

# ADDRESS TO SHAREHOLDERS

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BY

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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 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 includes, but is not limited to, the impact on the Corporation's net earnings of "Other Income" as presented in the Corporation's Consolidated Statements of Earnings (net of income taxes and non-controlling interests, if any).

Management has used these performance 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" excludes 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 excludes the Corporation's share of any such item presented in a comparable manner by its subsidiaries. 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.

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

POWER CORPORATION OF CANADA

MAY 10, 2007

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 2006. I will then discuss group developments since the last shareholder meeting, and I will close by announcing our results for the first quarter of 2007 as well as the quarterly dividend. All figures are in Canadian dollars, except if otherwise indicated.

### FINANCIAL RESULTS FOR 2006

First, the full-year results for 2006.

I'd like to begin by again underlining the importance we attach to operating earnings as a measure of the strength of a corporation like ours on an ongoing basis. Operating earnings exclude 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. Power Corporation's operating earnings were \$1.166 billion in 2006, compared with \$1.071 billion for 2005.

Growth in operating earnings reflects an increase in the contribution from subsidiaries, as well as an increase in results from corporate activities due to higher income from investments.

On a per share basis, operating earnings were \$2.49 in 2006, compared with \$2.32 in 2005. This represents an increase of 7.6 per cent.

Other income was \$227 million or \$0.51 per participating share in 2006, and includes an amount of \$236 million or \$0.52 per share representing the impact of the gain recorded in the third quarter in connection with the sale by Groupe Bruxelles Lambert (or "GBL") of its interest in Bertelsmann. In 2005, other items not included in operating earnings were a net charge of \$18 million, or \$0.04 per share.

As a result, Power Corporation's net earnings were \$1.393 billion or \$3.00 per share in 2006, compared with \$1.053 billion or \$2.28 per share in 2005.

Dividends paid on our participating shares rose from 65 cents per share in 2005, to over 76 cents per share in 2006, an increase of 17.1 per cent. Dividends were also increased during the year at Power Financial Corporation, Great West Lifeco Inc., IGM Financial Inc. and Pargesa Holding S.A.

Our corporate balance sheet at Power continues to be a source of strength. Power Corporation itself has no long-term debt. Our book value per share increased from \$14.39 at the end of 2005 to \$17.29 at the end of 2006.

## GROUP COMPANIES' RESULTS

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

### POWER FINANCIAL

Power Corporation holds 66.4 per cent of the common equity of Power Financial Corporation.

Power Financial's operating earnings for 2006 were \$1.802 billion, compared with \$1.694 billion in 2005. The per share figures are \$2.46 compared with \$2.33 in 2005, for an increase of 5.7 per cent.

Growth in operating earnings reflects an increase in the contribution from Power Financial's subsidiaries and affiliate.

Other items not included in operating earnings in 2006 were \$353 million or \$0.50 per share, representing essentially the impact of the gain recorded in the third quarter in connection with the sale by GBL of its interest in Bertelsmann. In 2005, other items not included in operating earnings were a net charge of \$31 million, or \$0.05 per share.

As a result, net earnings were \$2.155 billion or \$2.96 per share in 2006, compared with \$1.661 billion or \$2.28 per share in 2005.

For the fourteenth consecutive year, Power Financial Corporation's common share dividend was increased. The dividends declared on Power Financial's Common Shares totalled \$1.00 per share in 2006, compared with 87 cents in 2005, representing an increase of 15 per cent. Power Financial also announced yesterday that its quarterly dividend was raised from 26.75 cents to 29 cents. This represents an increase of 8.4 per cent.

### POWER FINANCIAL CORPORATION - SUBSIDIARIES' AND AFFILIATE'S RESULTS

#### GREAT-WEST LIFECO

Power Financial holds a 70.6 per cent interest in Great-West Lifeco. IGM Financial holds an additional 4.2 per cent.

In addition to having been very active on the acquisition front, Great-West Lifeco delivered strong financial results in 2006.

Great-West Lifeco reported net income attributable to common shareholders of \$1.875 billion for 2006, compared with \$1.742 billion in 2005. On a per share basis, this represented \$2.104 per common share for 2006, an increase of 8 per cent, compared with \$1.955 per common share for 2005.

Return on common shareholders' equity was 20.1 per cent for 2006. Assets under administration at December 31, 2006 totalled \$211 billion, up \$33 billion from the 2005 level. Lifeco also reported strong increases in total sales in all its segments.

Consolidated net earnings of the Canadian segment of Great-West Lifeco attributable to common shareholders increased to \$893 million in 2006, up 16 per cent from 2005.

Consolidated net earnings of the United States segment of Great-West Lifeco decreased 2 per cent to US\$452 million in 2006, from US\$459 million in 2005, as stronger earnings in Financial Services were offset by lower earnings in Health Care.

Net earnings of the European segment of Great-West Lifeco were \$486 million in 2006, up 22 per cent from 2005, as a result of higher earnings from reinsurance operations and insurance annuities.

Dividends paid per common share at Great-West Lifeco increased from 81 cents in 2005 to 92.75 cents in 2006, or 15 per cent.

#### PUTNAM

Great-West Lifeco announced on February 1, 2007 that it had reached an agreement with Marsh & McLennan Companies, Inc. whereby Lifeco will acquire the asset management business of Putnam Investments Trust, and The Great-West Life Assurance Company will acquire Putnam's 25 per cent interest in T.H. Lee Partners. The parties have made an election under section 338(h)(10) of the U.S. *Internal Revenue Code* that will result in a tax benefit that Lifeco intends to securitize for approximately \$644 million. In aggregate, these transactions represent a value of \$4.6 billion.

Established in 1937, Putnam is one of the oldest and largest investment managers in the United States. Putnam has \$225 billion in assets under management, with 11 million unitholders and participants. With offices in Boston, London and Tokyo, Putnam's approximately 3,000 employees manage \$138 billion in retail assets for U.S. mutual fund investors, \$46 billion for North American institutional accounts and \$41 billion of institutional and retail assets in Europe and Japan.

Putnam is the fifth largest U.S. mutual fund company among those distributing through sales representatives, and the 10<sup>th</sup> largest overall.

Therefore, the acquisition of Putnam allows Lifeco to achieve, with a single transaction, a major presence in the mutual fund and institutional asset management industry in the United States, with operations in Europe and Asia, and a world-class brand.

Putnam will retain its name, with existing management, investment, distribution and service teams remaining in place.

#### IGM FINANCIAL

Power Financial's other major North American financial services holding is its controlling interest in IGM Financial. Power Financial holds a 55.9 per cent interest, while a further 3.5 per cent is held by The Great-West Life Assurance Company.

IGM Financial owns Investors Group, Mackenzie Financial, and a 76 per cent interest in Investment Planning Counsel. IGM is the largest mutual fund manager in Canada with a market share of 16 per cent, nearly twice the share of its nearest competitor. IGM's assets under management increased by 19 per cent during 2006 and totalled \$119 billion at year-end.

IGM Financial had a strong year in 2006, reporting increases in earnings, assets under management, sales, and the number of consultants.

Net income for 2006, excluding a non-cash income tax benefit recorded in the second quarter, was \$763 million, compared with \$682 million in 2005, an increase of 11.8 per cent. Diluted earnings per share on this basis were \$2.85, compared with \$2.56 in 2005. Return on average common equity for 2006 was 20.3 per cent.

For IGM Financial's Investors Group unit, mutual fund assets under management at the end of 2006 were \$58.2 billion, compared with \$50.7 billion at the end of 2005, an increase of 14.8 per cent. The number of Investors Group consultants exceeded 3,900 at year-end, a record number, and last week the company reported that the number had passed the 4,000 mark at the end of April.

Mutual fund sales for 2006 were \$6.2 billion, up 13 per cent. Mutual fund net sales were \$1.3 billion, up 73 per cent from 2005.

For IGM Financial's Mackenzie Financial unit, total assets under management at December 31, 2006 were \$61.5 billion. This compares with assets under management of \$49.9 billion at December 31, 2005, an increase of 23.4 per cent. Mutual fund assets under management at December 31, 2006 were \$46.6 billion, an increase of 12.0 per cent, compared with \$41.6 billion one year ago.

Mackenzie's total sales of mutual funds and other managed assets for 2006 were \$11.7 billion, compared with \$11.1 billion in the prior year. Total net sales were \$2.2 billion, compared with \$3.5 billion in 2005.

Investment Planning Counsel also experienced a strong 2006, with assets under administration growing 16.6 per cent to \$10.3 billion at year-end, and assets under management in the company's Counsel Group of Funds, increasing 18.7 per cent to reach \$2.2 billion.

Dividends on IGM Financial's common shares in 2006 were \$1.535, compared with \$1.335 in 2005, an increase of 15 per cent.

The Great-West Lifeco and IGM Financial group companies have, over the years, focused on improving their strategic and competitive positioning. Together they have built one of the most powerful financial services distribution networks in Canada, while expanding internationally on a rational and carefully considered basis. They have been leaders in the consolidation of the Canadian industry in recent years. The results speak for themselves.

#### PARGESA HOLDING S.A.

I will now turn to the Pargesa group in Europe. Power Financial holds, together with the Frère group of Belgium, a 54.1 per cent equity interest in Pargesa. At December 31, 2006, Pargesa held 50.1 per cent of the voting shares in the Belgian holding company GBL.

Pargesa reported operating earnings of SF539 million in 2006, compared with SF509 million in 2005. Growth in operating earnings reflects an increase in the contribution from all of Pargesa's holdings, the impact of dividends received for the first time from Lafarge, and higher contribution from corporate activities, partly offset by the fact that Bertelsmann contributed to earnings for only six months in 2006.

In addition, Pargesa recorded non-operating earnings in 2006 of SF1.754 billion, composed primarily of the impact of the gain resulting from the sale by GBL of its interest in Bertelsmann. In 2005, non-operating earnings were SF24 million. As a result, net earnings reported by Pargesa were SF2.293 billion in 2006.

Dividends in 2006 paid by Pargesa totalled SF2.15 per bearer share. The dividend payable in 2007 is SF2.37 per bearer share, an increase of 10 per cent.

I will briefly touch on the results of the leading companies in the Pargesa portfolio.

The Pargesa group holds a 3.9 per cent equity interest in Total, the integrated petroleum company.

Total's adjusted net income increased 5 per cent in 2006 to €12.6 billion. Net earnings, including non-recurring items, were €11.8 billion. Total's return on capital employed was 26 per cent, among the highest in the industry.

The Pargesa group holds a 9.5 per cent equity interest in Suez, a leading international industrial organization. Net income in 2006 was €3.6 billion, up 44 per cent from 2005.

In February 2006, Suez announced a possible merger with Gaz de France, which would create one of the largest gas groups in the world, with a strong presence in the liquefied natural gas sector. This transaction remains subject to required approvals.

Imerys, in which the Pargesa group holds a 53.4 per cent interest, is a leading company in the production and sale of value-added minerals. Net operating income was €308 million in 2006, up 7.2 per cent. Net income, including non-recurring items, was €187 million in 2006, compared with €309 million in 2005.

Pargesa holds a 17.2 per cent interest in Lafarge. With a presence in more than 70 countries, Lafarge holds a leading position in each of its business sectors, including Cement, Aggregates and Concrete, and Gypsum. Net income, including non-recurring items, was €1.4 billion in 2006, up 25 per cent over 2005.

In the latter part of 2006, GBL made its initial investment in Pernod Ricard, the wine and spirits company, and now holds a 5.6 per cent interest.

Pernod Ricard was created in 1975, and through organic growth and numerous acquisitions, including Seagram's in 2001 and Allied Domecq in 2005, has become the world's second largest company in wines and spirits.

The company is established on every continent, with good positioning in the emerging countries of Asia and South America.

Imerys is consolidated within Pargesa's financial statements, while the contribution from Total, Suez and Lafarge to operating earnings is comprised of dividends received. Pargesa's share of these dividends for 2006 totalled SF201 million, compared with SF131 million for 2005.

Before discussing Power's other investments, let me point out that the Power Financial group has produced outstanding returns to shareholders over the long term. Ten-year total returns were 23 per cent, compounded annually, while over the same period total returns for the S&P/TSX index were 10 per cent and 14 per cent for the S&P/TSX Financial index.

#### CITIC PACIFIC

Power has been active in China for a number of years. Currently, Power's most significant investment is an approximate 6 per cent interest in CITIC Pacific. While the company is Hong Kong based, it has gradually shifted its focus over the recent years towards mainland China, where CITIC is an important participant in the economy. As a result, the majority of CITIC's assets are now located in China.

CITIC Pacific achieved excellent results in 2006. Net profit for the year was a historic high of \$1.2 billion, up from \$582 million in 2005.

All of CITIC Pacific's businesses performed well in 2006, in particular the core businesses, which made substantial profit contributions. In addition, CITIC recorded one time gains on the sale of assets in the aviation sector of \$326 million and in the property sector of \$190 million. I will now make some brief comments on CITIC's core businesses.

**SPECIAL STEEL** > The Special Steel business recorded a 65 per cent growth in profit in 2006 compared to 2005. In just a few years, CITIC Pacific's production capacity in special steel has reached over seven million tonnes, commanding a leading position in both quantity and quality of special steel that is used in the making of a variety of products.

**IRON ORE MINING** > CITIC has acquired mining rights to one billion tonnes of magnetite ore, and rights and options to a further five billion tonnes in Western Australia. First product shipments are expected to be in 2009.

**PROPERTY** > CITIC Pacific's property development in mainland China is mainly in the Yangtze River Delta area and includes a major new financial centre project with a total site area of 2.5 million square feet. Other major projects include a 16-square-kilometer area for a development project in the coastal resort city of Wanning in Hainan Province.

At the end of February 2007, CITIC had approximately 84 million square feet of land that can be developed into about 33.5 million square feet of gross floor area over the coming few years.

**AVIATION** > The restructuring of the Hong Kong aviation industry between CITIC Pacific, Air China, CNAC, Cathay Pacific and Swire Pacific in the second half of 2006 resulted in a \$326 million profit for CITIC, which realized over \$759 million of cash from the transaction. CITIC Pacific remains a shareholder of Cathay Pacific with a 17.5 per cent interest.

POWER GENERATION › The Ligang Power Station is the flagship of CITIC's power generation business. It is expected that the Station will have installed capacity of 3,800 mega watts, making it one of the largest coal fired power stations in China. In 2006, CITIC owned a total attributable capacity of 4,800 mega watts, up 50 per cent from 2005.

In light of its performance in 2006, CITIC Pacific announced a final dividend of 16 cents per share. When including the interim dividend of 8 cents per share, total dividends to be received by Power from CITIC based on CITIC's 2006 earnings amount to approximately \$29 million.

#### OTHER INVESTMENTS

Power Corporation holds positions in several investment vehicles such as venture capital, private equity and hedge funds. Over the years, and again in 2006, these funds have produced returns that, in the view of the Board, are very satisfying, bearing in mind that it is difficult to forecast the timing and magnitude of these returns.

Established in 2001 and based in Paris, Sagard S.A.S., a subsidiary of the Corporation, currently manages two private equity funds focusing primarily on the mid-size market in Europe. These two funds – Sagard 1 and 2 – have in aggregate over €1.5 billion of commitments, including €300 million from Power and €250 million from the Pargesa group. Sagard 1 is fully invested and has already disposed of four investments, including two in 2006 and two so far in 2007. Sagard 2 closed its fund-raising in 2006 with €1 billion in commitments, and has already made three investments.

With its 15 acquisitions and 4 successful dispositions realized at an average money multiple in excess of 3 times its original investment, Sagard has established the enviable reputation of a private equity player with the business approach and the networks necessary to support the management of French small- and medium-sized enterprises looking to continue their expansion locally as well as internationally.

In China, a small asset management team has been created 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 and which are traded on the Shanghai and Shenzhen stock exchanges. Power operates as a Qualified Foreign Institutional Investor (or QFII), with an initial investment of US\$50 million. Power was the first Canadian company to be granted QFII status.

The value of Power's original investment has tripled to date.

The Corporation is also in the process of reviewing investment opportunities in the United States, and plans to allocate an initial amount of US\$250 million to this initiative.

#### COMMUNICATIONS AND TECHNOLOGY

I will now turn to our communications and technology interests.

## COMMUNICATIONS

### GESCA LTÉE

Gesca is a wholly owned subsidiary of Power Corporation primarily engaged in the publication of seven newspapers, including the French language national newspaper *La Presse*, published in Montréal.

In February 2007, the quality of visual presentation of *La Presse* was acknowledged by the prestigious Society for News Design, ranking *La Presse* in eighth position among the newspapers having the best design, graphics and photography in the world, along with such renowned dailies as *The New York Times*, *El Mundo* (Spain), *Excelsior* (Mexico) and *The Los Angeles Times*. This distinction is in addition to the largest number of journalism awards ever conferred on *La Presse* in any given year. The many changes introduced at *La Presse* over the last three years continue to bear fruit. Weekday and weekend circulation have grown. This increase is noteworthy as it runs contrary to newspaper industry trends, and it has enabled *La Presse* to enhance its market share.

On October 26, 2006, Gesca Digital, a subsidiary of Gesca, and Torstar Corporation announced that they had purchased Bell Globemedia's 40 per cent interest in Workopolis and increased their respective interests to 50 per cent each. Workopolis.com is a leading Internet-based careers and recruitment business.

Gesca also produces television programming and publishes several specialty magazines and books. Gesca Digital operates and has interests in several Web sites.

## TECHNOLOGY

### POWER TECHNOLOGY INVESTMENT CORPORATION

Power Technology Investment Corporation (or "PTIC") was created to provide a window on opportunities in the technology sector.

PTIC holds several biotechnology investments, of which Neurochem is the most significant.

On April 11, 2007, Neurochem announced that it had received notification from the United States Food and Drug Administration (the FDA) that the action date for FDA's review of the New Drug Application for KIACTA™ (formerly called Fibrillex) had been extended to July 16, 2007.

Neurochem also announced on April 19, 2007, that the database for the North American Phase III clinical trial of ALZHEMED™ for the treatment of Alzheimer's disease had been locked. Neurochem continues to expect to announce the results from these during the second quarter of this year.

On May 2, 2007, Neurochem announced a private placement of US\$80 million aggregate principal amount of convertible notes.

PTIC, directly and indirectly through Picchio Pharma, a partnership with Dr. Francesco Bellini, currently holds an approximate 13 per cent economic interest in Neurochem.

PTIC also holds an interest in Adaltis, a company specializing in *in-vitro* diagnostics. Adaltis announced on April 24, 2007, that it had received notification of approval by the State Food and Drug Administration (P.R. China) for the sale of its flagship product Eclectica™ in China. In addition, Adaltis has recently completed a private placement with selected institutional investors, raising gross proceeds of US\$25 million. PTIC participated in the financing for US\$1 million.

PTIC also has an interest in Mitel Networks Corporation, which delivers advanced communication solutions for voice, video and data convergence over broadband networks. On April 26, 2007, Mitel and Inter-Tel (Delaware) Incorporated announced they had signed a definitive merger agreement whereby Mitel will acquire Inter-Tel, a full-service provider of business communications solutions. The transaction is expected to close in the third quarter of 2007.

We recognize that potential returns from these sectors are great. We also recognize that the associated risks are equally significant. Given the diversity of these investments and the relatively modest portion of our overall holdings that they represent, we remain comfortable that these are acceptable risks for the company.

#### L O N G - T E R M   R E T U R N S

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

Among the various measures that are available, we at Power focus on two particular indicators.

The first is operating earnings which, as I said at the beginning of my remarks, provide a meaningful measure of our ongoing profitability. Over the last ten years, Power Corporation's operating earnings have grown consistently, year over year, from \$248 million in 1996 to \$1.166 billion in 2006. This represents an annual compound growth rate of 16.7 per cent. On a per share basis, and adjusted for stock splits, operating earnings increased from \$0.52 in 1996 to \$2.49 in 2006, for a compound annual growth rate of 17 per cent.

The second important indicator is the total return to shareholders before tax. This figure represents share appreciation plus dividends received. Total returns for the 10-year period ending on December 31, 2006 were 20 per cent for Power, compared to 10 per cent for the S&P/TSX Composite Index.

Put differently, \$100 invested ten years ago in the TSX index would be worth \$277 today. The same \$100 invested in Power would be worth \$696.

For the tenth consecutive year, Power increased its shareholder dividend in 2006. The dividends declared on Power's participating shares totalled 19.5 cents in 1996, compared with 76.125 cents in 2006, which represents a compound annual growth rate of over 14 per cent.

The market capitalization of your Corporation has shown corresponding dramatic growth. It was \$3.0 billion ten years ago. Today it stands at some \$17.8 billion.

In summary, our results for 2006 are strong, and our longer term returns to shareholders are equally solid. And long-term returns to you, our shareholders, is our fundamental objective.

## RESULTS FOR THE FIRST QUARTER OF 2007

Ladies and gentlemen, it is now my pleasure to report on Power Corporation's results for the first quarter of 2007.

Operating earnings for the quarter were \$363 million or \$0.78 per share, compared with \$254 million or \$0.54 per share in 2006, representing an increase of 44 per cent on a per share basis.

Growth in operating earnings in 2007 reflects a strong growth in the contribution from Power Financial, as well as a high level of income from investments, mainly generated by our investment in the Sagard 1 Fund in Europe and our QFII operations in China.

Other income was nil in the first quarter of 2007, as in the first quarter of 2006.

As a result, net earnings for the quarter were \$363 million, compared with \$254 million in 2006.

## DIVIDENDS

I am pleased also 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 24.125 cents per share compared with 19.75 cents prior to today. This represents an increase of 22.2 per cent. This works out to an annualized dividend rate of 96.5 cents.

## CONCLUSION

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

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