Review of Financial Performance

All tabular amounts are in millions of Canadian dollars, unless otherwise noted.

MARCH 14, 2012

This Annual Report is designed to provide interested shareholders and others with selected information concerning Power Corporation of Canada. For further information concerning the Corporation, shareholders and other interested persons should consult the Corporation's disclosure documents such as its Annual Information Form and Management's Discussion and Analysis (MD&A). Copies of the Corporation's continuous disclosure documents can be obtained at www.sedar.com, on the Corporation's website at www.powercorporation.com, or from the office of the Secretary at the addresses shown at the end of this report.

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 current expectations, or with respect to disclosure regarding the Corporation's public subsidiaries, reflect such subsidiaries' disclosed current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial performance, financial position and cash flows 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".

By its nature, this information is subject to inherent risks and uncertainties, that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries 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, operational and reputational risks, technological change, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors.

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 applicable Canadian 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 and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including its most recent MD&A and its Annual Information Form, filed with the securities regulatory authorities in Canada and available at www.sedar.com.

Readers are reminded that a list of the abbreviations used throughout this report can be found on the inside front cover. In addition, the following abbreviations are used in the Review of Financial Performance and in the Financial Statements and Notes thereto: Audited Consolidated Financial Statements of Power Corporation and Notes thereto for the year ended December 31, 2011 (the 2011 Consolidated Financial Statements or the Financial Statements); International Financial Reporting Standards (IFRS); previous Canadian generally accepted accounting principles (previous Canadian GAAP or previous CGAAP).

OVERVIEW

Power Corporation is a holding company whose principal asset is its controlling interest in Power Financial. As of the date hereof, Power Corporation holds a 66.1% equity and voting interest in Power Financial.

POWER FINANCIAL CORPORATION

Power Financial holds substantial interests in the financial services industry through its controlling interests in Lifeco and IGM. Power Financial also holds, together with the Frère group of Belgium, an interest in Pargesa.

As at December 31, 2011, Power Financial and IGM held 68.2% and 4.0%, respectively, of Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares. As at December 31, 2011, Power Financial and Great-West Life, a subsidiary of Lifeco, held 57.6% and 3.6%, respectively, of IGM's common shares.

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère group each hold a 50% interest in Parjointco, which, as at December 31, 2011, held a 56.5% equity interest in Pargesa, representing 76.0% of the voting rights of that company. These figures do not reflect the dilution which could result from the potential conversion of outstanding debentures convertible into new bearer shares issued by Pargesa in 2006 and 2007.

The Pargesa Group has holdings in major companies based in Europe. These investments are held by Pargesa through its affiliated Belgian holding company, Groupe Bruxelles Lambert. As at December 31, 2011, Pargesa held a 50.0% equity interest in GBL, representing 52.0% of the voting rights.

As at December 31, 2011, Pargesa's portfolio was composed of interests in various sectors, including primarily oil and gas through Total; energy and energy services through GDF Suez; water and waste management services through Suez Environnement; industrial minerals through Imerys; cement and building materials through Lafarge; and wines and spirits through Pernod Ricard. Also as at December 31, 2011, GBL had a 10% interest in Arkema, a global chemical producer based in France. On March 14, 2012, GBL announced the sale of its interest in Arkema for proceeds of €432 million and a gain of €220 million. Also, on March 14, 2012, GBL announced it had launched the sale of a maximum of 6.2 million shares of Pernod Ricard, representing approximately 2.3% of the share capital of Pernod Ricard.

In addition, Pargesa and GBL have also invested, or committed to invest, in the area of private equity, including in the French private equity funds Sagard 1 and Sagard 2, whose management company is a subsidiary of the Corporation.

COMMUNICATIONS — MEDIA

Square Victoria Communications Group is a wholly owned subsidiary of Power Corporation which participates in numerous sectors of the communications and media industry, principally through its wholly owned subsidiaries Gesca and Square Victoria Digital Properties.

Gesca, through its subsidiaries, is engaged in the publication of seven daily newspapers, including *La Presse*, and the operation of the related website Lapresse.ca.

Square Victoria Digital Properties, directly or through its subsidiaries, produces television programming and invests in new media ventures and start-up digital projects. Square Victoria Digital Properties also holds a 50% interest in Workopolis, an Internet-based career and recruitment business, and an interest in the Olive Canada Network, an online advertising network. Square Victoria Digital Properties also holds, through subsidiaries, a 67% interest in the Canadian real estate Internet advertising business Bytheowner Inc.

ASIA

In Asia, the Corporation holds as of the date hereof a 4.3% equity interest in CITIC Pacific, a public corporation whose shares are listed on the Hong Kong Stock Exchange. CITIC Pacific's businesses include special steel manufacturing, iron ore mining and property development. Most of CITIC Pacific's assets are invested in mainland China, Hong Kong and Australia. CITIC Pacific is subject to the public disclosure requirements of the Hong Kong Stock Exchange.

Power Corporation is involved in selected Canadian investment projects in China and, in October 2004, was granted a licence to operate as a Qualified Foreign Institutional Investor (QFII) in the Chinese "A" shares market, for an amount of US$50 million. As at December 31, 2011, the market value of the investments in this program had increased to an amount of CDN$222 million, excluding cash of CDN$12 million. In addition, the Corporation has invested US$50 million in Chinese companies listed on the Hong Kong Stock Exchange ("H" shares) and the Shenzhen or Shanghai Stock Exchange ("B" shares). As at December 31, 2011, the fair value of the "B" and "H" shares program was CDN$35 million, excluding cash of CDN$6 million. Together, the Chinese "A", "B" and "H" share activity is defined by the Corporation as Sagard China.

On December 28, 2011, the Corporation finalized the purchase of a 10% stake in China AMC from CITIC Securities Co. Ltd. for an amount of approximately CDN$282 million. China AMC was established in 1998 and was one of the first asset management companies approved by the China Securities Regulatory Commission. It is recognized as the leading company in the Chinese asset management sector.

At December 31, 2011, the carrying value of all foregoing Asia investments was $840 million.

INVESTMENT IN FUNDS AND SECURITIES

In 2002, Power Corporation made a commitment of €100 million to Sagard Private Equity Partners (Sagard 1), a €535 million fund, to which GBL also made an investment commitment of €50 million. Sagard 1 has completed twelve investments, ten of which had been sold by December 31, 2011.

Sagard 2 was launched in 2006 with the same investment strategy as Sagard 1. This fund closed with total commitments of €1.0 billion. Power Corporation made a €200 million commitment to Sagard 2, while Pargesa and GBL made commitments of €50 million and €150 million, respectively. In November 2009, the Corporation's commitment was reduced to €160 million and the size of the fund was reduced to €810 million. Pargesa and GBL's commitments were also reduced to €40 million and €120 million, respectively. As of the date of this report, Sagard 1 held two investments and Sagard 2, six investments. The Sagard 1 and Sagard 2 funds are managed by Sagard SAS, a wholly owned subsidiary of the Corporation based in Paris, France. Together, the Sagard 1 and Sagard 2 funds are defined by the Corporation as Sagard Europe.

In addition, a wholly owned subsidiary of the Corporation, Sagard Capital Partners Management (Sagard Capital), has been investing in mid-cap public companies in the United States, pursuant to a plan to allocate a portion of the Corporation's cash resources to selected investment opportunities in that country. At December 31, 2011, the carrying value of these investments in the United States is $236 million.

Power Corporation has invested for many years in private equity limited partnerships based upon superior returns and relationships with the Corporation. The carrying value of these investments is $276 million at December 31, 2011. The Corporation has also invested, directly or through wholly owned subsidiaries, in a number of selected hedge funds and securities.

The Corporation has also invested in privately-held Potentia Solar Inc., a rooftop solar power producer in Ontario.

The Corporation has outstanding commitments to make future capital contributions to investment funds for an aggregate amount of $319 million.

These investments and the investments in Asia support the diversification strategy of the Corporation. However, their contribution to operating earnings, both in terms of magnitude and timing, is by nature difficult to predict.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Institute of Chartered Accountants announced that Canadian GAAP for publicly accountable enterprises would be replaced by International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), for fiscal years beginning on or after January 1, 2011.

The Corporation developed and implemented an IFRS changeover plan which addressed key areas, including accounting policies, financial reporting, disclosure controls and procedures, information systems, education and training, and other business activities. The Corporation commenced reporting under IFRS for the quarter ending March 31, 2011, including presenting a transitional balance sheet at January 1, 2010 and reporting under IFRS for comparative periods, with the required reconciliations presented. The Corporation's presentation currency is the Canadian dollar.

The information for prior periods presented herein, including information relating to comparative periods in 2010, has been restated or reclassified to conform to IFRS and to financial statement presentations adopted for the current period being reported, unless otherwise noted as being presented under previous Canadian GAAP and not IFRS. Included in the Corporation's 2011 Consolidated Financial Statements is the IFRS 1 transitional note including reconciliations of the balance sheet and equity at transition to IFRS, and reconciliations of net earnings and comprehensive income at December 31, 2010 for the figures previously presented under Canadian GAAP.

The impact to shareholders' equity at transition (January 1, 2010) from previous Canadian GAAP to IFRS was a net decrease of $248 million. The impact to 2010 earnings was a decrease of $139 million, consisting of a decrease in operating earnings of $17 million and additional charges to other items of $122 million.

For a complete listing of relevant IFRS accounting policies and details of the impact of the initial adoption of IFRS on the presentation of the financial statements, refer to Notes 2 and 3 of the Corporation's 2011 Consolidated Financial Statements. Further information is also available on the Corporation's website at www.powercorporation.com.

INCLUSION OF PARGESA'S RESULTS

The investment in Pargesa, an associate of the Corporation as defined under IFRS, is accounted for by Power Financial under the equity method. As described above, the Pargesa portfolio currently consists primarily of investments in Imerys, Total, GDF Suez, Suez Environnement, Lafarge, Pernod Ricard and Arkema, which are held through GBL, which is consolidated in Pargesa. Imerys' results are consolidated in the financial statements of GBL, while the contribution from Total, GDF Suez, Suez Environnement, Pernod Ricard and Arkema to GBL's operating earnings consists of the dividends received from these companies. GBL accounts for its investment in Lafarge under the equity method, and consequently, the contribution from Lafarge to GBL's earnings consists of GBL's share of Lafarge's net earnings.

The contribution from Pargesa to Power Financial's earnings is based on the economic (flow-through) presentation of results as published by Pargesa. Pursuant to this presentation, operating earnings and non-operating earnings are presented separately by Pargesa. Power Corporation's share of non-operating earnings of Pargesa, after adjustments or reclassifications if necessary, is included as part of other items in the Corporation's financial statements.

NON-IFRS FINANCIAL MEASURES

In analyzing the financial results of the Corporation and consistent with the presentation in previous years, net earnings are subdivided in the section "Results of Power Corporation of Canada" below into the following components:

- operating earnings; and
- other items or non-operating earnings, 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. Please also refer to the comments above related to the inclusion of Pargesa's results.

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-IFRS financial measures that do not have a standard meaning and may not be comparable to similar measures used by other entities. For a reconciliation of these non-IFRS measures to results reported in accordance with IFRS, see "Results of Power Corporation of Canada—Earnings Summary—Condensed Supplementary Statements of Earnings" section below.

RESULTS OF POWER CORPORATION OF CANADA

This section is an overview of the results of Power Corporation. In this section, consistent with past practice, the contributions from Power Financial, Square Victoria Communications Group, Victoria Square Ventures and Sagard SAS are accounted for using the equity method in order to facilitate the discussion and analysis. This presentation has no impact on Power Corporation's net earnings and is intended to assist readers in their analysis of the results of the Corporation.

EARNINGS SUMMARY — CONDENSED SUPPLEMENTARY STATEMENTS OF EARNINGS

The following table shows a reconciliation of non-IFRS financial measures used herein for the periods indicated, with the reported results in accordance with IFRS for net earnings attributable to participating shareholders and earnings per share.

TWELVE MONTHS ENDED DECEMBER 31	2011	2010
Contribution to operating earnings from subsidiaries	1,150	1,097
Results from corporate activities		
Income from investments	159	17
Operating and other expenses	(116)	(116)
Dividends on non-participating shares	(41)	(41)
Operating earnings attributable to participating shareholders	1,152	957
Other items	(77)	(230)
Net earnings attributable to participating shareholders	1,075	727
Earnings per share attributable to participating shareholders		
—operating earnings	2.50	2.09
—non-operating earnings	(0.16)	(0.50)
—net earnings	2.34	1.59

OPERATING EARNINGS ATTRIBUTABLE TO PARTICIPATING SHAREHOLDERS

Operating earnings attributable to participating shareholders for the twelve-month period ended December 31, 2011 were $1,152 million or $2.50 per share, compared with $957 million or $2.09 per share in the corresponding period in 2010 (an increase of 19.9% on a per share basis).

CONTRIBUTION TO OPERATING EARNINGS FROM SUBSIDIARIES

Power Corporation's share of operating earnings from its subsidiaries was $1,150 million for the twelve-month period ended December 31, 2011, compared with $1,097 million for the same period in 2010, an increase of $53 million or 4.8%.

Power Financial, which makes the most significant contribution to the Corporation's earnings, reported operating earnings attributable to common shareholders of $1,729 million or $2.44 per share for the twelve-month period ended December 31, 2011, compared with $1,625 million or $2.30 per share for the same period in 2010 (an increase of 6.2% on a per share basis).

RESULTS FROM CORPORATE ACTIVITIES

Results from corporate activities include income from investments, operating expenses, financing charges, depreciation and income taxes.

Corporate activities represented a contribution of $43 million in the twelve-month period ended December 31, 2011, compared with a net charge of $99 million in the corresponding period in 2010. The changes in corporate activities are essentially due to changes in the Corporation's income from investments (discussed below).

The following table provides, by category of investment components, details of income from investments for the periods indicated:

TWELVE MONTHS ENDED DECEMBER 31	2011	2010
Dividends from CITIC Pacific	9	9
Sagard China	7	(1)
Sagard Capital	15	(3)
Sagard Europe [1]	82	(9)
Investment funds and hedge funds	39	15
Other	7	6
	159	17

[1] During the second and third quarters of 2011, Sagard 1 sold investments for which the Corporation recorded gains of $41 million and $45 million, respectively.

Impairment charges recorded against operating earnings were $19 million in the twelve-month period ended December 31, 2011, compared with $29 million in the corresponding period in 2010.

Other impairment charges were recorded in 2011 and 2010 in Other Items, as described below.

Readers are cautioned that the amount and timing of contributions from private equity funds, investment funds and hedge funds, as well as from Sagard China and Sagard Capital, are difficult to predict and can also be affected by foreign exchange fluctuations.

OTHER ITEMS

Other items not included in operating earnings represented a net charge of $77 million in the twelve-month period ended December 31, 2011, compared with a net charge of $230 million in the corresponding period in 2010.

Other items in 2011 included a contribution of $58 million representing the Corporation's share of non-operating earnings of Lifeco. In the fourth quarter of 2011, Lifeco re-evaluated and reduced a litigation provision established in the third quarter of 2010 which positively impacted Lifeco's common shareholders' net earnings by $223 million. Additionally, in the fourth quarter of 2011, Lifeco established a provision of $99 million after tax in respect of the settlement of litigation relating to its ownership in a U.S.-based private equity firm. The net impact to Lifeco of these two unrelated matters was $124 million.

Other items in 2011 also include i) an impairment charge on the Corporation's investment in CITIC Pacific for an amount of $72 million recorded in the third quarter and ii) the Corporation's share of GBL's €650 million writedown of its investment in Lafarge for an amount of $87 million recorded in the third quarter. The persistence of Lafarge's share price at a level significantly below its consolidated carrying value rendered an impairment test necessary.

Other items of IGM include the gain on the disposal of M.R.S. Trust Company and M.R.S. Inc. (together, MRS) as well as an amount related to changes in the status of certain income tax filings.

Other items in 2010 were primarily composed of the Corporation's share of the litigation provision referred to above recorded by Lifeco in the third quarter of 2010 and impairment charges on the CITIC Pacific investment of $133 million recorded under IFRS due to the decline in the market price of CITIC Pacific in 2010.

Readers are reminded that the Corporation had recorded an impairment charge on CITIC Pacific in 2009 and, pursuant to IFRS, there is an automatic recognition of an impairment loss upon further declines in the value of an available-for-sale equity investment.

The following table provides additional information on other items for the periods indicated:

TWELVE MONTHS ENDED DECEMBER 31	2011	2010
Power Corporation's share of		
Lifeco	58	(96)
IGM	23	(9)
Pargesa	(86)	
Other		
Impairment charge on CITIC Pacific	(72)	(133)
Other		8
	(77)	(230)

NET EARNINGS ATTRIBUTABLE TO PARTICIPATING SHAREHOLDERS

Net earnings attributable to participating shareholders for the twelve-month period ended December 31, 2011 were $1,075 million or $2.34 per share, compared with $727 million or $1.59 per share in the corresponding period in 2010.

CONDENSED CONSOLIDATED BALANCE SHEETS

CONDENSED SUPPLEMENTARY BALANCE SHEETS	CONSOLIDATED BASIS		EQUITY BASIS[1]	
AS AT DECEMBER 31	2011	2010	2011	2010
ASSETS				
Cash and cash equivalents[2]	3,741	4,016	666	883
Investments in associates	2,341	2,565	7,832	7,350
Investments	118,966	111,980	1,557	1,396
Funds held by ceding insurers	9,923	9,856		
Reinsurance assets	2,061	2,533		
Intangible assets	5,107	5,111		
Goodwill	8,828	8,759		
Other assets	7,947	7,879	339	332
Segregated funds for the risk of unit holders	96,582	94,827		
Total assets	255,496	247,526	10,394	9,961
LIABILITIES				
Insurance and investment contract liabilities	115,512	108,196		
Obligations to securitization entities	3,827	3,505		
Debentures and other borrowings	6,296	6,720	400	400
Capital trust securities	533	535		
Other liabilities	7,711	9,892	169	131
Insurance and investment contracts on account of unit holders	96,582	94,827		
Total liabilities	230,461	223,675	569	531
EQUITY				
Non-participating shares	779	783	779	783
Participating shareholders' equity	9,046	8,647	9,046	8,647
Non-controlling interests	15,210	14,421		
Total equity	25,035	23,851	9,825	9,430
Total liabilities and equity	255,496	247,526	10,394	9,961

[1] Condensed supplementary balance sheets of the Corporation using the equity method to account for Power Financial, Square Victoria Communications Group, Sagard SAS, and Victoria Square Ventures.

[2] Under the equity basis presentation, cash equivalents include $365 million ($590 million at December 31, 2010) of fixed income securities with maturities of more than 90 days. In the Consolidated Financial Statements, this amount of cash equivalents is classified in investments.

CONSOLIDATED BASIS

The consolidated balance sheets include Power Financial's, Lifeco's and IGM's assets and liabilities.

Total assets of the Corporation increased to $255.5 billion at December 31, 2011, compared with $247.5 billion at December 31, 2010.

The investments in associates of $2.3 billion essentially represents Power Financial's carrying value in Parjointco. The components of the decrease from 2010 are shown in the "Equity Basis" section below.

Investments at December 31, 2011 were $119.0 billion, a $7.0 billion increase from December 31, 2010 primarily related to Lifeco. See also the discussion in the "Cash Flows" section below.

Liabilities increased from $223.7 billion at December 31, 2010 to $230.5 billion at December 31, 2011, mainly due to an increase in Lifeco's insurance and investment contract liabilities.

Debentures and other borrowings decreased by $424 million during the twelve-month period ended December 31, 2011, as further explained in the "Cash Flows—Consolidated" section below.

Non-controlling interests include the Corporation's non-controlling interests in the common equity of Power Financial as well as the participating account surplus in Lifeco's insurance subsidiaries and perpetual preferred shares issued by subsidiaries to third parties.

Assets under administration of Lifeco and IGM are as follows:

AS AT DECEMBER 31 [IN BILLIONS OF CANADIAN DOLLARS]	2011	2010
Assets under management of Lifeco		
Invested assets	114.6	106.6
Other corporate assets	27.6	27.9
Segregated funds net assets	96.6	94.8
Proprietary mutual funds and institutional net assets	125.4	126.1
	364.2	355.4
Assets under management of IGM	118.7	129.5
Total assets under management	482.9	484.9
Other assets under administration of Lifeco	137.8	131.5
Total assets under administration	620.7	616.4

Total assets under administration at December 31, 2011 increased by $4.3 billion (an increase at Lifeco of $15.1 billion and a decrease at IGM of $10.8 billion) from December 31, 2010:

> Total assets under administration by Lifeco at December 31, 2011 increased by $15.1 billion from December 31, 2010, primarily due to an increase in fair value of invested assets as a result of lower government bond rates and an increase in other assets under administration due to new plan sales and positive currency movement.

> IGM's assets under management, at market value, were $118.7 billion at December 31, 2011, compared with $129.5 billion at December 31, 2010.

EQUITY BASIS

Under the equity basis presentation, Power Financial, Square Victoria Communications Group, Victoria Square Ventures, and Sagard SAS are accounted for by the Corporation using the equity method. This presentation has no impact on Power Corporation's shareholders' equity and is intended to assist readers in isolating the contribution of Power Corporation, as the parent company, to consolidated assets and liabilities.

Cash and cash equivalents held by Power Corporation amounted to $666 million at December 31, 2011, compared with $883 million at the end of December 2010 (see "Cash Flows—Corporate" section below for details).

In managing its own cash and cash equivalents, the Corporation may hold cash balances or invest in short-term paper or equivalents, as well as deposits, denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, the Corporation may, from time to time, enter into currency-hedging transactions with financial institutions with high credit ratings. As at December 31, 2011, 87% of the $666 million of cash and cash equivalents was denominated in Canadian dollars or in foreign currencies with currency hedges in place. The balance, denominated in foreign currencies, was unhedged.

Investments are principally composed of the carrying value of the Corporation's interest in its subsidiaries, Power Financial, Square Victoria Communications Group, Victoria Square Ventures, and Sagard SAS, as well as the carrying value of its portfolio of investment funds, other marketable securities and non-quoted investments.

The carrying value at equity of Power Corporation's investments in its subsidiaries increased to $7,832 million at December 31, 2011, compared with $7,350 million at December 31, 2010, as outlined in the following table:

Carrying value, at the beginning	7,350
Share of operating earnings	1,150
Share of other items	(5)
Dividends	(655)
Other	(8)
Carrying value, at the end	7,832

Investments amounted to $1,557 million at December 31, 2011, compared with $1,396 million at December 31, 2010.

The following table provides further detail on the carrying value of investments:

AS AT DECEMBER 31	2011			2010		
	COST	REVALUATION TO FAIR VALUE	FAIR VALUE	COST	REVALUATION TO FAIR VALUE	FAIR VALUE
CITIC Pacific	238	50	288	310	96	406
China AMC	282	–	282	–	–	–
Sagard China	263	(6)	257	218	15	233
Sagard Capital	136	100	236	121	90	211
Sagard 1 and Sagard 2	116	5	121	95	50	145
Investment funds	230	46	276	213	83	296
Hedge funds	43	10	53	38	15	53
Other	44	–	44	41	11	52
	1,352	205	1,557	1,036	360	1,396

EQUITY

Non-participating shares of the Corporation consist of five series of First Preferred Shares with an aggregate stated capital amount of $779 million as at December 31, 2011 (compared with $783 million as at December 31, 2010), of which $750 million are non-cumulative. All of these series are perpetual preferred shares and are redeemable in whole or in part at the option of the Corporation from specific dates. The First Preferred Shares, 1986 Series, with a stated value of $29 million at December 31, 2011 ($33 million at the end of 2010), have a sinking fund provision under which the Corporation will make all reasonable efforts to purchase on the open market 20,000 shares per quarter. A total of 77,300 such shares were purchased during the twelve months ended December 31, 2011.

Excluding non-participating shares, participating shareholders' equity was $9,046 million at December 31, 2011, compared with $8,647 million at December 31, 2010. The $399 million increase was primarily due to:

> A $562 million increase in retained earnings, reflecting mainly net earnings of $1,116 million, less dividends declared of $574 million.

> Changes to accumulated other comprehensive income in the negative amount of $194 million, made up of a negative variation of $154 million primarily in connection with the Corporation's investments and the Corporation's share of other comprehensive income of its subsidiaries for a negative amount of $40 million.

> Issuance of a total of 1,266,262 Subordinate Voting Shares during the twelve months ended December 31, 2011 under the Corporation's Executive Stock Option Plan, resulting in an increase in stated capital of $22 million.

As a result of the above, book value per participating share of the Corporation was $19.67 at December 31, 2011, compared with $18.85 at the end of 2010.

The Corporation filed a short-form base shelf prospectus dated November 23, 2010, pursuant to which, for a period of 25 months thereafter, the Corporation may issue up to an aggregate of $1 billion of First Preferred Shares, Subordinate Voting Shares and debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis to make changes to the Corporation's capital structure in response to changes in economic conditions and changes in its financial condition.

OUTSTANDING NUMBER OF PARTICIPATING SHARES

As of the date hereof, there were 48,854,772 Participating Preferred Shares of the Corporation outstanding, unchanged from December 31, 2010, and 411,042,894 Subordinate Voting Shares of the Corporation outstanding, compared with 409,776,632 at December 31, 2010. The increase in the number of outstanding Subordinate Voting Shares reflects the exercise of options under the Corporation's Executive Stock Option Plan. As of the date hereof, options were outstanding to purchase up to 13,387,225 Subordinate Voting Shares of the Corporation under the Corporation's Executive Stock Option Plan.

CASH FLOWS

CONDENSED CASH FLOWS — CONSOLIDATED

FOR THE YEARS ENDED DECEMBER 31	2011	2010
Cash flow from operating activities	5,425	6,519
Cash flow from financing activities	(2,306)	(1,166)
Cash flow from investing activities	(3,130)	(6,524)
Effect of changes in exchange rates on cash and cash equivalents	24	(215)
Increase (decrease) in cash and cash equivalents—continuing operations	13	(1,386)
Cash and cash equivalents, at the beginning	4,016	5,383
Less: cash and cash equivalents—discontinued operations, beginning of year	(288)	(269)
Cash and cash equivalents—continuing operations, end of year	3,741	3,728

On a consolidated basis, cash and cash equivalents from continuing operations increased by $13 million in the twelve-month period ended December 31, 2011, compared with a decrease of $1,386 million in the corresponding period in 2010.

Operating activities produced a net inflow of $5,425 million in the twelve-month period ended December 31, 2011, compared with a net inflow of $6,519 million in the corresponding period in 2010.

Operating activities during the twelve-month period ended December 31, 2011, compared to the same period in 2010, included:

> Lifeco's cash flow from operations was a net inflow of $4,844 million, compared with a net inflow of $5,797 million in the corresponding period in 2010. Cash provided by operating activities is used by Lifeco primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested by Lifeco to support future liability cash requirements.

> Operating activities of IGM, after payment of commissions, generated $777 million, compared with $824 million in the corresponding period in 2010.

Cash flows from financing activities, which include dividends paid on the participating and non-participating shares of the Corporation, as well as dividends paid by subsidiaries to non-controlling interests, resulted in a net outflow of $2,306 million in the twelve-month period ended December 31, 2011, compared with a net outflow of $1,166 million in the corresponding period in 2010.

Financing activities during the twelve-month period ended December 31, 2011, compared to the same period in 2010, included:

> Dividends paid by the Corporation and its subsidiaries to non-controlling interests were $1,654 million, compared with $1,636 million in the corresponding period in 2010.

> Issuance of subordinate voting shares of the Corporation for an amount of $22 million pursuant to the Corporation's Executive Stock Option Plan, compared with $23 million in the corresponding period in 2010.

> Repurchase of non-participating shares by the Corporation for an amount of $4 million, compared with $4 million in the corresponding period in 2010.

- Issuance of common shares by subsidiaries of the Corporation for an amount of $64 million, compared with $115 million in the corresponding period in 2010.
- No issuance of preferred shares by subsidiaries of the Corporation, compared to issuance in the amount of $680 million in the corresponding period in 2010.
- Repurchase for cancellation by subsidiaries of the Corporation of their common shares amounted to $186 million, compared with $157 million in the corresponding period in 2010.
- No redemption of preferred shares by subsidiaries of the Corporation, compared to redemption in the amount of $812 million in the corresponding period in 2010.
- No issuance of debentures and other debt instruments at Lifeco, compared to an issuance for an amount of $500 million in the corresponding period in 2010.
- Net repayment of other borrowings at Lifeco for an amount of $6 million, compared with net repayment of debentures and other borrowings of $254 million in the corresponding period in 2010.
- Repayment of debentures by IGM for an amount of $450 million, compared with issuance of debentures of $200 million in the corresponding period in 2010.
- Increase in obligations to securitization entities at IGM for an amount of $319 million, compared with an increase of $193 million in the corresponding period in 2010.
- A net payment of $408 million by IGM in 2011 arising from obligations related to assets sold under repurchase agreements, compared to net receipts of $5 million in 2010. The net payment in 2011 included the settlement of $428 million in obligations related to the sale of $426 million in Canada Mortgage Bonds, which are reported in investing activities.

Cash flows from investing activities resulted in a net outflow of $3,130 million in the twelve-month period ended December 31, 2011, compared with a net outflow of $6,524 million in the corresponding period in 2010.

Investing activities during the twelve-month period ended December 31, 2011, compared to the same period in 2010, included:

- Investing activities at Lifeco resulted in a net outflow of $3,407 million, compared with a net outflow of $6,099 million in the corresponding period in 2010.
- Investing activities at IGM resulted in a net inflow of $229 million, compared with a net inflow of $60 million in the corresponding period in 2010.
- The Corporation's investing activities represented an outflow of $250 million, compared with an outflow of $102 million in the corresponding period in 2010 as shown in the "Cash Flows—Corporate" section below.
- In addition, the Corporation reduced its level of fixed income securities with maturities of more than 90 days, resulting in a net inflow of $225 million, compared with a net outflow of $149 million in the corresponding period in 2010.

CASH FLOWS — CORPORATE

FOR THE YEARS ENDED DECEMBER 31	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES		
Net earnings	1,116	768
Earnings from subsidiaries not received in cash	(490)	(342)
Impairment charges (operating and non-operating)	91	162
Net gains on disposal of investments	(169)	(37)
Other	41	69
	589	620
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends paid on participating and non-participating shares	(574)	(572)
Issuance of subordinate voting shares	22	23
Repurchase of non-participating shares	(4)	(4)
	(556)	(553)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from disposal of investments	332	189
Investment in subsidiaries	(7)	(4)
Purchase of investments	(567)	(253)
Other	(8)	(34)
	(250)	(102)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(217)	(35)
Cash and cash equivalents, beginning of year	883	918
Cash and cash equivalents, end of year	666	883

Power Corporation is a holding company. As such, corporate cash flows from operations, before payment of dividends on the non-participating shares and on the participating shares, are principally made up of dividends received from its subsidiaries and income from investments, less operating expenses, financing charges, and income taxes. Dividends received from Power Financial, which is also a holding company, represent a significant component of the Corporation's corporate cash flows. In each quarter of 2011, Power Financial declared dividends on its Common Shares of $0.35 per share, the same as in the corresponding quarters of 2010.

The ability of Power Financial to meet its obligations generally and pay dividends depends in particular upon receipt of sufficient funds from its subsidiaries. The payment of interest and dividends by Power Financial's principal subsidiaries is subject to restrictions set out in relevant corporate and insurance laws and regulations, which require that solvency and capital standards be maintained. As well, the capitalization of certain of Power Financial's subsidiaries takes into account the views expressed by the various credit rating agencies that provide ratings related to financial strength and other measures relating to those companies.

In the twelve-month period ended December 31, 2011, dividends declared on the Corporation's participating shares amounted to $1.16 per share, the same as in the corresponding period in 2010.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Corporation's 2011 Consolidated Financial Statements. The major accounting policies and related critical accounting estimates underlying the Corporation's 2011 Consolidated Financial Statements are summarized below. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the insurance and other financial services industries; others are specific to the Corporation's businesses and operations. The significant accounting estimates are as follows:

FAIR VALUE MEASUREMENT

Financial and other instruments held by the Corporation and its subsidiaries include portfolio investments, various derivative financial instruments, and debentures and other debt instruments.

Financial instrument carrying values reflect the liquidity of the markets and the liquidity premiums embedded in the market pricing methods the Corporation relies upon.

In accordance with IFRS 7, *Financial Instruments—Disclosure*, the Corporation's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

> Level 1 inputs utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access.

> Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

> Level 3 inputs are unobservable and include situations where there is little, if any, market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Refer to Note 29 to the Corporation's 2011 Consolidated Financial Statements for disclosure of the Corporation's financial instruments fair value measurement as at December 31, 2011.

Fair values for bonds classified as fair value through profit or loss are determined using quoted market prices. Where prices are not quoted in a normally active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows based on expected dividends and where market value cannot be measured reliably, fair value is estimated to be equal to cost. Market values for real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

IMPAIRMENT

Investments are reviewed regularly on an individual basis to determine impairment status. The Corporation considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal. Investments are deemed to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due. The market value of an investment is not by itself a definitive indicator of impairment, as it may be significantly influenced by other factors, including the remaining term to maturity and liquidity of the asset. However, market price must be taken into consideration when evaluating impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs are recorded to adjust the carrying value to the estimated realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish the estimated realizable value. For impaired available-for-sale loans recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. All gains and losses on bonds classified or designated as fair value through profit or loss are already recorded in income, therefore a reduction due to impairment of assets will be recorded in income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

GOODWILL AND INTANGIBLES IMPAIRMENT TESTING

Goodwill and intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal. In the event that certain conditions have been met, the Corporation would be required to reverse the impairment charge or a portion thereof.

Goodwill has been allocated to cash generating units (CGU), representing the lowest level in which goodwill is monitored for internal reporting purposes. Goodwill is tested for impairment by comparing carrying value of the CGU groups to the recoverable amount to which the goodwill has been allocated. Intangible assets are tested for impairment by comparing the asset's carrying amount to its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of the asset's fair value less cost to sell and value in use, which is generally calculated using the present value of estimated future cash flows expected to be generated.

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Insurance and investment contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiary companies are responsible for determining the amount of the liabilities to make appropriate provisions for Lifeco's obligations to policyholders. The Appointed Actuaries determine the insurance and investment contract liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Additional detail regarding these estimates can be found in Note 2 to the Corporation's 2011 Consolidated Financial Statements.

INCOME TAXES

The Corporation is subject to income tax laws in various jurisdictions. The Corporation's and its subsidiaries' operations are complex and related tax interpretations, regulations and legislation that pertain to its activities are subject to continual change. Lifeco's primary Canadian operating subsidiaries are subject to a regime of specialized rules prescribed under the *Income Tax Act* (Canada) for purposes of determining the amount of the companies' income that will be subject to tax in Canada. Accordingly, the provision for income taxes represents the applicable company's management's interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events during the period. Deferred tax assets and liabilities are recorded based on expected future tax rates and management's assumptions regarding the expected timing of the reversal of temporary differences. The Corporation has substantial deferred income tax assets. The recognition of deferred tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. The amount of the asset recorded is based on management's best estimate of the timing of the reversal of the asset.

The audit and review activities of the Canada Revenue Agency and other jurisdictions' tax authorities affect the ultimate determination of the amounts of income taxes payable or receivable, future income tax assets or liabilities and income tax expense. Therefore, there can be no assurance that taxes will be payable as anticipated and/or the amount and timing of receipt or use of the tax-related assets will be as currently expected. Management's experience indicates the taxation authorities are more aggressively pursuing perceived tax issues and have increased the resources they put to these efforts.

EMPLOYEE FUTURE BENEFITS

The Corporation and its subsidiaries maintain contributory and non-contributory defined benefit and defined contribution pension plans for certain employees and advisors. The defined benefit pension plans provide pensions based on length of service and final average pay. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The defined contribution pension plans provide pension benefits based on accumulated employee and Corporation contributions. The Corporation and its subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees and advisors. For further information on the Corporation's pension plans and other post-employment benefits refer to Note 27 to the Corporation's 2011 Consolidated Financial Statements.

Accounting for pension and other post-employment benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in healthcare costs, and the period of time over which benefits will be paid, as well as the appropriate discount rate for accrued benefit obligations. These assumptions are determined by management using actuarial methods and are reviewed and approved annually. Emerging experience, which may differ from the assumptions, will be revealed in future valuations and will affect the future financial position of the plans and net periodic benefit costs.

DEFERRED SELLING COMMISSIONS

Commissions paid on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. IGM regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by IGM to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value. At December 31, 2011, there were no indications of impairment to deferred selling commissions.

FUTURE ACCOUNTING CHANGES

The Corporation continues to monitor the potential changes proposed by the IASB and to consider the impact changes in the standards may have on the Corporation's operations.

In addition, the Corporation may be impacted in the future by the following IFRS and is currently evaluating the impact these future standards will have on its consolidated financial statements when they become effective:

> IFRS 4 – Insurance Contracts The IASB issued an exposure draft proposing changes to the accounting standard for insurance contracts in July 2010. The proposal would require an insurer to measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of future cash flows associated with fulfilling its insurance contracts. This is vastly different from the connection between insurance assets and liabilities considered under CALM and may cause significant volatility in the results of Lifeco. The exposure draft also proposes changes to the presentation and disclosure within the financial statements.

Lifeco will continue to measure insurance contract liabilities using CALM until such time when a new IFRS for insurance contract measurement is issued. A final standard is not expected to be implemented for several years; Lifeco continues to actively monitor developments in this area.

> IFRS 7 – Financial Instruments: Disclosure Effective for the Corporation on January 1, 2013, the IASB issued amendments to IFRS 7 regarding disclosure of offsetting financial assets and financial liabilities. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken near the end of a reporting period.

> IFRS 9 – Financial Instruments The IASB approved the adoption of the proposed new Financial Instruments standard to be effective January 1, 2015.

The new standard requires all financial assets to be classified on initial recognition at amortized cost or fair value while eliminating the existing categories of available for sale, held to maturity, and loans and receivables.

The new standard also requires:

- embedded derivatives to be assessed for classification together with their financial asset host;
- a single expected loss impairment method be used for financial assets; and
- amendments to the criteria for hedge accounting and measuring effectiveness.

The full impact of IFRS 9 on the Corporation will be evaluated after the remaining stages of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*—impairment methodology, hedge accounting, and asset and liability offsetting—are finalized. The Corporation continues to actively monitor developments in this area.

> IFRS 10 – Consolidated Financial Statements Effective for the Corporation on January 1, 2013, IFRS 10, *Consolidated Financial Statements* uses consolidated principles based on a revised definition of control. The definition of control is dependent on the power of the investor to direct the activities of the investee, the ability of the investor to derive variable benefits from its holdings in the investee, and a direct link between the power to direct activities and receive benefits.

> IFRS 11 – Joint Arrangements Effective for the Corporation on January 1, 2013, IFRS 11, *Joint Arrangements* separates jointly controlled entities between joint operations and joint ventures. The standard has eliminated the option of using proportionate consolidation in accounting for interests in joint ventures, now requiring an entity to use the equity method of accounting for interests in joint ventures.

> IFRS 12 – Disclosure of Interest in Other Entities Effective for the Corporation on January 1, 2013, IFRS 12, *Disclosure of Interest in Other Entities* proposes new disclosure requirements for the interest an entity has in subsidiaries, joint arrangements, associates, and structured entities. The standard requires enhanced disclosure, including how control was determined and any restrictions that might exist on consolidated assets and liabilities presented within the financial statements.

As a consequence of the issuance of IFRS 10, 11 and 12, the IASB also issued amended and re-titled IAS 27, *Separate Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures*. The new requirements are effective for the Corporation on January 1, 2013.

> IFRS 13 – Fair Value Measurement Effective for the Corporation on January 1, 2013, IFRS 13, *Fair Value Measurement* provides guidance for the measurement and disclosure of assets and liabilities held at fair value. The standard refines the measurement and disclosure requirements and aims to achieve consistency with other standard setters to improve visibility to financial statement users.

> IAS 1 – Presentation of Financial Statements Effective for the Corporation on January 1, 2013, IAS 1, *Presentation of Financial Statements* includes requirements that other comprehensive income be classified by nature and grouped between those items that will be classified subsequently to profit or loss (when specific conditions are met) and those that will not be reclassified. Other amendments include changes to discontinued operations and overall financial statement presentation.

> IAS 19 – Employee Benefits The IASB published an amended version of this standard in June 2011 that eliminates the corridor approach for actuarial gains and losses resulting in those gains and losses being recognized immediately through other comprehensive income while the net pension asset or liability would reflect the full funded status of the plan on the balance sheets. Further, the standard includes changes to how the defined benefit obligation and the fair value of the plan assets would be presented within the financial statements of an entity.

The Corporation will continue to use the corridor method until January 1, 2013, when the revised IAS for employee benefits becomes effective.

> IAS 32 – Financial Instruments Presentation In December 2011, the IASB issued amendments to IAS 32 which clarify the existing requirements for offsetting financial assets and financial liabilities. The amendments will be effective for the Corporation on January 1, 2014.

RISK FACTORS

There are certain risks inherent in an investment in the securities of the Corporation and in the activities of the Corporation, including the following and others, which investors should carefully consider before investing in securities of the Corporation. This description of risks does not include all possible risks, and there may be other risks of which the Corporation is not currently aware.

Power Corporation is a holding company whose principal asset is its controlling interest in Power Financial. Power Financial holds substantial interests in the financial services industry through its controlling interest in each of Lifeco and IGM. As a result, investors in Power Corporation are subject to the risks attributable to its subsidiaries, including those as the principal shareholder of Power Financial, which in turn has the risks attributable to its subsidiaries, including those as the principal shareholder of each of Lifeco and IGM.

As a holding company, Power Corporation's ability to pay interest and other operating expenses and dividends, to meet its obligations and to complete current or desirable future enhancement opportunities or acquisitions generally depends upon receipt of sufficient dividends from its principal subsidiaries and other investments and its ability to raise additional capital. The likelihood that shareholders of Power Corporation will receive dividends will be dependent upon the operating performance, profitability, financial position and creditworthiness of the principal direct and indirect subsidiaries of Power Corporation and on their ability to pay dividends to Power Corporation. The payment of interest and dividends by certain of these principal subsidiaries to Power Corporation is also subject to restrictions set forth in insurance, securities and corporate laws and regulations which require that solvency and capital standards be maintained by such companies. If required, the ability of Power Corporation to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance of Power Corporation and its subsidiaries. In recent years, global financial conditions and market events have experienced increased volatility and resulted in the tightening of credit that has reduced available liquidity and overall economic activity. There can be no assurance that debt or equity financing will be available, or, together with internally generated funds, will be sufficient to meet or satisfy Power Corporation's objectives or requirements or, if the foregoing are available to Power Corporation, that they will be on terms acceptable to Power Corporation. The inability of Power Corporation to access sufficient capital on acceptable terms could have a material adverse effect on Power Corporation's business, prospects, dividend paying capability and financial condition, and further enhancement opportunities or acquisitions.

The market price for Power Corporation's securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond Power Corporation's control. Economic conditions may adversely affect Power Corporation, including fluctuations in foreign exchange, inflation and interest rates, as well as monetary policies, business investment and the health of capital markets in Canada, the United States, Europe and Asia. In recent years, financial markets have experienced significant price and volume fluctuations that have affected the market prices of equity securities held by the Corporation and its subsidiaries, and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be significant or prolonged, which may result in impairment losses. In periods of increased levels of volatility and related market turmoil, Power Corporation's subsidiaries' operations could be adversely impacted and the trading price of Power Corporation's securities may be adversely affected.

OFF-BALANCE SHEET ARRANGEMENTS

GUARANTEES

In the normal course of their businesses, the Corporation and its subsidiaries may enter into certain agreements, the nature of which precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation or subsidiary could be required to pay third parties, as some of these agreements do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined.

LETTERS OF CREDIT

In the normal course of their reinsurance business, Lifeco's subsidiaries provide letters of credit to other parties or beneficiaries. A beneficiary will typically hold a letter of credit as collateral in order to secure statutory credit for reserves ceded to or amounts due from Lifeco's subsidiaries. A letter of credit may be drawn upon demand. If an amount is drawn on a letter of credit by a beneficiary, the bank issuing the letter of credit will make a payment to the beneficiary for the amount drawn, and Lifeco's subsidiaries will become obligated to repay this amount to the bank.

Lifeco, through certain of its operating subsidiaries, has provided letters of credit to both external and internal parties, which are described in Note 32 to the Corporation's 2011 Consolidated Financial Statements.

CONTINGENT LIABILITIES

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation.

A subsidiary of Lifeco declared a partial windup in respect of an Ontario defined benefit pension plan which will not likely be completed for some time. The partial windup could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound-up portion of the plan. In addition to the regulatory proceedings involving this partial windup, a related class action proceeding has been commenced in Ontario related to the partial windup and three potential partial windups under the plan. The class action also challenges the validity of charging expenses to the plan. The provisions for certain Canadian retirement plans in the amounts of $97 million after tax established by Lifeco's subsidiaries in the third quarter of 2007 have been reduced to $68 million. Actual results could differ from these estimates.

The Court of Appeal for Ontario released a decision on November 3, 2011 in regard to the involvement of the participating accounts of Lifeco subsidiaries London Life and Great-West Life in the financing of the acquisition of London Insurance Group Inc. in 1997.

The Court of Appeal made adjustments to the original trial judgment. The impact is expected to be favourable to the Corporation's overall financial position. Any monies to be returned to the participating accounts will be dealt with in accordance with the companies' participating policyholder dividend policies in the ordinary course of business. No awards are to be paid out to individual class members.

The plaintiffs have filed an application seeking leave to appeal to the Supreme Court of Canada.

During the fourth quarter of 2011, Lifeco re-evaluated and reduced the litigation provision established in the third quarter of 2010, which positively impacted common shareholder net earnings of Lifeco by $223 million after tax. Regardless of the ultimate outcome of this case, all of the participating policy contract terms and conditions will continue to be honoured. Based on information presently known, the original decision, if sustained on further appeal, is not expected to have a material adverse effect on the consolidated financial position of Lifeco.

Subsidiaries of Lifeco have an ownership interest in a U.S.-based private equity partnership wherein a dispute arose over the terms of the partnership agreement. Lifeco acquired the ownership interest in 2007 for purchase consideration of US$350 million. The dispute was resolved on January 10, 2012 and Lifeco has established a provision of $99 million after tax.

In connection with the acquisition of its subsidiary Putnam, Lifeco has an indemnity from a third party against liabilities arising from certain litigation and regulatory actions involving Putnam. Putnam continues to have potential liability for these matters in the event the indemnity is not honoured. Lifeco expects the indemnity will continue to be honoured and that any liability of Putnam would not have a material adverse effect on its consolidated financial position.

On January 3, 2012, the plaintiffs filed an application in the Supreme Court of Canada for leave to appeal the Appeal Decision.

RELATED PARTY TRANSACTIONS

In the normal course of business during 2011, Great-West Life entered into various transactions with related companies which included providing insurance benefits to other companies within the Power Corporation group of companies. In all cases, transactions were at market terms and conditions.

During 2011, IGM sold residential mortgage loans to Great-West Life and London Life for $202 million (2010–$226 million). These transactions were at market terms and conditions.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

The following table provides a summary of future consolidated contractual obligations.

PAYMENTS DUE BY PERIOD	TOTAL	LESS THAN 1 YEAR	1–5 YEARS	MORE THAN 5 YEARS
Long-term debt[1]	6,296	617	2	5,677
Deposits and certificates	151	131	15	5
Obligations to securitization entities	3,827	547	3,261	19
Operating leases[2]	747	155	412	180
Purchase obligations[3]	136	65	71	
Contractual commitments[4]	994			
Total	12,151			
Letters of credit[5]				

[1] Please refer to Note 16 to the Corporation's 2011 Consolidated Financial Statements for further information.

[2] Includes office space and certain equipment used in the normal course of business. Lease payments are charged to operations in the period of use.

[3] Purchase obligations are commitments of Lifeco to acquire goods and services, essentially related to information services.

[4] Includes $675 million of commitments by Lifeco. These contractual commitments are essentially commitments of investment transactions made in the normal course of operations, in accordance with its policies and guidelines, which are to be disbursed upon fulfilment of certain contract conditions. The balance represents $319 million of outstanding commitments from the Corporation to make future capital contributions to investment funds; the exact amount and timing of each capital contribution cannot be determined.

[5] Please refer to Note 32 to the Corporation's 2011 Consolidated Financial Statements.

FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of the Corporation's financial instruments. Fair value represents the amount that would be exchanged in an arm's-length transaction between willing parties and is best evidenced by a quoted market price, if one exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment (please refer to Note 29 to the Corporation's 2011 Consolidated Financial Statements).

AS AT DECEMBER 31	2011		2010	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
ASSETS				
Cash and cash equivalents	3,741	3,741	4,016	4,016
Investments (excluding investment properties)	115,765	118,094	109,023	110,523
Funds held by ceding insurers	9,923	9,923	9,856	9,856
Derivative financial instruments	1,056	1,056	1,030	1,030
Other financial assets	3,638	3,638	3,755	3,755
Total financial assets	134,123	136,452	127,680	129,180
LIABILITIES				
Deposits and certificates	151	152	835	840
Funds held under reinsurance contracts	169	169	149	149
Obligation to securitization entities	3,827	3,930	3,505	3,564
Debentures and other borrowings	6,296	7,029	6,720	7,334
Capital trust securities	533	577	535	596
Derivative financial instruments	430	430	244	244
Other financial liabilities	4,199	4,199	6,146	6,146
Total financial liabilities	15,605	16,486	18,134	18,873

DERIVATIVE FINANCIAL INSTRUMENTS

In the course of their activities, the Corporation and its subsidiaries use derivative financial instruments. When using such derivatives, they only act as limited end-users and not as market-makers in such derivatives.

The use of derivatives is monitored and reviewed on a regular basis by senior management of the companies. The Corporation and its subsidiaries have each established operating policies and processes relating to the use of derivative financial instruments, which in particular aim at:

- prohibiting the use of derivative instruments for speculative purposes;
- documenting transactions and ensuring their consistency with risk management policies;
- demonstrating the effectiveness of the hedging relationships; and
- monitoring the hedging relationship.

There were no major changes to the Corporation's and its subsidiaries' policies and procedures with respect to the use of derivative instruments in 2011. There has been a slight decrease in the notional amount outstanding ($14,996 million at December 31, 2011, compared with $15,019 million at December 31, 2010) and an increase in the exposure to credit risk ($1,056 million at December 31, 2011, compared with $1,030 million at December 31, 2010) that represents the market value of those instruments, which are in a gain position. See Note 28 to the Corporation's 2011 Consolidated Financial Statements for more information on the type of derivative financial instruments used by the Corporation and its subsidiaries.

DISCLOSURE CONTROLS AND PROCEDURES

Based on their evaluations as of December 31, 2011, the Co-Chief Executive Officers and the Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective as at December 31, 2011.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Based on their evaluations as of December 31, 2011, the Co-Chief Executive Officers and the Chief Financial Officer have concluded that the Corporation's internal controls over financial reporting were effective as at December 31, 2011. During the fourth quarter of 2011, there have been no changes in the Corporation's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

SUBSEQUENT EVENTS

On February 28, 2012 the Corporation issued 8,000,000 5.6% Non-Cumulative First Preferred Shares, Series G for gross proceeds of $200 million.

On February 23, 2012, Power Financial issued 10,000,000 5.5% Non-Cumulative First Preferred Shares, Series R for gross proceeds of $250 million.

On February 22, 2012, Lifeco issued 10,000,000 5.4% Non-Cumulative First Preferred Shares, Series P for gross proceeds of $250 million.

SELECTED ANNUAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31	2011	2010	2009
	(IFRS)	(IFRS)	(PREVIOUS CANADIAN GAAP)
Total revenue including discontinued operations	32,945	32,857	33,152
Operating earnings attributable to participating shareholders[1]	1,152	957	867
per share—basic	2.50	2.09	1.81
Net earnings attributable to participating shareholders	1,075	727	682
per share—basic	2.34	1.59	1.40
per share—diluted	2.32	1.57	1.40
Earnings from discontinued operations attributable to participating shareholders	26	1	1
per share—basic	0.05		
per share—diluted	0.05		
Earnings from continuing operations attributable to participating shareholders	1,049	726	681
per share—basic	2.29	1.59	1.40
per share—diluted	2.27	1.57	1.40
Consolidated assets	255,496	247,526	143,007
Total financial liabilities	15,605	18,134	14,014
Debentures and other borrowings	6,296	6,720	6,375
Shareholders' equity	9,825	9,430	9,829
Book value per share	19.67	18.85	19.78
Number of participating shares outstanding (millions)			
Participating preferred shares	48.9	48.9	48.9
Subordinate voting shares	411.0	409.8	408.4
Dividends per share (declared)			
Participating shares	1.1600	1.1600	1.1600
First preferred shares			
1986 Series	1.0500	0.8829	0.8960
Series A	1.4000	1.4000	1.4000
Series B	1.3375	1.3375	1.3375
Series C	1.4500	1.4500	1.4500
Series D	1.2500	1.2500	1.2500

[1] Operating earnings and operating earnings per share are non-IFRS financial measures.