

ADDRESS TO SHAREHOLDERS

THURSDAY, MAY 10, 2007

BY

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CHAIRMAN AND CO-CHIEF EXECUTIVE OFFICER OF THE CORPORATION



POWER CORPORATION OF CANADA

FORWARD-LOOKING STATEMENTS › Certain statements, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's, its subsidiaries' or affiliates' current expectations. These statements may include, without limitation, statements regarding the operations, business, financial condition, priorities, ongoing objectives, strategies and outlook of Power Corporation, its subsidiaries or affiliates 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", "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".

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances.

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific. A variety of material factors, many of which are beyond the Corporation's, its subsidiaries' and affiliates' control, affect the operations, performance and results of the Corporation, its subsidiaries and affiliates, and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's, its subsidiaries' or affiliates' ability to complete strategic transactions and integrate acquisitions, and the Corporation's, its subsidiaries' or affiliates' success in anticipating and managing the foregoing risks.

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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 of the Corporation's business is provided in its disclosure materials filed with the securities regulatory authorities in Canada, available at 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.

CHAIRMAN'S ADDRESS TO THE ANNUAL MEETING OF SHAREHOLDERS

POWER CORPORATION OF CANADA

MAY 10, 2007

The President has presented the financial results for the year 2006 and for the first quarter of 2007. 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, the strong and conservative financial position of our group companies have enabled us to deliver solid results in recent years.

As shareholders of the company, you know that ever since my father assumed control of Power Corporation, in 1968, the entrepreneurial spirit he imprinted on the company has been central to our group's management philosophy and corporate culture. Although Power has grown considerably and changed a great deal over the years, it is important to note that our core values and beliefs remain the same today.

Let me, once again, share with you our mission statement. In it we sought to articulate a long-standing tradition at Power Corporation, of respect for shareholders and for the larger community. It is:

"to enhance shareholder value through the active management of long-term investments and responsible corporate citizenship."

Long-term shareholder returns are in reality the measurable and visible result of a number of important underlying factors. They can't be achieved without...

- › customers who are satisfied with the products and services they are receiving;
- › dedicated and well-motivated employees;
- › a strong management team with ethical standards that have stood the test of time;
- › and, of course, a diligent, value-adding board whose members share mutual respect and trust.

As a management holding company Power is, of course, actively involved with the companies it owns, or in which it has a proprietary interest. It takes seriously its role of leadership in its companies and seeks to help them improve their performance, enabling them to reach their full potential.

What Power seeks to bring to its group companies – in an active and positive fashion – is its long-term vision, the depth and breadth of its head office team, the benefit of its extensive experience and international perspective, the applicable learnings from other industries and its capital and financial strength.

With this combination of value-drivers well in place, we were able to carry out four major acquisitions over the past ten years, for more than \$19 billion. After London Life in 1997, Mackenzie Financial in 2001, Canada Life in 2003, the announcement of our latest acquisition of Putnam Investments Trust in the United States, with closing expected soon, marks a major strategic expansion of the Power Financial group in North America.

Returns to shareholders are, of course, the ultimate measure of management and governance effectiveness. In this regard, I believe the following figures speak for themselves: Power's annual return to shareholders averaged 20.1% over the last 10 years, 15.3% over 20 years, and 22.3% over 30 years, which places us in a select group of Canadian family-controlled firms.

At Power Corporation we believe in responsible corporate citizenship. Allow me to reiterate that those are the closing words of our corporate mission statement. Now more than ever, we feel it is important that companies and their employees be involved in their communities. Power group companies are encouraged to do so as a matter of corporate policy.

Which leads me to say that our business model, as a public company with a controlling shareholder, along with our investment and management philosophy, have served our shareholders, employees and other stakeholders well over the years.

I would now like to turn to recent developments in the business world which are having a substantial impact on financial markets and indeed on the financial structure of the industrialized world as we know it. I refer to the meteoric rise of private equity and hedge funds as major players in the financial markets. I would like to devote the rest of my remarks to this important topic with a view of highlighting how these funds compare to a public holding company like Power, which has a controlling shareholder.

In recent years private equity funds have grown at a phenomenal pace. Collectively they have brought about the privatization of public companies worldwide worth \$900 billion! In 2006 alone, the 10 largest private equity funds raised \$120 billion in new money destined for privatizations.

At first an American phenomenon, private equity funds spread to Canada, the U.K., continental Europe and even Japan. Today in the U.K., 19% of private sector employees, or 3.3 million people, work for businesses owned by private equity firms. In Germany the number is 800,000.

In their early years, private equity funds often brought an added value and better governance to the companies they privatized by replacing ineffective and complacent boards of directors. While they were then generally met by fiercely resistant business managers opposed to privatization, nowadays their job is made easier by the growing number of public company executives who, frustrated by the tedious, distracting and costly compliance to modern-day governance rules and regulations, are more receptive to the idea of private equity funds taking them private. And, let's not forget that, in today's world, managers are more mobile and can gravitate to the numerous opportunities offered by private equity funds, where they can receive considerable compensation over a relatively short period of time, while being sheltered from public scrutiny and sensational headlines.

Meanwhile hedge funds, which by nature have a shorter time horizon, now number 9,000 and manage in excess of \$1 trillion (that's right, one thousand billions!). In 2006 alone, \$126 billion of new money flowed into U.S. hedge funds. Their presence in the financial markets is substantial: for example, they account for between 30% and 50% of transactions on the New York and London stock exchanges! These funds are lightly regulated private investment pools which initially attracted endowment funds and wealthy individuals, but which today also have pension funds and insurance companies as investors.

While many hedge funds are devoted to generating short-term returns by leveraging financial instruments, I would like to focus on those funds which take positions in widely held public companies and become "activist shareholders" with the view of pressuring those companies into actions which, in turn, will quickly result in added value for shareholders, including themselves.

Once they become shareholders, they will often align with other institutional investors who are shareholders of the company, and promote whatever initiatives could quickly generate added value: sale or spinoffs of divisions, cash dividends or repurchase of shares, and cuts in operating costs, are a few examples of what can be on their agenda, in addition to their ultimate goal of an outright sale of the company, which would fetch a premium for control.

The reason I am talking to you about private equity and hedge funds is that, like ourselves, they build portfolios of companies in which they take an active role. I think it is fair to say that private equity and hedge funds have contributed to making diversified portfolios of companies more popular with investors. As you know, it was not that long ago that conglomerates were not the preferred choice of investors and their shares often traded at deep discounts relative to their net asset value.

However I would like to take this opportunity to highlight some key differences between private equity and hedge funds, and a company like ours. I think the exercise is interesting, as it can help us have a better understanding of what we are all about at Power Corporation and where we stand amongst the myriad of investment choices.

Let's start with *investment philosophy*.

Private equity funds look to a 3- to 5-year horizon in managing their investments, while hedge funds have a shorter outlook and thus need higher levels of liquidity. As I mentioned earlier, at Power we are long-term investors. While private equity and hedge funds managers use substantial leverage to finance their activities, which often results in non-investment grade instruments, we at Power have no debt at the corporate level and the debt levels in our group companies are given an A or better rating by the credit agencies.

The general partners of private equity funds and hedge fund managers often have very little of their own money invested. In those cases the assumption of debt and risks has little immediate impact on their personal worth. However, at a public company where the controlling shareholder has an important stake, he or she is more sensitive to the levels of risks being taken and the ability of the group to face up to unforeseen downturns.

The private equity or hedge fund approach to leveraging companies or positions has them focus on the cash flow generated by their properties on an ongoing basis. It remains to be seen whether over time companies will be able to develop sustainable strategic franchises using this approach. At Power we are optimistic about our future, given the care we put into building strong franchises with a view to the long term.

Now let's look at *executive compensation*.

I am not here to judge the remuneration of others, be they hockey players, private equity or hedge fund managers. Our free market system will take care of that. However I think it is important to point out differences in how we at Power go about incenting our executives.

Hedge fund managers take in an important portion of the annual fees (1% to 2%) on the funds invested under their care. The larger the fund, the more they make. If the fund grows to \$20 billion, the fee can be \$200 million to \$400 million per year. That's before the 20% carry on the added value. These monies are paid on a yearly basis, which of course matches their short-term investment horizon.

Private equity fund managers, on the other hand, are paid over approximately a 5- to 7-year period, with a blend of surplus fee income and carry on gains realized on dispositions. Also, they are usually subject to some minimal rate of return, some hurdle rate, above which the 20% kicks in.

In the case of Power, given our long-term view, we have chosen to weight the compensation of our executives with stock options which vest over four years and are exercisable on a ten-year basis. In other words, our managers' incentives are closely aligned with the interests of our shareholders. And that is why we attract, and work at keeping, executives who wish to work in a stable environment to build long-term sustainable franchises, while receiving compensation that is commensurate with the value of their contribution to the returns we produce for our shareholders. What is regrettable, however, is that the compensation our executives earn, often *for ten years' work*, is sometimes played up for all of its sensationalist value, as if they had earned it in one single year! Meanwhile private equity and hedge fund managers enjoy total anonymity, while many earn far more money. In pointing this out my intention is not to be judgmental; it is to highlight the double standard at play in this case.

And now let's talk about *governance*.

Investors in private equity and hedge funds voluntarily accept their limited impact on governance in these financial vehicles where they have, for the most part, no representation or governance role in the investment process. And, as we know, the fund manager operates in a lightly regulated environment.

Executives at a public company like Power, on the other hand, must work, whether at the holding company level or at the group's subsidiary companies, with very active boards of directors who represent all shareholders. They must also comply within the governance and disclosure regulations and guidelines which govern public companies in Canada.

Is it not ironic that the principal investors in private equity and hedge funds, namely large institutional investors, are very happy to put massive amounts of money in the hands of people who do not register with any securities commission, or have few, if any, governance regulations to adhere to and report on? After all, these are the same institutional investors and activist shareholders who, not so long ago, cried out for some reforms. These sponsors of governance reforms surely played a role in bringing about useful reforms, but I can't help but worry that their proliferation has led us to a point where they now constitute a counterproductive bureaucratic activity for managers and boards of public companies, some would even say that they have become an industry. Process has come to dominate over function.

I wonder, for my part, if these same institutional investors and shareholder activists should be concerned when short-term considerations come to dominate the making of business decisions. We have all seen too many examples of the damage that can be inflicted on companies by managers given huge incentives to produce short-term results.

I think the following quote from Professor Yvan Allaire, who is Chairman of the Institute for Governance of Private and Public Organizations, makes a good case in terms of where Power Corporation stands in relation to private equity and hedge funds:

"Their argument that, by privatizing a company or forcing themselves on the board, these fund managers will significantly raise the quality of governance may have some merit for widely held companies. It does not apply, however, to companies with sizeable numbers of shareholders actively engaged in running or governing the company. Indeed, my argument is that this sort of arrangement is far superior over the long term to any produced by private equity or hedge funds."

The question that must be asked is: What is going to be the impact on our economies of these new financial practices, in the longer term?

In the future, how many Canadian companies will be strong enough to compete in the global economy? How many Canadian brands will find a place in the world's markets?

I, for one, am very optimistic with the opportunities we face going forward, because many managers and shareholders prefer teaming up with companies which have a long-term view. Our group's proposed acquisition of Putnam is an excellent case in point: known for their long history and well-established brand, Putnam managers elected to team up with the Power group knowing that their future owners would stand by them in their efforts to build a world-class company.

We are proud, and our managers and employees have reason to be proud, of the outstanding, sustainable franchises we have built at Power Corporation: our leading insurance and mutual funds companies; our Québec-based newspaper group; as well as our long-term relationships in China and Europe.

As I indicated earlier, Power Corporation, as an investment vehicle, has produced excellent returns to its shareholders over the past 30 years. I am particularly happy to see that our performance is holding up very well when compared to new players like private equity and hedge funds.

Over the past 5 years, Power Corporation's annual return to shareholders has averaged 15.1% versus 9.2% for U.S. private equity buyout funds and 5.2% for the S&P 500, as stated in Thomson Financial's U.S. Private Equity Performance Index (PEPI).

Over the past 10 years, Power Corporation's annual return to shareholders averaged 20.1% versus 8.8% for private equity buyout funds and 7.5% for the S&P 500.

As we can see, Power Corporation's long-term view of investments and its conservative approach to financial management continues to serve our shareholders well. Moreover, the strength of the franchises we have built enables us to look to the future with confidence and optimism.

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.