# DIRECTORS' REPORT TO SHAREHOLDERS

The year 2010 saw progress toward greater financial market stability and economic recovery following one of the most challenging periods in recent history. In this improving environment, Power Corporation has remained committed to its business model of active involvement through the boards of directors of group companies, a prudent risk management culture and a long-term perspective which has produced value for our shareholders over many years.

## 2010

**$493.7 BILLION**
TOTAL ASSETS AND ASSETS UNDER MANAGEMENT

**$1,006 MILLION**
OPERATING EARNINGS

**$572 MILLION**
DIVIDENDS DECLARED

**$2.11**
OPERATING EARNINGS PER PARTICIPATING SHARE

**$1.16**
DIVIDENDS DECLARED PER PARTICIPATING SHARE

**10.9%**
OPERATING RETURN ON EQUITY

The companies in the Power Financial group, which are focused on protection, asset management and retirement savings products and services, continued to experience higher sales and gains in market share. The companies benefited from continued investment in their distribution and product capabilities and from the financial strength and stability they have demonstrated during the financial crisis. Throughout much of the year, management focused on growth plans, cost management, building distribution channels and evaluating opportunities for revenue growth. This year was not without its challenges, including a significantly more active regulatory environment, credit issues associated with European banks and the slow return of retail investors to equity mutual funds.

The management of our media group continued to focus on the transformational changes affecting news media and electronic business models in Canada. To that end, we made great progress during the year in our print and electronic media businesses and in our continued investment in Workopolis, the leading internet job search site in Canada.

Improvements in capital markets have helped our investment strategies at Power Corporation. The return of liquidity in the private equity and venture investing market has benefited Sagard Europe and our portfolio of North American limited partnership investments, while a strong recovery in U.S. mid- and small-cap stocks has benefited Sagard Capital Partners Management. Continued strength in the Chinese economy is reflected in the performance of our investments in CITIC Pacific and our "A"-share investment program.

## FINANCIAL RESULTS

Power Corporation of Canada's operating earnings were $1,006 million or $2.11 per participating share for the year ended December 31, 2010, compared with $867 million or $1.81 per share in 2009. This represents an increase of 16.6 per cent on a per share basis.

Subsidiaries contributed $1,100 million to Power Corporation's operating earnings for the twelve-month period ended December 31, 2010, compared with $946 million in the corresponding period in 2009, an increase of 16.3 per cent. Results from corporate activities represented a net charge of $94 million in the twelve-month period ended December 31, 2010, compared with a net charge of $79 million in the same period in 2009.

Other items, not included in operating earnings, were a charge of $99 million in 2010, and consisted mainly of Power Corporation's share of a litigation provision established by Great-West Lifeco in the third quarter. Other items in the corresponding period in 2009 were a charge of $185 million and include the Corporation's share of other items recorded by Power Financial, as well as a non-cash impairment charge of $110 million related to the Corporation's investment in CITIC Pacific.

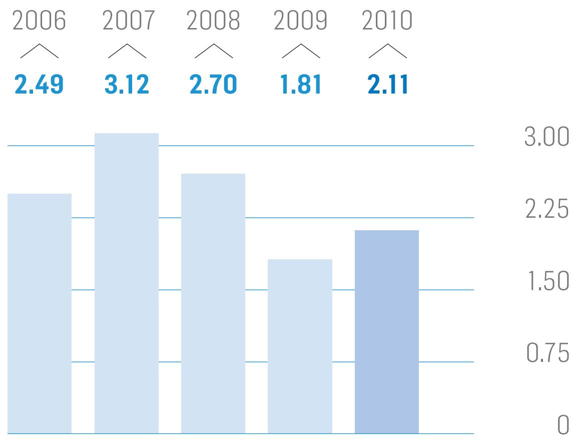
As a result, net earnings were $907 million or $1.89 per share for 2010, compared with $682 million or $1.40 per share in the corresponding period in 2009.

Dividends paid totalled $1.16 per share in 2010, unchanged from 2009.

# DIRECTORS' REPORT TO SHAREHOLDERS CONTINUED

## POWER CORPORATION OPERATING EARNINGS

Per share, in dollars




## GROUP COMPANIES' RESULTS

### POWER FINANCIAL CORPORATION

Power Financial's operating earnings for the year ended December 31, 2010 were $1,733 million or $2.31 per share, compared with $1,533 million or $2.05 per share in the corresponding period in 2009. This represents an increase of 12.8 per cent on a per share basis.

The increase in operating earnings reflects primarily the increase in the contribution from Power Financial's subsidiaries, Great-West Lifeco and IGM Financial.

Other items for 2010 were a charge of $149 million and consisted mainly of Power Financial's share of a litigation provision established by Lifeco in the third quarter. In 2009, other items were a charge of $94 million and consisted essentially of the corporation's share of non-recurring amounts recorded by IGM and Pargesa.

Net earnings including other items were $1,584 million or $2.10 per share for the year ended December 31, 2010, compared with $1,439 million or $1.92 per share in the corresponding period of 2009.

Dividends paid by Power Financial totalled $1.40 per common share in 2010, unchanged from 2009.

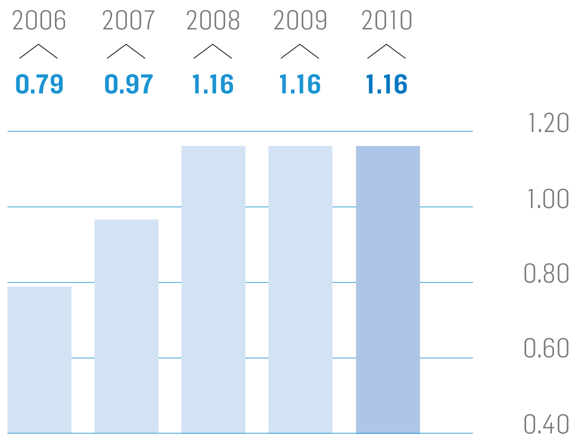
### GREAT-WEST LIFECO

Great-West Lifeco experienced strong earnings and sales results in 2010 from all business segments despite the continued currency headwinds due to the strengthening of the Canadian dollar against the U.S. dollar, British pound and euro during the year. The company's capital base and liquidity position are strong and it is well positioned for continued growth.

Great-West Lifeco reported operating earnings attributable to common shareholders of $1,861 million for 2010, compared with $1,627 million for 2009, an increase of 14.4 per cent. On a per share basis, this represents $1.964 per common share for 2010, compared with $1.722 per common share in 2009.

## POWER CORPORATION YEAR-END ANNUALIZED DIVIDENDS

Per share, in dollars




Operating earnings, a non-GAAP financial measure, exclude the impact of an incremental litigation provision established in the third quarter of 2010 in the amount of $225 million after tax ($204 million attributable to the common shareholders of Great-West Lifeco and $21 million to its non-controlling interests).

Return on common shareholders' equity was 16.0 per cent based on operating earnings and 14.4 per cent on net earnings.

Other measures of Great-West Lifeco's performance in 2010 include: premiums and deposits were $59.1 billion, compared with $56.7 billion in 2009; general fund assets increased from $128.4 billion to $131.6 billion in 2010; and total assets under administration at December 31, 2010 were $483.9 billion, compared with $458.6 billion a year ago.

The dividend on Great-West Lifeco's common shares remained unchanged in 2010.

Great-West Lifeco's capital position remains very strong. Its Canadian operating subsidiary, Great-West Life, reported a Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio of 203 per cent at December 31, 2010. At the same date, Great-West Lifeco held, at the holding company level, approximately $800 million in liquid assets derived from capital-raising initiatives since the fourth quarter of 2008, which is not reflected in the Great-West Life MCCSR ratio.

In Canada, Great-West Lifeco's companies maintained leading markets positions in their individual and group businesses. The Canadian operations continue to experience strong organic growth by focusing on diversified distribution, product and service enhancements and expense management.

# DIRECTORS' REPORT TO SHAREHOLDERS CONTINUED

In Canada, net earnings attributable to common shareholders for 2010 were $940 million, compared with $883 million in 2009. Total sales in Canada for 2010 were up 23 per cent to $9.5 billion, compared with $7.7 billion after adjusting the 2009 twelve-month period for the impact of the group retirement assets acquired from Fidelity Investments Canada. This growth was driven by strong sales of proprietary retail investment funds which were up 31 per cent, payout annuity products which were up 11 per cent and individual life product sales which increased 26 per cent, compared to the twelve-month period in 2009. Total assets under administration at December 31, 2010 were $125.5 billion, compared with $114.6 billion at December 31, 2009.

In the United States, Great-West Lifeco's Financial Services businesses continued to grow, with a 34 per cent increase in sales over 2009 on a constant currency basis. Strong sales across defined contribution markets and of single-premium life and business-owned life insurance led to record sales in both business segments. Net earnings attributable to common shareholders for 2010 were $343 million, compared with $228 million in 2009. Total sales for 2010 were $38.1 billion, compared with $32.4 billion in 2009. As a result of currency movement, net earnings were negatively impacted by $32 million compared to 2009. Total assets under administration at December 31, 2010 were $293.7 billion, compared with $277.8 billion at December 31, 2009.

In 2010, Putnam Investments and its clients enjoyed another year of excellent investment performance which, together with innovative product launches, resulted in very strong market share gains in U.S. mutual fund sales. Putnam's assets under management, including PanAgora, increased to US$121 billion at year-end from US$115 billion a year earlier. Putnam's suite of absolute return funds, first offered in 2009, reached US$2.7 billion at the end of 2010. Putnam continued to introduce new products and services across its offering in 2010. A key area of focus and investment is the defined contribution marketplace, and in particular 401(k) plans, where Putnam's award-winning offering is experiencing strong momentum with U.S. employers.

In Europe, net earnings attributable to common shareholders were $578 million, compared with $529 million in 2009, in spite of currency movements, which negatively impacted results by $71 million compared to 2009.

In 2010, Great-West Lifeco's European Operations continued to face challenging credit markets as well as a general loss of consumer confidence in investments, due to a sharp decline in equity markets in late 2008 and early 2009. Although conditions continued to generally improve in 2010, these pressures affected sales volumes in a number of areas. Earnings were impacted by the required strengthening of reserves for future asset default risk and asset impairments.

Total sales for 2010 were $4.5 billion, compared with $4.0 billion in 2009. Sales increased by 27 per cent in local currency; however, this was partly offset by the negative effect of currency movement. Total assets under administration in Europe at December 31, 2010 were $64.7 billion, compared with $66.2 billion at December 31, 2009.

## IGM FINANCIAL

IGM Financial and its operating companies experienced an increase in total assets under management during 2010. Net earnings for the company grew substantially compared with 2009.

Investors Group and Mackenzie Financial, IGM's principal businesses, generated business growth through product innovation, investment management success, resource management and distribution expansion throughout the year.

Operating earnings available to common shareholders of IGM for 2010 were $734 million or $2.79 per share, compared with $622 million or $2.35 per share in 2009, an increase of 18.7 per cent on a per share basis. Net earnings available to common shareholders were $726 million or $2.76 per share in 2010, compared with $559 million or $2.12 per share in 2009.

Total assets under management at December 31, 2010 were $129.5 billion, an increase of 7.4 per cent.

Return on average common equity based on operating earnings for 2010 was 17.0 per cent, compared with 14.8 per cent in 2009. Dividends declared remained unchanged in 2010.

The Investors Group consultant network expanded to 4,686 consultants at December 31, 2010, up from 4,633 at December 31, 2009. Investors Group's mutual fund sales for the year were $5.7 billion, compared with $5.0 billion in the prior year, and mutual fund net sales were $253 million, compared with $404 million a year ago. Mutual fund assets under management at December 31, 2010 were $61.8 billion, compared with $57.7 billion at December 31, 2009, an increase of 7.2 per cent.

Mackenzie's total sales for 2010 were $12.2 billion, compared with $11.6 billion in the prior year. Total net redemptions were $1.5 billion, compared with total net redemptions of $1.4 billion a year ago.

Investment performance of Mackenzie's mutual fund family remained strong, with 60 per cent of its fund assets ranked in the first or second quartile of their respective asset categories over the last three years.

Mackenzie's total assets under management at December 31, 2010 were $68.3 billion, compared with $63.6 billion at December 31, 2009, an increase of 7.5 per cent. Mutual fund assets under management at the 2010 year-end were $43.5 billion, compared with $40.6 billion a year previous, an increase of 7.0 per cent.

## PARGESA

The Pargesa group holds significant positions directly and through the Belgian holding company Groupe Bruxelles Lambert (GBL) in six large companies based in Europe: Lafarge, which produces cement and building materials; Imerys, a producer of industrial minerals; Total, in the oil and gas industry; GDF Suez, in electricity and gas; Suez Environnement, in water and waste management; and Pernod Ricard, a leading producer of wines and spirits.

Power Financial, through its wholly owned subsidiary, Power Financial Europe B.V., and the Frère family group of Belgium each hold a 50 per cent interest in Parjointco, a Netherlands-based company. Parjointco's principal holding is a 54.1 per cent equity interest (62.9 per cent of the voting rights) in Pargesa Holding SA, the Pargesa group's parent company based in Geneva, Switzerland.

The Pargesa group's strategy is to establish a limited number of substantial interests in which it can acquire a position of control or significant influence. In 2010, there were no major changes in Pargesa's investment portfolio. Overall, the companies in the group experienced improvements in operating performance, following the very difficult economic conditions of 2009.

During 2010, Pargesa and GBL carried out several transactions designed to extend their debt maturity profile and reduce borrowing costs. In June, GBL issued a €350 million 7.5-year 3.7% bond and, during the course of the year, repurchased convertible bonds for €126 million. In October, Pargesa issued bonds bearing interest at 2.5% per annum with a six-year term for SF150 million, and repurchased convertible bonds for SF6 million due in 2013 and SF132 million due in 2014. Also in 2010, GBL purchased €122 million of Pernod Ricard shares in the marketplace, raising its equity interest to 9.9 per cent as at December 31, 2010.

# DIRECTORS' REPORT TO SHAREHOLDERS CONTINUED

Pargesa's net operating earnings declined 9.2 per cent in 2010 to €465 million, mainly due to an 8.5 per cent decrease in the euro against the Swiss franc, the reporting currency used in Pargesa's financial statements. The 2009 results also reflected a number of non-recurring items, including an exceptional dividend from GDF Suez.

At the end of December 2010, Pargesa's adjusted net asset value was SF8.4 billion. This represents a value of SF99.8 per Pargesa share, compared with SF127.1 at the end of 2009, a decrease of 21.5 per cent expressed in Swiss francs.

At the annual meeting of shareholders of Pargesa, scheduled for May 5, 2011, its board of directors will propose maintaining the dividend at SF2.72 per bearer share, for a total distribution of SF230 million.

## INVESTMENT ACTIVITIES AT POWER CORPORATION

Separate from its investment in Power Financial, Power Corporation conducts investment activities that build on historic relationships and take advantage of opportunities that may also provide diversification for the Corporation. As an investor, Power Corporation's style is characterized by a value approach with deep analysis, impacting investments where appropriate through involvement with the investee company, including through a presence on the board of directors, a focus on strategy, human resources and capital allocation, and a long-term perspective. These investments include technology investments, communications and media, specific investment funds and our long-standing activities in Asia. While the income from the portfolio has been depressed over the past several years, reflecting the economic environment, the level of unrealized gains has increased notably during 2010. The income to the Corporation from these investment activities can be volatile but is expected to produce an attractive return to shareholders over the long run.

### TECHNOLOGY

Power Corporation has direct and indirect interests in operating companies, focusing on the biotechnology and clean energy fields. This sector represents a small percentage of the Corporation's assets.

### COMMUNICATIONS AND MEDIA

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

Gesca holds the Corporation's news media operations, including Canada's leading French-language daily, *La Presse*. The paper is known for its quality national and international coverage, exclusive reports, innovative presentation and columnists whose work has received many awards for excellence in journalism. In 2010, *La Presse* created an in-house team dedicated to the development of digital news products and platforms and launched its popular iPhone application, "La Presse Hockey". Gesca's regional newspapers, Québec City's *Le Soleil*, Ottawa's *Le Droit*, Trois-Rivières' *Le Nouvelliste*, Sherbrooke's *La Tribune*, Chicoutimi's *Le Quotidien* and Granby's *La Voix de l'Est*, are published in compact formats and are deeply embedded institutions in the communities they serve. Gesca also owns Cyberpresse.ca, a leading French-language point of reference for online news and information in Canada. In 2010, Cyberpresse enjoyed the largest increase in traffic of all leading news sites in Canada.

Square Victoria Digital Properties (SVDP) holds the Corporation's interest in digital media, television production, book and magazine publishing. SVDP is particularly active in the digital space, most notably through its interest in Workopolis, the leading online recruitment company in Canada and Olive Media, the leading Canadian online advertising network. SVDP also owns La Presse Télé, one of the leading independent television production companies in Québec.

## INVESTMENTS IN FUNDS

Over the years, Power Corporation has invested in a number of selected investment funds, hedge funds and securities. The Corporation holds investments in a limited number of North American-based private equity funds. In general, these funds performed well in 2010, and Power Corporation remains satisfied with the superior rates of return and earnings generated over the years by its private equity portfolio.

Sagard SAS, a subsidiary of the Corporation based in Paris, manages two private equity funds, Sagard 1 and Sagard 2. In 2002, Power Corporation committed to invest €100 million in Sagard Private Equity Partners (Sagard 1), a €535 million European fund, in which GBL also made a commitment totalling €50 million. Sagard 1 realized 12 investments for a total of €501 million. As at December 31, 2010, eight investments had been sold, generating good returns and earnings for the Corporation.

In 2006, Sagard 2, a new fund with the same investment strategy as Sagard 1, was launched. The new fund closed with €1,010 million in total commitments. Power Corporation committed to invest €200 million in Sagard 2, and Pargesa and GBL committed to invest €50 million and €150 million, respectively. In November 2009, the size of Sagard 2 was reduced by 20 per cent to €810 million, with each investor's commitment being reduced in the same proportion. As of the date hereof, Sagard 2 holds four investments.

In addition, Sagard Capital Partners Management, a U.S.-based wholly owned subsidiary of the Corporation, has been investing in mid-cap publicly listed companies in the United States. Power Corporation has allocated an amount of US$250 million to be invested in this fund.

## ASIA

In Asia, Power Corporation holds an approximately 4.3 per cent interest in CITIC Pacific. The company achieved a profit attributable to shareholders of HK$8.9 billion for the year 2010, the second highest in the history of the company, a 49.8 per cent increase from 2009.

The specialty steel sector performed strongly with a contribution of HK$2.1 billion to CITIC Pacific's profits, an increase of 49 per cent from 2009. It is worth noting that this performance was achieved by two steel plants which sold about 6.6 million tons of specialty steel products. In 2009, the contributions from this sector also included the earnings from Shijiazhuang Steel Plant which was subsequently sold early in 2010. Prices of major steel products were about 18 per cent higher than in the previous year due to a strong increase in raw material costs. The market for specialty steel has significant potential as China continues to develop and the demand for specialty steel grows to levels comparable to that of industrialized countries. CITIC Pacific is increasing its production capacity to 11 million tons in 2011, and is offering more high-quality steel products to the market.

The number one priority for CITIC Pacific management continues to be constructing its iron ore mine in Western Australia and bringing it into production as early as possible. Major facilities are being completed. The target is to begin commissioning the first production line as an integrated system by the end of July, with the export of iron ore commencing in the later part of 2011.

Profit contribution to CITIC Pacific from the property sector increased 4 per cent to HK$960 million, mainly driven by property sales and rentals in mainland China. CITIC Pacific remains positive about the long-term prospects of the Chinese real estate market. Its financial resources and low cost land banks enable the company to withstand short-term market volatilities.

# DIRECTORS' REPORT TO SHAREHOLDERS CONTINUED

CITIC Pacific's return on equity for the year increased to 14 per cent in 2010 as compared to 11 per cent in 2009. It has financial resources to meet its investment needs for iron ore projects and the expansion of specialty steel capacity. The company has declared dividends totalling HK$0.45 in 2010, a HK$0.05 increase over 2009.

Power Corporation was granted a licence as a Qualified Foreign Institutional Investor (QFII) in China in 2004. The licence allows the Corporation to invest in China's "A"-share stock markets in Shanghai and Shenzhen. While the underlying economy in China maintained its growth momentum in 2010, China's equity market experienced volatility due to a number of factors including government policies introduced because of rising inflation expectations and asset bubbles in certain sectors of the economy. The volatility in the market presented significant challenges and opportunities, given the Corporation's value-driven investment approach. The QFII portfolio contributed $2 million in pre-tax gains in 2010 compared to a loss of $10 million in 2009. Power Corporation continues to focus on building the strength of its local investment team. The team seeks long-term positions in Chinese companies with strong fundamentals and values investments that are likely to benefit from future growth in China.

## BOARD OF DIRECTORS

At the May 2011 Annual Meeting, shareholders will be asked to elect Messrs. Marcel Coutu and Timothy Ryan to the Board. Mr. Coutu is President and Chief Executive Officer of Canadian Oil Sands Limited and Chairman of Syncrude Canada Ltd. He has wide experience in public companies in the energy sector and in corporate finance. Mr. Ryan is President and Chief Executive Officer of SIFMA, the Securities Industry and Financial Markets Association, the leading trade association representing global financial market participants. He has had broad international involvement in the financial services industry. Both gentlemen are directors of Great-West Lifeco and several of its major affiliates.

## THE POWER GROUP

Companies in the Power Group are engaged in dialogue throughout Canada with regard to a number of important topics which impact the well-being of Canadians and the financial services industry. These topics include the public debate regarding the retirement readiness of Canadians and a number of related matters.

Canada's retirement system is among the strongest in the OECD, both in terms of income adequacy and system sustainability. One of its key strengths is that it is well balanced between government-provided programs, employer-sponsored plans and individual savings. Notwithstanding the system's relative strength, research suggests that a number of Canadians across different age and income brackets may still not be adequately prepared for retirement. The public debate about retirement is therefore required and welcome. Enhancements to the system can and should be made, but should be based upon well-founded research and should seek to build upon the many elements of the current system which are already working well.

Canadians' use of financial advisors is an important factor in enabling them to plan for and live comfortably in retirement. Research by the Investment Funds Institute of Canada demonstrates that people who use a financial advisor have substantially higher investment assets than non-advised households, in each income range and age bracket. Advised households also have approximately double the participation rate in tax-advantaged programs such as RRSPs and are more confident they will have enough money to retire comfortably.

Mutual funds are one of the principal investment vehicles used by Canadians to save. A comprehensive research study commissioned by Mackenzie Financial and conducted by Bain Consulting demonstrates that for mutual funds purchased with financial advice, the cost of mutual fund ownership for the vast majority of investors in Canada is comparable with their counterparts in the United States. A number of other published studies on this subject have failed to account for the significant differences in the way in which mutual fund fees are reported in the two countries and for differences in the manner in which mutual funds are distributed. We submit that mutual funds, together with the advice of a professional financial advisor, will remain a very effective way for millions of Canadians to provide for their financial futures.

Power Corporation and its subsidiaries believe the current public debate about the retirement readiness of Canadians is important and beneficial. A combination of public and private initiatives can build upon an already successful system to increase the number of Canadians who are financially prepared for the future.

The investing activities of Power Corporation continue to follow our long tradition of deep fundamental analysis, building on the insights of our corporate group, effective governance through the boards of directors of our companies, a determined focus on strategy, human resources and capital, and a measured approach to risk and balance sheet management. We anticipate continuing to make further investments in pursuit of our strategy and exploring new directions as markets and opportunities present themselves.

Your Directors and Management seek to deliver attractive long-term shareholder returns as reflected in our long-term share price and dividend growth performance. The operating environment for Power Corporation's companies and investments will likely continue to be challenging. Nevertheless, we believe our prudent and deliberate style of management and governance provides us with a platform to take advantage of opportunities presented by the emerging recovery in the global economies.

Your Directors wish to express gratitude on behalf of the shareholders for the important contribution of the employees of our Corporation and its associated companies to the success achieved in 2010 in this emerging economic recovery.

ON BEHALF OF THE BOARD OF DIRECTORS,

Signed
Paul Desmarais, Jr., O.C., O.Q.
Chairman and
Co-Chief Executive Officer

Signed
André Desmarais, O.C., O.Q.
Deputy Chairman,
President and
Co-Chief Executive Officer

March 10, 2011