STATEMENTS OF CASH FLOW (Unaudited)

Six months ended Sept. 30

|  | 2016             | 2015             |
|--|------------------|------------------|
|  | (000's)          |                  |
| <b>Net inflow (outflow) of cash related to the following activities:</b> |                  |                  |
| <b>Operating</b>   |                  |                  |
| Net income (loss)  | \$ 87,240        | \$ (3,281)       |
| Adjustments for:   |                  |                  |
| Fair value change in investments   | (83,226)         | 23,465           |
| Purchases of investments   | (111,757)        | (134,814)        |
| Proceeds from sale of investments  | 132,518          | 138,738          |
| Dividends and interest receivable  | (391)            | 214              |
| Deferred taxes   | 6,379            | (10,355)         |
| Net change in other assets and liabilities                               | (8,654)          | (1,047)          |
|  | <b>22,109</b>    | <b>12,920</b>    |
| <b>Financing</b>   |                  |                  |
| Dividends paid to shareholders   | (21,285)         | (17,261)         |
| <b>Net increase (decrease) in cash and cash equivalents</b>              | <b>824</b>       | <b>(4,341)</b>   |
| Cash and cash equivalents at beginning of the period                     | 17,187           | 26,086           |
| <b>Cash and cash equivalents at end of the period</b>                    | <b>\$ 18,011</b> | <b>\$ 21,745</b> |
| Additional information for operating activities:                         |                  |                  |
| Interest received  | \$ 42            | \$ 25            |
| Dividends received, net of withholding taxes                             | 20,122           | 23,505           |
| Income taxes paid  | 15,800           | 10,300           |
| Income tax refunds   | 29               | —                |

(See accompanying notes)

# UNITED CORPORATIONS LIMITED

## NOTES TO FINANCIAL STATEMENTS

(Unaudited)

### 1. Description of Company and summary of operations

United Corporations Limited (“United” or the “Company”) is a closed-end investment corporation. The head office, principal address and registered office of the Company is located at 165 University Avenue, Toronto, Ontario, M5H 3B8.

United trades on the Toronto Stock Exchange under the symbols UNC, UNC PR.A., UNC PR.B. and UNC PR.C. United is an investment vehicle for long-term growth through investments in common equities, as management believes that over long periods of time, common equities, as an asset class, will outperform fixed-income instruments or balanced funds. From time to time, however, assets of the Company may be invested in interest-bearing short-term securities pending the selection of suitable equity investments.

The interim condensed financial statements are presented in Canadian dollars which is the functional and presentation currency. These interim condensed financial statements were approved by the Company’s Board of Directors on November 1, 2016.

### 2. Basis of presentation

These unaudited interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting as issued by the International Accounting Standards Board and follow the same accounting policies and methods as the most recent annual financial statements. These unaudited interim condensed financial statements do not include all of the disclosures required under International Financial Reporting Standards for annual financial statements and should be read in conjunction with the notes to the Company’s audited financial statements for the year ended March 31, 2016.

### 3. Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Company has made in preparing the financial statements:

#### *Classification and measurement of investments*

In classifying and measuring financial instruments held by the Company, the Company is required to make significant judgments about whether or not the business of the Company is to invest on a total return basis for the purpose of applying the fair value option for financial assets. The most significant judgment made includes the determination that the Company can apply the fair value option to its investments.

#### *Deferred taxes*

Estimates and assumptions are used primarily in the determination of the Company’s deferred tax liabilities, as the income tax rates used in determining the liability are dependent on an assumption as to when a deferred tax liability is expected to be realized.

### 4. Financial instruments

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted unadjusted prices in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

At September 30, 2016, all of the Company’s equity investments were Level 1 investments. There were no year-to-date transfers between Level 1, 2 or 3 equity investments.

# UNITED CORPORATIONS LIMITED

## NOTES TO FINANCIAL STATEMENTS

(Unaudited)

### 5. Fair value change in investments

The fair value change in investments is comprised as follows:

|                                   | Three months ended<br>September 30 |           | Six months ended<br>September 30 |             |
|-----------------------------------|------------------------------------|-----------|----------------------------------|-------------|
|                                   | 2016                               | 2015      | 2016                             | 2015        |
|                                   | (000's)                            |           |                                  |             |
| Net realized gain                 | \$ 12,949                          | \$ 33,347 | \$ 35,652                        | \$ 49,592   |
| Change in unrealized appreciation | 49,043                             | (24,906)  | 47,574                           | (73,057)    |
|                                   | \$ 61,992                          | \$ 8,441  | \$ 83,226                        | \$ (23,465) |

### 6. Related party transactions

Included in the Company's Schedule of Investment Portfolio is Algoma Central Corporation ("Algoma"), a related party, with a fair value at September 30, 2016 of \$42,058,000 (March 31, 2016 - \$44,850,000). Dividend income from Algoma for the three months and six months ended September 30, 2016 amounted to \$254,000 (2016 - \$254,000) and \$508,000 (2016 - \$508,000), respectively.

E-L Financial holds a 51.7% (March 31, 2016 - 51.5%) interest in the Company. Included in investment management and administrative costs are fees for administrative services paid to E-L Financial. These fees are calculated at 0.1% per annum of the fair value of the investments managed by the external investment managers and are paid monthly. The total fees for the three months and six months ended September 30, 2016 amounted to \$433,000 (2016 - \$411,000) and \$852,000 (2016 - \$814,000), respectively.

The ultimate controlling party of the Company and of these related parties is The Honourable Henry N.R. Jackman together with a trust created in 1969 by his father, Henry R. Jackman.

### 7. Subsequent event

Common Share dividends of \$0.20 per Common Share, and \$0.375 per Preferred Share for First Preferred Shares, Second Preferred Shares, 1959 Series and Second Preferred Shares, 1963 Series, were declared by the Board of Directors at its meeting on November 1, 2016, with a record and payable date of February 6, 2017 and February 15, 2017, respectively.

# UNITED CORPORATIONS LIMITED

## SCHEDULE OF INVESTMENT PORTFOLIO AS AT SEPTEMBER 30, 2016 (Unaudited)

| Number<br>of Shares  |  | Cost     | Carrying<br>value | % of<br>Carrying value |
|----------------------|--|----------|-------------------|------------------------|
|                      |  | (000's)  |                   |                        |
| <b>North America</b> |  |          |                   |                        |
| <b>Canada</b>        |  |          |                   |                        |
| <b>Common</b>        |  |          |                   |                        |
| 3,625,680            | Algom Central Corporation <sup>1</sup> .....       | \$ 6,201 | \$ 42,058         | 2.6                    |
| <b>United States</b> |  |          |                   |                        |
| 71,400               | 3M Co. ....  | 7,007    | 16,505            |                        |
| 202,820              | Abbott Laboratories .....                          | 10,663   | 11,251            |                        |
| 11,954               | Alphabet Inc. Class A .....                        | 7,926    | 12,608            |                        |
| 13,579               | Alphabet Inc. Class C .....                        | 7,576    | 13,845            |                        |
| 80,720               | Becton, Dickinson and Company .....                | 6,110    | 19,030            |                        |
| 41,840               | Berkshire Hathaway Inc. Class B .....              | 7,834    | 7,929             |                        |
| 168,870              | BorgWarner Inc. ....                               | 11,291   | 7,793             |                        |
| 425,500              | CA Inc. ....                                       | 14,390   | 18,463            |                        |
| 208,100              | Clorox Company (The) .....                         | 21,412   | 34,170            |                        |
| 178,230              | Colgate-Palmolive Company .....                    | 9,602    | 17,333            |                        |
| 261,760              | Comcast Corporation Class A .....                  | 20,385   | 22,778            |                        |
| 121,200              | Computer Sciences Corporation .....                | 4,326    | 8,300             |                        |
| 569,900              | ConAgra Foods, Inc. ....                           | 20,508   | 35,217            |                        |
| 169,390              | DaVita Healthcare Partners Inc. ....               | 16,201   | 14,680            |                        |
| 131,399              | Dollar Tree, Inc. ....                             | 4,985    | 13,604            |                        |
| 93,390               | EOG Resources, Inc. ....                           | 5,589    | 11,847            |                        |
| 77,430               | Exxon Mobil Corporation .....                      | 5,927    | 8,865             |                        |
| 125,720              | Fiserv, Inc. ....                                  | 4,196    | 16,403            |                        |
| 491,000              | General Mills, Inc. ....                           | 22,662   | 41,142            |                        |
| 740,600              | Hormel Foods Corporation .....                     | 21,717   | 36,847            |                        |
| 61,200               | IBM Corporation .....                              | 11,055   | 12,752            |                        |
| 414,120              | IMS Health Holdings, Inc. ....                     | 14,833   | 17,024            |                        |
| 167,370              | JPMorgan Chase & Co. ....                          | 6,921    | 14,619            |                        |
| 250,200              | Kimberly Clark Corporation .....                   | 23,735   | 41,398            |                        |
| 67,066               | Kraft Heinz Company (The) .....                    | 3,913    | 7,874             |                        |
| 95,020               | MasterCard, Inc. Class A .....                     | 11,575   | 12,684            |                        |
| 329,500              | Merck & Co., Inc. ....                             | 20,431   | 26,974            |                        |
| 226,040              | MetLife, Inc. ....                                 | 7,816    | 13,173            |                        |
| 579,920              | Microsoft Corporation .....                        | 26,102   | 43,815            |                        |
| 132,600              | Mondelez International Inc. Class A .....          | 5,151    | 7,636             |                        |
| 235,340              | Noble Energy, Inc. ....                            | 11,174   | 11,033            |                        |
| 352,850              | Oracle Corporation .....                           | 13,410   | 18,180            |                        |
| 107,460              | PepsiCo, Inc. ....                                 | 7,300    | 15,332            |                        |
| 856,737              | Pfizer Inc. ....                                   | 27,215   | 38,062            |                        |
| 2,287,900            | Staples Inc. ....                                  | 30,331   | 25,659            |                        |
| 95,400               | TJX Companies, Inc. ....                           | 8,104    | 9,358             |                        |
| 76,140               | UnitedHealth Group Incorporated .....              | 11,892   | 13,982            |                        |
| 242,130              | US Bancorp .....                                   | 6,931    | 13,622            |                        |
| 142,800              | Verisk Analytics Inc. Class A .....                | 7,052    | 15,225            |                        |
| 148,620              | Walgreen Boots Alliance Inc. ....                  | 5,755    | 15,716            |                        |
| 328,300              | Waste Management Inc. ....                         | 18,175   | 27,457            |                        |
| 232,251              | Wells Fargo & Company .....                        | 11,338   | 13,487            |                        |
|                      |  | 520,516  | 783,672           | 49.5                   |
| <b>Mexico</b>        |  |          |                   |                        |
| 63,520               | Fomento Economico Mexicano, S.A. de C.V. ADR ..... | 4,249    | 7,669             | 0.5                    |
|                      | <b>Total North America</b> .....                   | 530,966  | 833,399           | 52.6                   |



# UNITED CORPORATIONS LIMITED

## SCHEDULE OF INVESTMENT PORTFOLIO AS AT SEPTEMBER 30, 2016 (Unaudited)

| Number<br>of Shares                     |   | Cost     | Carrying<br>value | % of<br>Carrying value |
|---|---|----------|-------------------|------------------------|
|   |   | (000's)  |                   |                        |
| <b>Europe, excluding United Kingdom</b> |   |          |                   |                        |
| 59,081                                  | Adidas AG .....                           | \$ 5,144 | \$ 13,448         |                        |
| 92,768                                  | Anheuser-Busch Inbev SA ADR.....          | 9,986    | 15,990            |                        |
| 264,489                                 | AXA .....                                 | 5,323    | 7,384             |                        |
| 1,048,340                               | Banco Santander Central Hispano S.A.....  | 9,681    | 6,100             |                        |
| 81,448                                  | Bayer AG.....                             | 7,597    | 10,698            |                        |
| 1,101,487                               | Davide Campari-Milano S.p.A.....          | 8,639    | 16,286            |                        |
| 400,007                                 | Group Danone S.A.....                     | 31,961   | 38,946            |                        |
| 112,834                                 | Kerry Group plc.....                      | 8,190    | 12,335            |                        |
| 1,334,210                               | Koninklijke Ahold Delhaize NV.....        | 20,668   | 39,906            |                        |
| 106,077                                 | LafargeHolcim Limited.....                | 7,536    | 7,514             |                        |
| 290,583                                 | L'Air Liquide S.A.....                    | 39,764   | 40,886            |                        |
| 52,241                                  | LVMH Moet Hennessy Louis Vuitton SA.....  | 9,707    | 11,690            |                        |
| 521,267                                 | Nestlé SA .....                           | 37,614   | 53,993            |                        |
| 60,810                                  | Nestlé SA ADR.....                        | 2,095    | 6,303             |                        |
| 1,287,181                               | Orange S.A.....                           | 22,295   | 26,431            |                        |
| 388,124                                 | Publicis Groupe.....                      | 33,264   | 38,516            |                        |
| 140,220                                 | Roche Holding AG.....                     | 42,112   | 45,725            |                        |
| 144,046                                 | Schneider Electric S.A.....               | 11,323   | 13,178            |                        |
| 816,421                                 | Securitas AB Class B.....                 | 8,497    | 17,962            |                        |
| 93,621                                  | Siemens AG .....                          | 10,349   | 14,354            |                        |
|   |   | 331,745  | 437,645           | 27.7                   |
| <b>United Kingdom</b>                   |   |          |                   |                        |
| 232,008                                 | Diageo plc .....                          | 7,683    | 8,754             |                        |
| 18,550                                  | Diageo plc ADR.....                       | 1,403    | 2,823             |                        |
| 5,536,435                               | G4S plc .....                             | 22,218   | 21,527            |                        |
| 295,140                                 | GlaxoSmithKline plc.....                  | 7,484    | 8,277             |                        |
| 963,736                                 | HSBC Holdings Inc.....                    | 9,029    | 9,520             |                        |
| 336,395                                 | National Grid plc.....                    | 4,184    | 6,271             |                        |
| 1,530                                   | National Grid plc ADR.....                | 70       | 143               |                        |
| 410,030                                 | RELX plc.....                             | 9,891    | 10,239            |                        |
| 333,570                                 | Royal Dutch Shell plc.....                | 12,823   | 10,901            |                        |
| 2,265,850                               | Vodafone Group plc.....                   | 9,782    | 8,576             |                        |
|   |   | 84,567   | 87,031            | 5.5                    |
| <b>Asia</b>                             |   |          |                   |                        |
| 1,098,700                               | AIA Group Limited.....                    | 8,401    | 9,579             |                        |
| 630,900                                 | Asahi Group Holdings Co.....              | 20,905   | 29,975            |                        |
| 49,400                                  | Fanuc Corporation .....                   | 7,864    | 10,890            |                        |
| 122,900                                 | Kao Corporation.....                      | 5,091    | 9,065             |                        |
| 504,800                                 | KDDI Corporation.....                     | 11,907   | 20,379            |                        |
| 14,018                                  | Keyence Corporation .....                 | 3,334    | 13,346            |                        |
| 537,000                                 | Kirin Holdings Company, Limited.....      | 7,708    | 11,633            |                        |
| 842,900                                 | Konica Minolta Holdings Inc.....          | 8,320    | 9,285             |                        |
| 155,600                                 | Lawson Inc.....                           | 13,527   | 16,072            |                        |
| 98,800                                  | Makita Corporation.....                   | 5,321    | 9,168             |                        |
| 382,900                                 | Mitsubishi Tanabe Pharma Corporation..... | 6,078    | 10,694            |                        |
| 2,151,000                               | Osaka Gas Co., Ltd.....                   | 9,582    | 11,767            |                        |
| 96,200                                  | Secom Co. Ltd.....                        | 5,650    | 9,361             |                        |
| 229,000                                 | Seven & i Holdings Co.....                | 12,618   | 14,118            |                        |
| 111,600                                 | Toyota Motor Corporation.....             | 5,037    | 8,358             |                        |
| 368,200                                 | Unicharm Corporation.....                 | 8,342    | 12,447            |                        |
|   |   | 139,685  | 206,137           | 13.0                   |

# UNITED CORPORATIONS LIMITED

## SCHEDULE OF INVESTMENT PORTFOLIO AS AT SEPTEMBER 30, 2016 (Unaudited)

| Number<br>of Shares |   | Cost               | Carrying<br>value  | % of<br>Carrying value |
|---------------------|---|--------------------|--------------------|------------------------|
|                     |   | (000's)            |                    |                        |
|                     | <b>Australia</b>                                      |                    |                    |                        |
| 451,370             | Amcor Limited .....                                   | \$ 7,027           | \$ 6,875           |                        |
| 197,309             | Australia and New Zealand Banking Group Limited ..... | 5,196              | 5,481              |                        |
| 103,440             | BHP Billiton Ltd-Spon ADR .....                       | 7,151              | 4,701              |                        |
|                     |   | <u>19,374</u>      | <u>17,057</u>      | <u>1.1</u>             |
|                     | <b>Total equities</b> .....                           | 1,106,337          | 1,581,269          | 99.9                   |
|                     | <b>Rights</b>   |                    |                    |                        |
| 225,441             | L'Air Liquide S.A. ....                               | —                  | 861                | 0.1                    |
|                     | <b>Total Investments</b> .....                        | <u>\$1,106,337</u> | <u>\$1,582,130</u> | <u>100.0</u>           |

<sup>1</sup> This company and United are related parties.

# UNITED CORPORATIONS LIMITED

## CORPORATE INFORMATION

### HEAD OFFICE

Tenth Floor, 165 University Avenue  
Toronto, Ontario, M5H 3B8  
Tel: 416-947-2578  
Fax: 416-362-2592

### EXTERNAL INVESTMENT MANAGERS

Jarislowsky Fraser Limited, Toronto  
ValueInvest Asset Management S.A., Luxembourg

### AUDITOR

PricewaterhouseCoopers LLP, Toronto

### CUSTODIAN

RBC Investor Services Trust

### TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.  
100 University Avenue, 8th Floor  
Toronto, Ontario M5J 2Y1  
Toll Free: 1-800-564-6253  
www.computershare.com

### TORONTO STOCK EXCHANGE LISTINGS

|                               | <u>Ticker Symbol</u> |
|-------------------------------|----------------------|
| Common                        | UNC                  |
| First Preferred               | UNC.PR.A             |
| Second Preferred, 1959 Series | UNC.PR.B             |
| Second Preferred, 1963 Series | UNC.PR.C             |

### NET EQUITY VALUE

The Company's Net Equity Value per Common Share is published on the Company's website.

### REPORTING PROCEDURE FOR ACCOUNTING AND AUDITING MATTERS

If you have a complaint regarding accounting, internal controls or auditing matters or a concern regarding questionable accounting or auditing matters, you should submit your written complaint or concern to:

Mr. Michael J. White  
Chairman of the Audit Committee  
United Corporations Limited  
165 University Avenue, 10th Floor  
Toronto, Ontario  
M5H 3B8  
Email: michaeljwhite@sympatico.ca  
Phone: 416-505-2677

You may submit your complaint or concern anonymously. Your submission will be kept confidential and will be treated in accordance with the Company's policy for reporting accounting or auditing matters.

### WEBSITE

www.ucorp.ca

