

ADDRESS TO SHAREHOLDERS

THURSDAY, MAY 11, 2006

BY

PAUL DESMARAIS, JR.

CHAIRMAN AND CO-CHIEF EXECUTIVE OFFICER

OF THE CORPORATION



POWER CORPORATION OF CANADA

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Additional information about the risks and uncertainties of the Corporation's business is provided in its disclosure materials, including its most recent Annual Information Form and Management's Discussion and Analysis of Operating Results, filed with the securities regulatory authorities in Canada, available at www.sedar.com.

**CHAIRMAN'S ADDRESS TO THE
ANNUAL MEETING OF SHAREHOLDERS**

POWER CORPORATION OF CANADA

MAY 11, 2006

Ladies and Gentlemen,

The President has presented the financial results for the year 2005 and for the first quarter of 2006. I am very happy to join him in thanking our exceptional team of dedicated employees and officers for such outstanding results.

We believe that Power's geographic and industrial diversification, our strategic approach to management, and the strong and conservative financial position of our group companies have enabled us to deliver solid results in recent years.

We have come a long way since my father acquired a controlling interest in Power Corporation in 1968. His entrepreneurial spirit, vision and high standards of integrity have never ceased to inspire our management teams and employees. They are the foundation on which our group continues to rest as we chart our course into the future.

It is with an eye to the long term that my father steered the company into the financial services sector, confident that it would become the significant economic force that it has, as the country grew and Canadians became more prosperous. Power's initial investments in Great-West Life and Investors Group, which were made in 1968, subsequently became controlling interests and led to the creation, in 1984, of Power Financial Corporation, a publicly traded subsidiary of Power Corporation which holds our financial services interests.

After the President and I were appointed Co-CEOs of the company in 1996, we conducted a review of all our business units and, with our management teams, developed strategic plans for each one of them. This practice is, to this day, a key feature in the way we manage our company.

In the context of the strategic review of our financial services businesses, it became apparent that the insurance and mutual funds industries were about to experience a period of consolidation. Intent on being leaders in those businesses, with the help of very strong management teams, we developed a plan which led to the successful acquisitions by Great-West Lifeco of London Life in 1997 and Canada Life in 2003, and of Mackenzie Financial by Investors Group in 2001. Today Great-West is the leading life insurance company in the Canadian market. Great-West Lifeco and its companies have over \$180 billion of assets under administration, and IGM is the largest mutual fund company in Canada with \$100 billion under management.

The Canadian insurance industry has done well in recent years and Canadians have every reason to be proud of this "jewel" in Canada's economy. According to Canadian Life and Health Insurance Association data, at the end of 2005:

- there were 105 life insurance companies operating in Canada;
- approximately 24 million Canadians and their dependents were protected by one or more of the life and health industry's products and services;
- more than 116,000 Canadians were employed in the sector, including 71,000 agents and brokers;
- most of the \$340 billion in assets held by the industry are invested in Canada's economy;
- Canada's life insurers generated \$63 billion, or 54 per cent of their total worldwide premiums from foreign clients;
- more than 94 per cent of the industry, measured by assets, is Canadian controlled;
- Canada's top 3 insurers (Great-West, Manulife, Sun Life) are among the top 10 insurers in North America;
- they rival the top 5 Canadian banks in terms of market capitalization.

As we can see, since the policy changes in the federal government's White Paper were adopted in 2001, significant consolidation has occurred in the Canadian insurance sector, and Canada's large insurers are vital and growing. Canadian insurers and banks have also continued to grow with major acquisitions in the United States and abroad. Our financial institutions are well positioned to take full advantage of the evolution of a more integrated North American economy.

Canada is a modern and industrialized country which has successfully faced important challenges like the vastness of its land and its small population. That we have managed to build a solid and competitive network of financial services is no small feat. We owe it to the entrepreneurial forces which erected an effective business model adapted to the Canadian reality.

A shining example is the insurance industry's multi-channel distribution system, which provides insurance products and services in all regions to Canadians from all walks of life. The system is a mix of advisers who are exclusively aligned with one insurer, and affiliated advisers and independent brokers who offer a broad choice of products and services to their customers from a variety of insurers.

This is a sophisticated delivery system involving highly trained and licensed individuals. That is appropriate, because insurance products are generally complex and frequently require tailoring to suit the needs of the specific consumer. These products do not lend themselves to being sold to consumers through branch networks. Generally, they are sold to consumers in their homes or in their place of business by agents, financial advisers and brokers with flexible hours. This is usually done through a financial planning process, involving proper advice and the necessary time for the right choice to be made.

In our cities and practically every corner of the country, Canadians enjoy personalized service from the thousands of agents, financial advisers and brokers who bring to them the products and resources of insurance companies. It is worth mentioning that most of those individuals also invest of themselves in the life of their communities. We have always valued the important contribution of the over 15,000 agents, financial advisers and brokers who provide products and services on behalf of our group, not only because of the service they provide to their clients, but also because of their contribution to their communities. In this, they reflect a value which is strongly held here at Power Corporation.

I would add that the drive and entrepreneurial spirit of these key players goes a long way in explaining our long-standing interest and involvement in the financial services industry, which is at the root of our corporate group.

We believe that the current regulatory regime in Canada is working well to achieve the Government's overarching policy goal of having a policy framework in place that allows the financial services sector to evolve, while preserving its soundness and ensuring that its evolution benefits consumers.

The legislative framework which is currently in place was enacted in 2001. The impact of the structural changes that have since occurred in the banking and insurance sectors have not yet fully played out. For example, the effective integration and realization of consolidation benefits in the insurance sector is a work-in-progress.

It is therefore our view that the current policy framework governing Canada's financial services sector, which has served Canadians well, should be maintained in its present form.

GOVERNANCE

I mentioned that the entrepreneurial nature of the delivery system — the agents and brokers — is a fundamental source of energy and strength in the financial services industry.

Here at Power Corporation, this entrepreneurial approach is fundamental to the way we do business. It is the foundation of the system of corporate governance we apply throughout our group. I want to close my remarks today with a few words on that subject.

As an entrepreneurial controlling shareholder, we are driven by the quest for long-term shareholder returns. This is a goal that we believe is shared by all the shareholders at Power and at the public companies in our group. Our interests and the interests of minority shareholders are fully aligned.

Long-term returns to shareholders are a meaningful indicator of the effectiveness of a corporation's governance system. In this regard, I believe the figures our President quoted a few moments ago speak for themselves: Power's annual compound shareholder returns were 23.75 per cent over 10 years, 15.37 per cent over 20 years, and 21.5 per cent over 30 years. Those numbers, I suggest, could not have been achieved in the absence of solid governance throughout our corporate group.

As a core feature of our governance system, officers of Power Corporation and Power Financial Corporation sit on the boards of our group's operating companies, Great-West Lifeco and IGM Financial, as well as their major subsidiaries.

The job of these officers is to maximize the impact of the parent companies' contribution to the group companies. They spend a lot of time on this. These officers generally form a majority on the compensation and nominating committees at these companies. They have no relationship with these companies, other than as directors.

It is my observation that minority shareholders in our group companies tend to recognize the value of a co-investor with a stake valued in the billions of dollars, and whose representatives are highly motivated to keep their eye on the ball on a day-to-day basis. Indeed, many have invested because there *is* a majority shareholder.

I have also observed that subsidiary management finds a benefit in the presence of a majority shareholder with a long-term view, and who may be willing to endure short-term pain in order to achieve substantial returns down the road. In that sense, stability of ownership enhances the ability to plan and build.

The governance practices I am describing have been our practice, in our group of companies, for decades.

We were therefore concerned last May when the Canadian Securities Administrators (CSA) promulgated new corporate governance guidelines on director independence which deem a director to be "not independent" of a public corporation if that director is an officer of the corporation's controlling shareholder, even if the director has no ties whatsoever to the corporation other than his or her directorship.

To follow these new guidelines would imply that our officers could no longer form a majority on subsidiary compensation and nominating committees. This would disrupt a long established and, as I have shown, effective governance system.

The guidelines as presently written would drive companies to establish boards dominated by directors who would be "deemed independent" — that is, unrelated to a controlling shareholder. When was the last time we saw a group of "unrelated" directors come together to create a business? What entrepreneur would want to take a company public if that were a requirement?

I am concerned that the regulators risk throwing out the baby with the bathwater. In a country in which roughly 70 per cent of the public companies quoted on the leading exchange have controlling shareholders, is it not important to support and encourage governance systems that make sense and contribute to sound business decision making? Why would we adopt policies that inhibit the governance model that has contributed to such substantial wealth creation?

It would appear that what is happening here is that the CSA are attempting to deal indirectly with potential conflicts of interest between majority and minority shareholders. But in doing so, they are disrupting historically effective governance systems in closely held corporate groups. In effect, wealth creation at a majority of public companies — so vital to our economy and society — is to be traded off against the remote possibility of stopping abusive practices by a very small unprincipled minority.

We at Power Corporation believe that if there is a concern about potential conflicts of interest between shareholder groups, that concern should be confronted head-on — not indirectly.

We have recommended to the CSA that the flawed provision on director “deemed non-independence” be removed, and that public companies be required to establish a conduct review committee composed entirely of directors who are independent of management and who are neither officers, employees nor directors of the company’s controlling shareholder.

The mandate of such a committee would be to deal with conflicts of interest or self dealing. This would, of course, cover transactions involving the corporation and its management, its directors, its sister companies or its controlling shareholder. The committee would be in a position to approve only those transactions it deems appropriate.

As a controlling shareholder of Canadian financial institutions where conduct review committees have been a prerequisite for many years, we can attest to the effectiveness of such a requirement.

I am pleased to be able to report that, as you will have observed in our Management Proxy Circular, we have established a Related Party and Conduct Review Committee at Power Corporation and at each of the Canadian public companies in our group. The mandate of each of these committees is as I described a moment ago.

We believe this to be an effective solution to the issue that the CSA wishes to address, and that it will permit the CSA to remedy the difficulty created for groups like ours by the current provision with respect to director independence.

I note that the Canadian Securities Administrators have acknowledged the concerns expressed by some reporting issuers, including Power, as to whether the CSA’s view of director independence is appropriate to companies with a majority shareholder. Its Policy Statement indicates that the CSA

“intend(s), over the next year, to carefully consider these concerns in the context of a study to examine the governance of controlled companies” and that it “will consider whether to change how this Policy ... treat(s) controlled companies”.

We welcome this undertaking, and note its importance to investors, large or small, in our companies. We look forward to discussing this further with — and sharing the benefit of our experience with — the Canadian Securities Administrators.

Finally, ladies and gentlemen, I wish to echo the comments of the President in thanking the officers and employees of our group companies for their outstanding financial results and you, our shareholders, for your continued support.



POWER CORPORATION OF CANADA