

# UNITED CORPORATIONS LIMITED



THIRD QUARTER REPORT

DECEMBER 31, 2016



# UNITED CORPORATIONS LIMITED

Incorporated under the Laws of Canada



## THE PERIOD AT A GLANCE (Unaudited)

	As at Dec. 31 2016	As at March 31 2016
Net equity value per Common Share <sup>(1)</sup>	\$ 126.67	\$ 120.66
Net assets <sup>(2)</sup>	\$ 1,552,443	\$ 1,479,121
Number of Common Shares outstanding at period end	12,194,193	12,194,193

	Nine months ended December 31	
	2016	2015
Net investment income per Common Share <sup>(1)</sup>	\$ 1.51	\$ 1.74
Dividends per Common Share		
Quarterly	\$ 0.60	\$ 0.60
Additional <sup>(3)</sup>	\$ 1.33	\$ 1.00
Net income per Common Share	\$ 7.94	\$ 9.59
Net investment income <sup>(2)</sup>	\$ 18,740	\$ 21,508

<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 third 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 quarters 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 December 31, 2016, \$733,153,000 (March 31, 2016 - \$678,642,000) and \$812,086,000 (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 ranges expressed as a percentage of the portfolio are 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 March 31, 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 primarily 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 generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other companies. Canadian GAAP 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>December 31 2016</b>	March 31 2016
Net assets	<b>\$ 1,552,443</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>\$ 1,544,696</b>	\$ 1,471,374
Common Shares outstanding	<b>12,194,193</b>	12,194,193
Net equity value per Common Share	<b>\$ 126.67</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 December 31		Nine months ended December 31	
	2016	2015	2016	2015
Net income	\$ 9,900	\$ 120,478	\$ 97,140	\$ 117,197
Add (deduct):				
Fair value change in investments	(7,149)	(133,769)	(90,375)	(110,304)
Tax on fair value change in investments	948	17,724	11,975	14,615
Net investment income <sup>(1)</sup>	3,699	4,433	18,740	21,508
Deduct:				
Dividends paid on Preferred Shares	95	95	284	284
Net investment income, net of dividends paid on Preferred Shares <sup>(1)</sup>	\$ 3,604	\$ 4,338	\$ 18,456	\$ 21,224
Common Shares outstanding	12,194,193	12,194,193	12,194,193	12,194,193
Net investment income per Common Share <sup>(1)</sup>	\$ 0.29	\$ 0.36	\$ 1.51	\$ 1.74

<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 \$126.67 at December 31, 2016 compared to \$126.07 at September 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 0.6% (2016 – 8.5%) and 6.6% (2016 – 8.3%) year to date.

Investments managed by ValueInvest presented a pre-tax year-to-date total return of 4.9% (2016 – 15.7%), whereas investments managed by Jarislowsky had a total return of 11.8% (2016 – 5.8%).

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 December 31	Nine months ended December 31
	(%)	
United net equity value	0.6	6.6
MSCI World Index	4.4	12.2
S&P 500 Index	6.3	14.4
S&P/TSX Composite Index	4.5	15.8

# 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\*

	<u>NAV per Common Share</u>	<u>Annual Growth</u>
		(%)
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
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\*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 third quarter of fiscal 2017 of \$9,900,000 compared to \$120,478,000 in fiscal 2016. On a year-to-date basis, net income was \$97,140,000 compared to \$117,197,000 in fiscal 2016. Net income per Common Share for the third quarter of fiscal 2017 decreased to \$0.80 compared to \$9.87 for fiscal 2016. On a year-to-date basis net income per share was \$7.94 compared to \$9.59 per share in fiscal 2016.

The Company's fair value change in investments for the third quarter of fiscal 2017 was \$7,149,000 compared to \$133,769,000 for the same period in fiscal 2016. For the third quarter, North American investments contributed \$33,792,000 to the investment performance offset in part by investment losses of \$13,148,000 in Asian investments and \$12,125,000 in European investments. On a year-to-date basis the fair value change in investments was \$90,375,000 compared to \$110,304,000 for the nine months ended December 31, 2015. For the nine months ended December 31, 2016, U.S. and Asian investments contributed 74% (\$66,455,000) and 15% (\$13,134,000) respectively, of the fair value investment gain.

The significant contributors to the fiscal 2017 year-to-date investment performance included Computer Sciences Corporation, JPMorgan Chase & Co., and Waste Management Inc., with fair value investment gains of \$6,626,000, \$6,584,000 and \$6,133,000 respectively. The largest detractors were Hormel Foods Corporation, Kimberly Clark Corporation, and Orange S.A. with fair value investment losses of \$5,423,000, \$5,315,000 and \$2,952,000 respectively.

The net realized gain was \$9,628,000 for the third quarter of fiscal 2017 compared to \$11,955,000 for the same period in the prior year. On a year-to-date basis, the net realized gain was \$45,280,000 compared to a net realized gain of \$61,547,000 in fiscal 2016. The largest year-to-date contributors to the net realized gain in fiscal 2017 were the sales of Adidas AG, Koninklijke Ahold Delhaize NV, and FamilyMart Co., Ltd. partly offset by a net realized loss in Standard Chartered plc.

# UNITED CORPORATIONS LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Net investment income

The Company's net investment income in the third quarter of fiscal 2017 decreased to \$3,699,000 compared to \$4,433,000 for the third quarter of fiscal 2016. On a year-to-date basis, net investment income decreased to \$18,740,000 from \$21,508,000 for the same period in the prior year. On a per Common Share basis, net investment income for the quarter decreased to \$0.29 in 2017 compared to \$0.36 in 2016 and on a year-to-date basis decreased to \$1.51 in 2017 compared to \$1.74 in 2016.

Foreign dividend income in the third quarter decreased to \$6,655,000 from \$8,254,000 for the same quarter in the prior year and on year-to-date basis decreased to \$30,018,000 from \$34,359,000 in fiscal 2016. The decrease in the third quarter year over year is mainly attributed to a special cash dividend of \$1,369,000 received in the prior fiscal year from the merger of Computer Sciences Corporation and CSRA Inc. The decrease in the year-to-date foreign dividend income is also 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 \$2,063,000 in fiscal 2017 compared to \$1,939,000 for the same period in the prior year, and on a year-to-date basis increased to \$6,285,000 compared to \$5,833,000 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.

### Quarterly Results

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):

	Dec. 31 2016	Sept. 30 2016	June 30 2016	March 31 2016	Dec. 31 2015	Sept. 30 2015	June 30 2015	March 31 2015
Investments	\$ 1,589,654	\$ 1,582,130	\$ 1,525,816	\$ 1,519,665	\$ 1,590,388	\$ 1,454,582	\$ 1,451,038	\$ 1,481,971
Net investment income <sup>(1)</sup>	\$ 3,699	\$ 3,897	\$ 11,144	\$ 4,837	\$ 4,433	\$ 6,076	\$ 10,999	\$ 4,616
Net income (loss)	\$ 9,900	\$ 57,675	\$ 29,565	\$ (60,699)	\$ 120,478	\$ 13,398	\$ (16,679)	\$ 152,813
Per Common Share:								
Net investment income <sup>(1)</sup>	\$ 0.29	\$ 0.31	\$ 0.91	\$ 0.39	\$ 0.36	\$ 0.49	\$ 0.89	\$ 0.37
Net income (loss)	\$ 0.80	\$ 4.72	\$ 2.42	\$ (4.99)	\$ 9.87	\$ 1.10	\$ (1.38)	\$ 12.52
NAV	\$ 126.67	\$ 126.07	\$ 121.55	\$ 120.66	\$ 125.85	\$ 116.18	\$ 115.28	\$ 117.86

<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 December 31, 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 together with an additional Common Share dividend representing the balance of net investment income for the previous fiscal year. During the fiscal year the Company paid a quarterly dividend of \$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.

On February 7, 2017, the Board of Directors approved an increase in the quarterly dividends from \$0.20 to \$0.30 per Common Share, effective for the first quarter of fiscal 2018.

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

February 7, 2017

# UNITED CORPORATIONS LIMITED

## STATEMENTS OF NET ASSETS (Unaudited)

	December 31 2016	March 31 2016
	(000's)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 19,156	\$ 17,187
Investments (Note 4)	1,589,654	1,519,665
Dividends and interest receivable	1,939	2,453
Income taxes receivable	3,613	—
Other assets	2,352	1,957
	<b>1,616,714</b>	<b>1,541,262</b>
<b>LIABILITIES</b>		
Accrued expenses	934	916
Income taxes payable	—	3,701
Deferred tax liabilities	63,337	57,524
	<b>64,271</b>	<b>62,141</b>
<b>NET ASSETS</b>	<b>\$ 1,552,443</b>	<b>\$ 1,479,121</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	\$ 541,000	\$ 541,000
Retained earnings	1,011,443	938,121
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 1,552,443</b>	<b>\$ 1,479,121</b>

(See accompanying notes)

# UNITED CORPORATIONS LIMITED

## STATEMENTS OF OPERATIONS (Unaudited)

	Three months ended Dec. 31		Nine months ended Dec. 31	
	2016	2015	2016	2015
	(000's)			
<b>INCOME</b>				
Dividends				
Foreign	\$ 6,655	\$ 8,254	\$ 30,018	\$ 34,359
Canadian	253	253	761	761
	<b>6,908</b>	8,507	<b>30,779</b>	35,120
Interest and securities lending income	126	76	505	419
Fair value change in investments (Note 5)	7,149	133,769	90,375	110,304
	<b>14,183</b>	142,352	<b>121,659</b>	145,843
<b>EXPENSES</b>				
Investment management and administrative costs				
	1,776	1,687	5,245	4,975
Transfer, registrar and custody fees	130	120	371	378
Office and miscellaneous	51	33	326	158
Directors' and officer's remuneration	89	86	283	271
Professional fees	17	13	60	51
	<b>2,063</b>	1,939	<b>6,285</b>	5,833
<b>INCOME BEFORE INCOME TAXES</b>	<b>12,120</b>	140,413	<b>115,374</b>	140,010
Provision for income taxes	2,220	19,935	18,234	22,813
<b>NET INCOME</b>	<b>\$ 9,900</b>	\$ 120,478	<b>\$ 97,140</b>	\$ 117,197
<b>EARNINGS PER COMMON SHARE BASIC AND DILUTED</b>				
	<b>\$ 0.80</b>	\$ 9.87	<b>\$ 7.94</b>	\$ 9.59

(See accompanying notes)

# UNITED CORPORATIONS LIMITED

## STATEMENTS OF CHANGES IN EQUITY (Unaudited)

	Share capital	Retained 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	—	97,140	97,140
<b>Dividends</b>			
First Preferred Shares	—	(59)	(59)
Second Preferred Shares	—	(225)	(225)
Common Shares	—	(23,534)	(23,534)
<b>At December 31, 2016</b>	<b>\$ 541,000</b>	<b>\$ 1,011,443</b>	<b>\$ 1,552,443</b>
<b>At April 1, 2015</b>	<b>\$ 541,000</b>	<b>\$ 903,951</b>	<b>\$ 1,444,951</b>
Net income for the period	—	117,197	117,197
<b>Dividends</b>			
First Preferred Shares	—	(59)	(59)
Second Preferred Shares	—	(225)	(225)
Common Shares	—	(19,511)	(19,511)
<b>At December 31, 2015</b>	<b>\$ 541,000</b>	<b>\$ 1,001,353</b>	<b>\$ 1,542,353</b>

(See accompanying notes)

# UNITED CORPORATIONS LIMITED

## STATEMENTS OF CASH FLOW (Unaudited)

Nine months ended Dec. 31

	2016	2015
	(000's)	
<b>Net inflow (outflow) of cash related to the following activities:</b>		
<b>Operating</b>		
Net income	\$ 97,140	\$ 117,197
Adjustments for:		
Fair value change in investments	(90,375)	(110,304)
Purchases of investments	(141,968)	(213,172)
Proceeds from sale of investments	162,354	215,059
Dividends and interest receivable	514	667
Deferred taxes	5,813	5,722
Net change in other assets and liabilities	(7,691)	(1,590)
	<b>25,787</b>	<b>13,579</b>
<b>Financing</b>		
Dividends paid to shareholders	(23,818)	(19,795)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,969</b>	<b>(6,216)</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>\$ 19,156</b>	<b>\$ 19,870</b>
<b>Additional information for operating activities:</b>		
Interest received	\$ 45	\$ 32
Dividends received, net of withholding taxes	26,946	31,222
Income taxes paid	15,800	13,550
Income tax refunds	29	58

(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 February 7, 2017.

### 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. Classification of fair value measurements

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 December 31, 2016, all of the Company’s 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 December 31		Nine months ended December 31	
	2016	2015	2016	2015
	(000's)			
Net realized gain	\$ 9,628	\$ 11,955	\$ 45,280	\$ 61,547
Change in unrealized appreciation	(2,479)	121,814	45,095	48,757
	\$ 7,149	\$ 133,769	\$ 90,375	\$ 110,304

### 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 December 31, 2016 of \$44,415,000 (March 31, 2016 - \$44,850,000). Dividend income from Algoma for the three months and nine months ended December 31, 2016 amounted to \$253,000 (2016 - \$253,000) and \$761,000 (2016 - \$761,000), respectively.

E-L Financial holds a 51.8% (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 nine months ended December 31, 2016 amounted to \$435,000 (2016 - \$421,000) and \$1,287,000 (2016 - \$1,235,000), 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

Preferred Share dividends of \$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 February 7, 2017, with a record and payable date of May 4, 2017 and May 15, 2017, respectively.

The Board of Directors approved an increase in the quarterly dividends from \$0.20 to \$0.30 per Common Share, effective for the first quarter of fiscal 2018, with a record and payable date of May 4, 2017 and May 15, 2017, respectively.

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

# UNITED CORPORATIONS LIMITED

## SCHEDULE OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2016 (Unaudited)

Number of Shares		Cost	Carrying value	% of 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	\$ 44,415	2.8
	<b>United States</b>			
71,400	3M Co. ....	7,007	17,119	
202,820	Abbott Laboratories .....	10,663	10,460	
11,954	Alphabet Inc. Class A .....	7,926	12,719	
13,579	Alphabet Inc. Class C .....	7,576	14,072	
80,720	Becton, Dickinson and Company .....	6,110	17,943	
51,930	Berkshire Hathaway Inc. Class B .....	10,065	11,364	
168,870	BorgWarner Inc. ....	11,291	8,943	
425,500	CA Inc. ....	14,390	18,151	
208,100	Clorox Company (The) .....	21,412	33,535	
178,230	Colgate-Palmolive Company .....	9,602	15,660	
261,760	Comcast Corporation Class A .....	20,385	24,269	
121,200	Computer Sciences Corporation .....	4,326	9,670	
569,900	ConAgra Brands, Inc. ....	15,839	30,264	
169,390	DaVita Healthcare Partners, Inc. ....	16,201	14,602	
131,399	Dollar Tree, Inc. ....	4,985	13,617	
93,390	EOG Resources, Inc. ....	5,589	12,677	
77,430	Exxon Mobil Corporation .....	5,927	9,384	
125,720	Fiserv, Inc. ....	4,196	17,941	
491,000	General Mills, Inc. ....	22,662	40,723	
740,600	Hormel Foods Corporation .....	21,717	34,615	
61,200	IBM Corporation .....	11,055	13,640	
167,370	JPMorgan Chase & Co. ....	6,921	19,392	
250,200	Kimberly Clark Corporation .....	23,735	38,338	
67,066	Kraft Heinz Company (The) .....	3,913	7,863	
189,966	Lamb Weston Holdings, Inc. ....	4,669	9,654	
111,090	MasterCard, Inc. Class A .....	13,809	15,401	
329,500	Merck & Co., Inc. ....	20,431	26,045	
226,040	MetLife, Inc. ....	7,816	16,356	
527,420	Microsoft Corporation .....	23,739	44,005	
132,600	Mondelez International Inc. Class A .....	5,151	7,893	
235,340	Noble Energy, Inc. ....	11,174	12,027	
352,850	Oracle Corporation .....	13,410	18,217	
107,460	PepsiCo, Inc. ....	7,300	15,097	
856,737	Pfizer Inc. ....	27,215	37,363	
159,022	Qunitiles IMS Holdings, Inc. ....	14,833	16,238	
2,003,800	Staples Inc. ....	26,408	24,349	
95,400	TJX Companies, Inc. ....	8,104	9,624	
76,140	UnitedHealth Group Incorporated .....	11,892	16,361	
242,130	US Bancorp .....	6,931	16,701	
142,800	Verisk Analytics Inc. Class A .....	7,052	15,563	
148,620	Walgreen Boots Alliance Inc. ....	5,755	16,515	
328,300	Waste Management Inc. ....	18,175	31,258	
232,251	Wells Fargo & Company .....	11,339	17,186	
		<u>518,696</u>	<u>812,814</u>	51.1
	<b>Mexico</b>			
63,520	Fomento Economico Mexicano, S.A. de C.V. ADR .....	4,249	6,500	0.4
	<b>Total North America</b> .....	<u>529,146</u>	<u>863,729</u>	54.3



# UNITED CORPORATIONS LIMITED

## SCHEDULE OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2016 (Unaudited)

Number of Shares		Cost	Carrying value	% of Carrying value
		(000's)		
<b>Europe, excluding United Kingdom</b>				
35,546	Adidas AG .....	\$ 3,095	\$ 7,562	
92,768	Anheuser-Busch Inbev SA ADR.....	9,986	13,134	
264,489	AXA .....	5,323	8,988	
1,060,389	Banco Santander Central Hispano S.A.....	9,751	7,451	
81,448	Bayer AG .....	7,597	11,440	
872,193	Davide Campari-Milano S.p.A.....	6,841	11,481	
391,500	Group Danone S.A.....	31,281	33,394	
147,085	Kerry Group plc.....	11,469	14,151	
1,334,210	Koninklijke Ahold Delhaize NV .....	20,668	37,866	
106,077	LafargeHolcim Limited .....	7,536	7,502	
318,763	L'Air Liquide S.A.....	42,901	47,717	
52,241	LVMH Moet Hennessy Louis Vuitton SA.....	9,707	13,427	
469,830	Nestlé SA .....	35,851	47,958	
60,810	Nestlé SA ADR.....	2,095	5,858	
1,287,181	Orange S.A.....	22,295	26,327	
388,124	Publicis Groupe.....	33,264	36,048	
140,220	Roche Holding AG.....	42,112	43,098	
144,046	Schneider Electric S.A.....	11,323	13,493	
739,919	Securitas AB Class B .....	7,701	15,682	
93,621	Siemens AG .....	10,348	15,494	
38,861	Swatch Group AG (The) .....	15,095	16,263	
		<u>346,239</u>	<u>434,334</u>	27.3
<b>United Kingdom</b>				
232,008	Diageo plc .....	7,683	8,109	
18,550	Diageo plc ADR.....	1,403	2,589	
5,536,435	G4S plc .....	22,218	21,551	
295,140	GlaxoSmithKline plc.....	7,484	7,636	
963,736	HSBC Holdings Inc.....	9,029	10,486	
490,100	RELX plc.....	11,780	11,763	
333,570	Royal Dutch Shell plc.....	12,823	12,281	
2,265,850	Vodafone Group plc .....	9,782	7,501	
		<u>82,202</u>	<u>81,916</u>	5.2
<b>Asia</b>				
1,098,700	AIA Group Limited .....	8,401	8,324	
630,900	Asahi Group Holdings Co.....	20,905	26,772	
55,600	Fanuc Corporation .....	9,296	12,670	
122,900	Kao Corporation .....	5,091	7,831	
504,800	KDDI Corporation.....	11,907	17,180	
14,018	Keyence Corporation .....	3,334	12,929	
537,000	Kirin Holdings Company, Limited .....	7,708	11,743	
842,900	Konica Minolta Holdings Inc.....	8,320	11,254	
155,600	Lawson Inc.....	13,527	14,691	
98,800	Makita Corporation.....	5,321	8,896	
382,900	Mitsubishi Tanabe Pharma Corporation .....	6,078	10,097	
1,761,000	Osaka Gas Co., Ltd.....	7,844	9,105	
96,200	Secom Co. Ltd. ....	5,650	9,457	
229,000	Seven & i Holdings Co., Ltd. ....	12,618	11,727	
111,600	Toyota Motor Corporation.....	5,037	8,827	
368,200	Unicharm Corporation .....	8,342	10,829	
		<u>139,379</u>	<u>192,332</u>	12.1

# UNITED CORPORATIONS LIMITED

## SCHEDULE OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2016 (Unaudited)

Number of Shares		Cost	Carrying value	% of Carrying value
		(000's)		
	<b>Australia</b>			
451,370	Amcor Limited .....	\$ 7,027	\$ 6,550	
197,309	Australia and New Zealand Banking Group Limited .....	5,196	5,826	
103,440	BHP Billiton Ltd-Spon ADR .....	7,151	4,967	
		<u>19,374</u>	<u>17,343</u>	<u>1.1</u>
	<b>Total investments</b> .....	<u>\$1,116,340</u>	<u>\$1,589,654</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](http://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](mailto: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](http://www.ucorp.ca)

