

# ANNUAL SHAREHOLDER MEETING

THURSDAY, MAY 13, 2010

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## PRESIDENT'S ADDRESS

BY

**ANDRÉ DESMARAIS**

DEPUTY CHAIRMAN, PRESIDENT AND  
CO-CHIEF EXECUTIVE OFFICER

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## CHAIRMAN'S ADDRESS

BY

**PAUL DESMARAIS, JR.**

CHAIRMAN AND CO-CHIEF EXECUTIVE OFFICER  
OF THE CORPORATION



POWER CORPORATION OF CANADA

**FORWARD-LOOKING STATEMENTS** > Certain statements in this document, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's and its subsidiaries' current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial position and results of operations as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

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The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including that the foregoing list of factors, collectively, are not expected to have a material impact on the Corporation and its subsidiaries. While the Corporation considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

Other than as specifically required by law, the Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

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

**NON-GAAP FINANCIAL MEASURES** > In analysing the financial results of the Corporation and consistent with the presentation in previous years, net earnings are subdivided into the following components:

- > operating earnings; and
- > other items, which include the after-tax impact of any item that management considers to be of a non-recurring nature or that could make the period-over-period comparison of results from operations less meaningful, and also include the Corporation's share of any such item presented in a comparable manner by its subsidiaries.

Management has used these financial measures for many years in its presentation and analysis of the financial performance of Power Corporation, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation.

Operating earnings and operating earnings per share are non-GAAP financial measures that do not have a standard meaning and may not be comparable to similar measures used by other entities.

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**PRESIDENT'S ADDRESS**  
**TO THE ANNUAL MEETING OF SHAREHOLDERS**  
**POWER CORPORATION OF CANADA**  
MAY 13, 2010

It is a pleasure for me to report to you on developments at Power Corporation during the past year. I will start by commenting on the financial results for the full-year 2009. I will then discuss group developments since the last shareholder meeting, and I will also be announcing our results for the first quarter of 2010 as well as the quarterly dividend. Please note that unless otherwise indicated, all figures are in Canadian dollars.

The 2009 financial year represented another challenging year for many of our operating businesses and investments. It was also another year where our business model of active involvement through the boards of directors, a strong risk management culture and a long-term perspective produced value for our shareholders. Our subsidiary, Power Financial Corporation, benefited from the economic trends around protection, retirement savings and asset management, generating strong relative earnings by capitalizing on the strength of its franchises, effective risk management and good cost control.

Many of our other investments benefited from the rising market in the latter part of the year. In the past year, we focused on maintaining strong capital, liquidity, capital markets access, and we leveraged our strong position to gain market share. Notable achievements during the year included our ability to generate earnings and to maintain dividends despite the economic context, the fact that we were able to raise capital throughout this difficult market environment and that none of our controlled companies were downgraded by major rating agencies, success with our investment in Putnam, continued growth in many segments of the business and the strong relative quality of our balance sheet. We have worked hard to maintain the trust of our shareholders, clients and employees, and our strong results compared to peers demonstrate that commitment.

### **FINANCIAL RESULTS FOR 2009**

I will now turn to the full-year results for 2009.

Power Corporation of Canada reported operating earnings of \$867 million or \$1.81 per participating share, compared with \$1.271 billion or \$2.70 per share in 2008.

Other items, not included in operating earnings, were a net charge of \$185 million or \$0.41 per share in 2009, compared with a net charge of \$403 million or \$0.89 per share in 2008. Other items this year include an impairment charge of \$110 million on the Corporation's investment in CITIC Pacific, as well as on other items of Power Financial.

Net earnings were \$682 million or \$1.40 per share in 2009, compared with \$868 million or \$1.81 per share in 2008.

The Corporation maintained its participating shareholder dividend at a quarterly rate of 29 cents in 2009.

## GROUP COMPANIES' RESULTS

I will now discuss the financial results of the companies in our group.

### POWER FINANCIAL

Power Corporation holds 66.3 per cent of the common equity of Power Financial Corporation.

Power Financial and its subsidiaries have maintained conservative investment policies and prudent product features for many years. As a result, the Power Financial group companies are among an exclusive group within the financial services industry in North America and Europe that have maintained their credit ratings throughout the financial crisis.

The financial strength of Power Financial's operating companies is also helping them in the marketplace. Growing sales momentum and market shares are being achieved in many of the businesses in Canada, the United States and Europe. Along with the impressive momentum at Putnam Investments, it is fair to say that the management teams of our various companies are all intently focused on growth opportunities.

Lower earnings levels have contributed to lower returns for Power Financial's shareholders during these past few years of financial turmoil. The returns have been, however, among the very best in the world among companies active in the life insurance and asset management industries.

Our group has always been and remains focused upon building value over the long term. In this regard, 15-year performance remains outstanding. Compounded annual rates of return to Power Financial shareholders are 19.1% over 15 years.

Put differently, \$100 invested in Power Financial shares 15 years ago would be worth \$1,384 today, compared to \$376 if invested in the TSX index and \$510 if invested in the TSX Financial Services sub-index.

Turning to the 2009 results, Power Financial's operating earnings for the year ended December 31, 2009 were \$1.533 billion or \$2.05 per share, compared with \$1.974 billion or \$2.69 per share for 2008.

Other items excluded from operating earnings were a net charge of \$94 million in 2009, compared with a net charge of \$637 million in 2008.

Power Financial's net earnings were \$1.439 billion or \$1.92 per share in 2009, compared with \$1.337 billion or \$1.79 per share in 2008.

### GREAT-WEST LIFECO

#### OVERVIEW

I will turn now to Great-West Lifeco.

Power Financial holds a 71 per cent economic interest in Great-West Lifeco, which has operations in Canada, the United States and Europe.

Great-West Lifeco's performance during 2009 continued to stand out relative to other life and retirement savings companies in North America. Over a long period of time, the company's sound investment practices with respect to the management of its investments, coupled with conservative product underwriting standards and a strong risk-averse culture, have proven beneficial for Great-West Lifeco and its companies.

Great-West Lifeco has come through the last 18 months of financial market turbulence with solid earnings and a strong balance sheet.

Its quarterly earnings over the six quarters since Q3 2008, when the economic crisis began, up to Q4 2009 have been \$436 million, \$525 million, \$326 million, \$413 million, \$445 million and \$443 million. Lifeco's earnings have been a model of steadiness in tumultuous times.

Great-West Lifeco's cautious approach to risk taking is evident in the performance of its investment portfolio. During 2008 and 2009, the two most difficult years in the last 80, the company wrote off \$150 million in respect of impaired assets. When you consider that its general account asset base is roughly \$130 billion, those write-offs represent a negligible 6 basis points per annum of that base. In addition, Great-West Lifeco has built provisions in respect of potential future asset defaults to \$2.9 billion, or some 2.2% of its assets, so they are well provisioned for any future turbulence.

In Canada, Great-West Lifeco has a diverse business, with either a number one or number two position in each of its markets. The company's strategy in Canada leverages the strength of its three pre-eminent brands: Great-West Life, London Life and Canada Life. Together, these companies serve the financial security needs of more than 12 million Canadians.

In Europe, Great-West Lifeco has operations through Canada Life in the United Kingdom, Isle of Man, Ireland and Germany. The European segment is composed of two business units: insurance and annuities, and reinsurance.

In 2009, the European operations faced challenging credit markets as well as a general loss of consumer confidence in investments due to the sharp decline in equity markets. These pressures affected sales volumes. As well, earnings were impacted by the required strengthening of reserves for future credit default risk, although actual credit losses were lower in 2009 than in 2008.

In the United States, Great West Life & Annuity is a leading provider of employer-sponsored retirement savings plans. It also provides annuities and life insurance for individuals and businesses, as well as fund management, investment and advisory services. The company's products and services are marketed nationwide through its own sales force, as well as brokers, consultants, advisers, third-party administrators and financial institutions.

The company's strong credit ratings, as well as its decisions to hire more sales personnel in 2008 and 2009 while others were cutting back, resulted in 401(k) plan sales rising 20% in 2009. The number of retirement accounts increased 12%, so that the company now administers the retirement plans of 4.2 million Americans. At 2009 year-end, Great-West Life & Annuity administered 23,000 defined contribution plans in the United States, holding US\$123 billion in assets.

I would now like to take a few moments to talk about Putnam.

In 2009, Putnam made enormous strides in its quest to establish itself among the premier asset management companies in the United States.

After several years of investment performance near the bottom of the industry, Putnam beat every company in the industry in 2009 and delivered great results to its clients across its broad product shelf.

The world has noticed. In February of 2010, *Barron's* magazine ranked Putnam the "Number One Mutual Fund Company" in the United States in its annual *Barron's* Lipper rankings. The cover of that *Barron's* issue proclaimed "In a remarkable turnaround, Putnam rockets to Number 1!"

Last month, *Institutional Investors* magazine joined in and named Putnam "Mutual Fund Manager of the Year". And a few weeks ago, the mutual fund industry named Bob Reynolds "CEO of the Year".

Putnam has also been busy introducing innovative products. Putnam launched last year an innovative suite of funds named "Absolute Return Funds", designed to beat inflation over time by 100, 300, 500 and 700 basis points. I am pleased to report that this has turned out to be one of the most successful product launches ever, with close to 6,000 financial advisers now selling the new product, and assets under management closing in on the \$2 billion mark.

As a result of the improved investment performance and product launches, advisers and investors are returning to Putnam. Gross sales of mutual funds in the first few months of 2010 were up 219% over last year at Putnam versus 42% for the industry overall. Net flows into Putnam funds are now back right around the break-even mark for the first time in nine years. Financially, Putnam also broke even, before financing charges and taxes, in the first quarter of 2010, for the first time in seven quarters.

There is lots of work still to do, and no one is out running a victory lap, but great progress is being made at Putnam and we remain very optimistic about its long-term prospects for our group.

#### 2009 RESULTS

Turning to the results for the year, Great-West Lifeco reported net income attributable to common shareholders of \$1.627 billion in 2009, compared with adjusted net income from continuing operations attributable to common shareholders of \$2.018 billion in 2008.

#### IGM FINANCIAL

##### OVERVIEW

Power Financial's other significant financial services subsidiary is IGM Financial, in which it holds a 59 per cent economic interest. IGM Financial is the leading provider of long-term mutual funds to the Canadian market.

As difficult market conditions persisted through much of 2009, IGM Financial demonstrated the resilience of its business model.

The Investors Group client focus and clear message to stay the course paid off in 2009. The benefits of these strategies were demonstrated in particular by the fact that Investors Group recorded one of the lowest redemption rates in the industry, as well as by its ability to grow the number of financial advisers and develop products and services in this challenging period.

Mackenzie Financial, operating in the third-party broker and planner channel, also performed well with the integration of its acquisition of Saxon Financial, an improved investment performance and the development of new products. Mackenzie also improved its cost structure.

#### 2009 RESULTS

IGM Financial's adjusted net income for 2009 was \$622 million, compared with \$766 million in 2008.

Adjusted net income in 2009 excluded a non-cash charge on equity securities, a non-cash benefit due to decreases in future income tax rates and a charge related to the redemption of preferred shares, all totalling \$63 million.

Net income without adjustment was \$559 million in 2009, compared with \$731 million in 2008.

#### PARGESA GROUP

I will now turn to the Pargesa group in Europe. Together with the Frère group of Belgium, Power Financial holds a 54.1 per cent equity interest in Pargesa. At December 31, 2009, Pargesa held a 50 per cent equity interest and 52 per cent of the voting shares in the Belgian holding company Groupe Bruxelles Lambert.

Pargesa reported operating earnings of SF512 million in 2009, compared with SF708 million in 2008. Non-operating earnings were SF280 million in 2009, compared with a loss of SF1.229 billion in 2008. The non-operating loss reported by Pargesa in 2008 resulted primarily from impairment charges on its investments in Lafarge and Pernod Ricard.

Consequently, Pargesa reported net earnings of SF792 million in 2009, compared with a net loss of SF521 million in 2008.

I will now provide a brief overview of the leading companies in the Pargesa portfolio and their contribution to Pargesa's operating earnings.

#### IMERYS

The Pargesa group holds a 56.8 per cent interest in Imerys, a world leader in mineral processing. Imerys holds leading positions in each of its sectors.

In 2009, Imerys experienced an unprecedented downturn in its markets. The construction sector continued to perform at very low levels in Europe and North America. In this context, sales experienced a 23.8 per cent decline in volume.

Imerys contributed SF76 million to Pargesa in 2009, compared with SF179 million in 2008.

#### LAFARGE

Pargesa holds a 21.1 per cent interest in Lafarge through GBL.

With operations in more than 80 countries, Lafarge holds leading positions in each of its sectors; it is the world's largest producer of cement, second largest producer of aggregates and concrete, and third largest producer of gypsum.

In 2009, sales declined by 17 per cent in the face of contrasting market conditions; most emerging economies experienced growth, whereas a sharp slowdown was apparent in more mature economies.

Lafarge contributed SF137 million to Pargesa in 2009, compared with SF285 million in 2008.

#### TOTAL

The Pargesa group holds a 4 per cent equity interest in Total.

In 2009, the environment in the oil industry was marked by a significant drop in the demand for oil, gas and petroleum products. Crude oil prices nonetheless rebounded throughout the year.

Pargesa's share of the dividends received from Total were SF157 million in 2009.

#### GDF SUEZ

The Pargesa group holds a 5.2 per cent equity interest in GDF Suez.

GDF Suez, created from the 2008 merger of Suez and Gaz de France, is an international industrial and services group active across the entire energy value chain in electricity and natural gas.

Despite the sharp decline in gas activity worldwide, which was impacted by the effects of the economic downturn and low commodity prices, GDF Suez posted a solid performance in 2009.

Pargesa's share of the dividends received from GDF Suez were SF202 million in 2009.

#### SUEZ ENVIRONNEMENT

GBL holds a 7.1 per cent interest in Suez Environnement, which holds the water and waste management operations that were formerly within Suez before it merged with Gaz de France.

For 2009, Pargesa recorded dividends of SF18 million from Suez Environnement.

#### PERNOD RICARD

The Pargesa Group also holds a 9.1 per cent equity interest in Pernod Ricard, a global co-leader in wines and spirits.

In 2009, Pernod Ricard recorded sustained growth of 9 per cent in sales. Pargesa recorded dividends of SF9 million from this source in 2009.

## ASIA

### CITIC PACIFIC

In Asia, Power Corporation holds an approximately 4.3 per cent interest in CITIC Pacific. While 2009 total revenues were flat against 2008 at HK\$46.4 billion, gross profit was ahead slightly by 1.3 per cent at HK\$8.16 billion. Net profit after tax, however, recovered to HK\$6.0 billion in 2009, compared to a loss of HK\$12.7 billion in 2008. The loss in 2008 was primarily a result of foreign exchange losses realized in that period.

The largest contributor to recurring earnings was specialty steel manufacturing, which was 12 per cent below 2008 at HK\$1.4 billion. Steel production declined to 6.4 million tons as the first half of 2009 was weak, but the second half of the year saw some recovery as the government's policies of increasing domestic demand took hold. Exports represented 6 per cent of sales in 2009, down from 16 per cent in 2008.

Prices increased in the second half but remained below the average of 2008. The first mill line of CITIC Pacific's iron ore mining project is scheduled to commence at the end of 2010 and all six lines are targeted for start-up in 2011.

Real estate activities in China and Hong Kong were down 9 per cent from 2008, contributing HK\$921 million. Gross floor area now totals 5.1 million square meters, of which 91 per cent is in mainland China, the primary focus of the group.

In 2009, Power recorded an other-than-temporary impairment on its investment in CITIC Pacific for an amount of \$110 million. This amount represents the Canadian dollar equivalent of the mark-to-market loss recognized in the Corporation's wholly owned Hong Kong subsidiary which holds the investment in CITIC Pacific.

### QFII

In China, an asset management team has been established by Power to manage a portfolio of investments in Chinese "A" Shares. "A" shares represent common shares of Chinese public companies which can normally only be acquired by local Chinese citizens and which are traded on the Shanghai and Shenzhen stock exchanges. Power operates since 2005 as a Qualified Foreign Institutional Investor (or QFII), with an initial investment quota of US\$50 million. Power was the first Canadian company to be granted QFII status. The value of the QFII portfolio at December 31, 2009 was \$247 million. Local and world markets have experienced significant volatility during the period and, as a consequence, approximately half of the portfolio remained in cash and liquid investments at year-end. We continue to build on the strengths of our local team, responsible for seeking out long-term investments in Chinese companies with strong fundamental earnings capacity in sectors likely to benefit from growth in China.

## OTHER INVESTMENTS

Power Corporation holds funds of the private equity, venture capital and hedge fund type. Their performance in 2009 was impacted by the market environment.

As the contribution of these investments can vary from year to year, we have built our portfolio of private equity and venture capital funds around long-term relationships with fund managers that have demonstrated the quality and resilience of their franchises. Over the years, these investments have been a most positive contributor to the Corporation's profitability.

## EUROPE

Sagard SAS, a subsidiary of the Corporation based in Paris, manages two private equity funds – Sagard 1 and Sagard 2. In Fund 1, Sagard has made 12 investments, of which 7 have been realized, generating a 56% return. The other investments in Fund 1 are doing well and we expect to see realizations of those investments in the near future. As for Fund 2, Sagard currently holds 3 investments. Although it is still early days, we are encouraged by the performance of the Fund so far, and are optimistic about its future prospects.

## UNITED STATES

Sagard Capital Partners, an investment fund that is indirectly wholly owned by the Corporation, has been investing in small to mid-sized public companies in the United States. The fund currently holds several investments in its portfolio. To date, US\$119 million has been invested.

Given the current market environment, we are encouraged by the fact that the value of the portfolio currently stands at US\$121 million.

## COMMUNICATIONS AND TECHNOLOGY

I will now turn to our communications and technology interests.

### COMMUNICATIONS AND MEDIA

Through wholly owned subsidiaries, the Corporation participates in many sectors of the communications industry.

In 2009, the communications and media group was reorganized. Power Corporation's new digital operations are now held by Square Victoria Digital Properties (or "SVDP"), a sister company of Gesca. Gesca now holds only news media operations, which include *La Presse*.

Throughout 2009, to offset the decline in advertising revenues due to the recession and the general crisis in the newspaper industry, *La Presse*, Canada's leading French-language daily, successfully revised its cost structure. The paper is known for its quality national and international coverage, exclusive reports, and columnists whose work has received many awards for excellence in journalism. *La Presse* further distinguished itself last year as the most quoted newspaper on radio and television in Canada. The paper's innovative presentation is another indication of its commitment to excellence.

Serving various areas of Québec and Ontario, Gesca's regional newspapers, *Le Soleil*, *Le Droit*, *Le Nouvelliste*, *La Tribune*, *Le Quotidien* and *La Voix de l'Est* are deeply embedded institutions in the communities they serve. Gesca also owns Cyberpresse.ca, a leading French-language point of reference for online news in Canada.

Through its subsidiaries and affiliates, SVDP offers products and services through various platforms on the Internet, and in television as one of the leading independent television production companies in Québec. SVDP is particularly active in the digital realm, including through its interests in Workopolis and the Olive Media advertising network.

## TECHNOLOGY

### VICTORIA SQUARE VENTURES

Through its subsidiary Victoria Square Ventures, Power Corporation has direct and indirect interests in operating companies and funds in the technology field. It holds several investments in the biotechnology sector, which are at various stages of development. This sector represents a small percentage of Power Corporation's assets. It offers diversification but is subject to greater volatility.

In 2009, our interest in ViroChem Pharma Inc. was sold, resulting in a gain of \$59.6 million.

We also continue to closely monitor the developments at Bellus Health, in which Victoria Square Ventures currently holds an approximate 25 per cent interest. We were encouraged by the recent announcement by Bellus that it had sold the worldwide rights related to the Phase III investigational product candidate Kiacta™.

While we recognize that potential returns from these sectors can be significant, such as the ones generated by ViroChem in 2009, and in Biochem Pharma a few years ago, we also recognize that the associated risks are equally substantial.

## **RESULTS FOR THE FIRST QUARTER OF 2010**

Ladies and gentlemen, I will now report on Power Corporation's results for the first quarter of 2010.

Operating earnings were \$219 million or \$0.46 per share, compared with \$189 million or \$0.39 per share in the corresponding period of 2009.

Other items were a positive contribution of \$5 million or \$0.01 per share, compared with a charge of \$38 million or \$0.08 per share in the first quarter of 2009, and consisted of the Corporation's share of non-operating results recorded by Power Financial.

Net earnings, including other items, were \$224 million or \$0.47 per share, compared with \$151 million or \$0.31 per share in the first quarter of 2009.

## **DIVIDENDS**

I am also pleased to announce that at its meeting this morning, the Board of Directors, in addition to declaring the regular dividend on the non-participating Preferred Shares, declared a quarterly dividend on the Participating Preferred and Subordinate Voting Shares of 29 cents per share, thus maintaining Power Corporation's previous dividend.

## **LONG-TERM RETURNS**

I would now like to look at the returns we have succeeded in providing to our shareholders over the longer term.

Over the last fifteen years, Power Corporation's operating earnings have grown consistently, from \$197 million in 1994 to \$867 million in 2009. This represents an annual compound growth rate of 10.4 per cent.

Another important indicator is the total return to shareholders before tax. This figure represents share appreciation plus dividends received. Total returns for the 15-year period ending on December 31, 2009 were 15.6 per cent for Power, compared to 9.2 per cent for the S&P/TSX Composite Index.

Put differently, \$100 invested fifteen years ago in the TSX index would be worth \$376 as at December 31, 2009. The same \$100 invested in Power Corporation was worth \$877, at a 2009 year-end closing stock price of \$29.21.

The dividends declared on Power's participating shares totalled 17.5 cents in 1994, compared with \$1.16 in 2009, which represents a compound annual growth rate of 13.4 per cent.

The market capitalization of your Corporation has shown corresponding dramatic growth. It was \$2.4 billion fifteen years ago. It stood at some \$13.4 billion at 2009 year-end.

## **FINANCING**

On April 20, 2009, Power Corporation announced that it had completed an offering of aggregate principal amount of \$400 million of debentures consisting of \$250 million principal amount of debentures due 2019 and \$150 million principal amount of debentures due 2039. The net proceeds were used to supplement the Corporation's financial resources and for general corporate purposes.

In addition, it is worth mentioning that during the past two years, Power Financial, Great-West Lifeco and IGM Financial have raised \$3.4 billion in 11 new issues in order to build capital, extend debt maturities and add to liquidity. They are in a very strong position.

## THE POWER GROUP

Power Corporation's business model has served it well in this challenging environment and we believe it will continue to do so as an economic recovery builds. The Corporation continues to focus on the economic trends around protection, retirement savings and asset management with a governance model which involves a high degree of engagement in all our companies through their boards of directors. Our companies enjoy strong fundamentals, have competitive and strategic distribution channels, offer value-added products, operate with low cost structures and enjoy a reputation of stability with their clients. Additionally, our companies have been managed in a conservative fashion with respect to both their investment operations and their balance sheets.

Your Directors and management team seek to deliver attractive long-term shareholder returns as reflected in our strong relative performance and dividend for 2009. The operating environment for Power Corporation's companies and investments will be challenging going forward; nevertheless, we believe our performance through these difficult times demonstrates the resilience of our results and places your Corporation in an advantageous position to benefit from the opportunities as the economic recovery matures.

## BOARD OF DIRECTORS

Later in the Meeting, shareholders will be asked to elect Ms. Isabelle Marcoux and Mr. Guy Fortin to the Power Corporation Board.

Ms. Marcoux is Vice Chair of the Board and Vice President, Corporate Development of Transcontinental Inc., a Canadian printing, publishing and marketing communications company. Earlier in her career, she practised law with a leading national law firm. Ms. Marcoux is also a director of George Weston Limited and Rogers Communications Inc.

Mr. Fortin is a Director and Vice-Chairman of Sanpalo Investments Corporation, a private investment company, a position he has held since 1998. Prior to joining Sanpalo in 2005 on a full-time basis, he was a senior partner with a leading national law firm. Mr. Fortin was Chairman of the Board of Governors of the Canadian Tax Foundation in 1994-1995.

Mr. Amaury de Seze will not stand for re-election to the Board. He has served as a director of Power Corporation since 2001 and as a vice-chairman since 2008. Mr. de Seze plays an active role in the oversight of the Power group's interests in Europe. At their Annual Meeting yesterday, the shareholders of Power Financial Corporation elected Mr. de Seze to that company's board and he has been appointed a vice-chairman.

## CONCLUSION

I would like to express our gratitude to the management and directors as well as the employees of Power Corporation and its group companies who have contributed to the solid results that the Power group has achieved. I also wish to thank the clients of our group of companies for the trust and support they have shown.

Finally, and most importantly, I want to thank you, our shareholders, for your continuing support and for your attention today.

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

POWER CORPORATION OF CANADA

MAY 13, 2010

The president has presented the financial results for the year 2009 and for the first quarter of 2010. I join him in thanking our exceptional team of dedicated employees, officers and directors for our performance during another year in a challenging operating environment.

In my comments to this year's Annual General Meeting, I would like to touch on the concept of trust. Business and investing are all based upon trust, particularly in financial services. In the areas we specialize in – retirement savings and protection – trust is absolutely critical. For our customers to enter into a lifetime relationship with our companies there must be a high degree of trust in both us and the financial system.

We define trust in terms of making good on pledges, delivering what you promised, integrity, stability of business and management, and the ability to show resilience in time of crisis.

A number of academic and economic research projects indicate that trust correlates with highly functional economies and a productive and supportive work environment. The same research also shows that the loss of trust results in the deterioration of economic performance and a downward-spiralling cycle of mistrust. It goes without saying that trust is a hard thing to build up and an easy thing to lose.

The financial crisis of 2008 and 2009 shattered many of the rules and relationships on which the financial markets were based and rocked the foundations of trust. Gallup Surveys showed recently that public trust in U.S. banks, for example, was only 50 per cent before the crisis, but dropped to 32 per cent as a result of the turmoil of the last 2 years.

Trust deteriorated into concern, then into disillusionment and finally fear.

For retail customers, the fear was the risk of personal loss as well as the loss of integrity by institutions and the system overall.

For institutions, there was a much more aggressive fear and distrust toward each other and toward the system.

As for governments, they were left to fix the situation without the necessary tools and experience, and to deal with residual anger.

There is no shortage of discussion around the cause and effect of the financial crisis over the last two years. But as it relates to trust, there are a few indicators which help us see how dramatic the loss of trust has been. The first is the so-called "TED spread" which measures the risk premium between government treasuries in the U.S. market and the rate at which banks lend money to each other. The explosion in this spread (hitting its high in March 2009) demonstrated the near-complete breakdown of trust within the banking system.

Another measure would be the spread an investor requires above government bonds to invest in corporate debt obligations. The spread widened to almost four times its normal level, indicating that the trust in company balance sheets and their ability to repay shifted dramatically during this period.

Market volatility is a measurement of an investor's statistical risk of loss when investing in equities. Here, too, the volatility spiked at the height of the crisis, indicating lack of trust and outright fear around the values in our financial markets.

The financial system has now recovered and stabilized, as evidenced by the return to more normalized risk premiums. This is largely due to coordinated government policies and responses throughout the world.

The amount of government and central-bank-related support going to restore the health of the financial system was unprecedented in only the U.S. and U.K. While much of these commitments will end up being repaid or extinguished, they are an indicator of the perceived cost of restoring trust to the global financial markets.

While trust has begun to be restored, we're a long way from where we were before this crisis started.

Further progress will require continued careful and thoughtful government responses, including a gradual monetary exit, fiscal discipline on the part of governments, constructive re-regulation and creation of the means of effective enforcement.

We support the coordinated approach by governments worldwide toward a measured withdrawal of support programs and stimulus put in place over the last two years.

In Canada, our long record of effective monetary and fiscal policies under different governments, sound prudential regulation of our financial system and a conservative approach to leverage have been bulwarks in allowing us to weather the financial crisis better than many countries. Going forward, we must never lose sight of the importance of these essential elements of public policy. We also believe that Canada should be careful about adopting international regulatory standards which may not be appropriate to our situation.

At the Power Corporation group of companies, trust is fundamental to our business and governance model. As owners, we have a responsibility to be involved in governance and oversight to protect the trust that has been built over decades.

In our business model, highly qualified outside directors and directors drawn from holding company and operating company managements serve all our stakeholders well. We exercise a high degree of involvement in the major decisions around management selection, strategy, capital, and dividend policy. Our model not only results in a high quality of oversight, but it also sends the message throughout our companies that we are critically interested in our business, employees and clients, and that we have no tolerance for activities that would compromise the trust between the Power Corporation group companies and our clients, employees and investors.

One of the outcomes of this model is a long-term ownership approach to risk. Risk is a primary consideration of the board, executive committee and management at our different operating company boards. While risk data and systems are very important, the key driver is more centred around culture. We believe we have built a culture in which longtime ownership-based involvement has placed a premium on long-term viability, stability, diversification and cash flow, rather than on quarterly results.

So how have we responded to the environment over the last two years? The most notable results are that having stayed out of variable annuities with guarantees we have now entered that market on our own terms; we improved on our liquidity, debt maturity management and financial market access among all the Power family of companies; and we worked to identify weaknesses and address them proactively throughout the crisis.

Allow me to give three examples of how our companies have worked to strengthen their positions in this environment.

At Investors Group, a program was put in place during 2008 to ensure that all of our customers understood what was happening in the capital markets, to make them comfortable with the long-term nature of savings, and to encourage them to stay the course. That high level of communication during this difficult period not only resulted in Investors Group having one of the industry's lowest redemption rates, but also prevented many of our customers from exiting the market at the wrong time and missing the recovery.

At Great-West Lifeco, as many of our clients and seekers of financial protection in Canada pulled back from the market in 2008 and 2009, the company's par insurance product offered an attractive low-risk savings and protection vehicle for customers. Additionally, because of its earnings consistency and capital strength, it's one of the very few life insurance companies in North America that was not downgraded during the crisis by major rating agencies. We have benefited from this stability to gain market share in many of our businesses.

And as my last example of our response to the crisis over the last two years, I would like to highlight Putnam. Putnam stood out as an example where trust needed to be rebuilt. We acquired Putnam in mid-2007, knowing that it was in a healing process following reputational issues and poor investment performance in the previous decade. The board's and management's responsibility with respect to Putnam was to restore trust amongst its fund investors, both retail and institutional, and among its employees. At this point, we are well on our way to restoring trust in Putnam and the management team has the full support of our board.

The strategy around the Putnam acquisition and U.S. retirement savings, its brand and its capabilities remains very much intact. The turnaround of the business has been in line with our projections. However, the underlying asset levels and the change in behaviour of consumers resulting from the downturn resulted in a very different outcome than was anticipated.

To take Putnam to the next phase in its recovery required a change in management team. The company is now led by Bob Reynolds, who joined in the summer of 2008. Bob and his team have taken a number of steps to improve Putnam's customer confidence, innovation and performance. Their strategy focuses on becoming an investment performance leader, developing four suites of new products that address current specific consumer needs, revitalizing their offering in the defined contribution market and downsizing the organization in line with a lower level of assets under management.

The year 2009 represented quite a turnaround at Putnam, as evidenced by Lipper/Barron's and *Institutional Investor* Leading Mutual Fund Family awards, and we continue to see improved performance.

It's also fair to say that some of the most interesting opportunities for the Power Corporation group of companies lie in the interaction between Putnam, the growing retirement market in the USA, and the defined contribution platform at Great-West Life & Annuity, the fourth largest provider of defined contribution plans in the USA.

The overall result of these and many other efforts is that our investors have rewarded our company with a very strong share price performance throughout the downturn, as the President pointed out in his presentation.

Challenges are numerous going forward. They include a more complex operating environment, more intrusive regulation, increased interdependencies globally, and more and different risks. We are, however, optimistic about the future of our businesses. They are driven by demographics and by customer needs relating to retirement savings and protection. We believe our business model is well suited to capitalize on these challenges.

You will likely also see the Power Corporation group companies move carefully in the current environment, to not compromise the trust we have maintained.

When I step back and look at the events of the last two years and how our company adapted, there are two qualities that really stand out.

The first is the courage of our Board and management teams to maintain a conservative mindset despite temptations of rapidly rising markets and perceived low levels of risk. This involves the courage to pursue different avenues of thought at all times, including the willingness to be critical of ourselves as the world changed around us. We believe it is important to maintain the ability to act in our own interest, and potentially to act in ways that are contrary to the current views and conduct that we see around us. In many ways, the past difficult period was characterized by reaction and overreaction to what was happening, and not enough care was taken in preparation and in maintaining discipline.

The second quality is leadership at the helm of the Power Corporation group of companies through this crisis. We have performed well because of the outstanding group of executives throughout our organization who kept their calm and steadiness. This is a product of a long-term perspective and our collective experience. We strive to give our group leadership clear objectives and we trust in them to deliver outcomes. Constant discussions and questions are important, provided they do not involve hindsight or second-guessing, for if they do, a fragile trust risks being broken. In the new market environment, leadership and management must be team-based and collaborative without becoming bureaucratic and institutionalized to ensure that collaboration not be at the expense of effective decision making.

The trust between Power Corporation, as an owner, and its group companies is critical. We operate our businesses with a time-tested governance model that is oriented towards preserving trust, whether it be between owners and management or between management and employees, or most importantly, between our employees and our clients. While not perfect, the results indicate that our model has produced better results and a higher level of trust throughout this crisis.

## **CONCLUSION**

I would like to thank our devoted group of employees, not only at Power Corporation and Power Financial, but also in all of our operating subsidiaries. We continue to be impressed with the quality of our people and their degree of devotion to producing strong results in line with the principles of trust I have discussed throughout my message today. This year in particular, I would like to thank our Board of Directors. In this difficult environment, they have remained resolute and committed to our business model and to our investments. We have enjoyed unwavering support from the Board, which has allowed us to stay the course and produce strong returns throughout this downturn. We are encouraged about 2010 and believe our model positions us well for the future.



POWER CORPORATION OF CANADA