Directors' Report to Shareholders

The Power Corporation group of companies and our investments had a solid year in 2012, with stable results from the financial services businesses and a meaningful contribution from investing activities. While 2012 showed continued progress in global economic recovery, the year was nonetheless challenging. Interest rates remained low and the economy and equity markets began to show signs of a sustained recovery. Our results indicate that we have the risk-management culture, capital and liquidity to navigate these economic conditions successfully and that investment gains represent an attractive upside to our business.

Power Corporation's financial services companies are focused on providing protection, asset management, and retirement savings products and services. We continue to believe that the demographic trends affecting retirement savings, coupled with strong evidence that advice from a qualified financial advisor creates added value for our clients, reinforce the soundness of our strategy of building an advice-based multi-channel distribution platform in North America. Our companies continue to benefit from the strength of our approach to balance sheet management, our risk-management culture, our credit investing skills and the resilience of our distribution channels. We believe that this approach has produced industry-leading results at Great-West Lifeco and IGM Financial, as well as a resilient portfolio of high-quality companies in the Pargesa group.

Early in 2013, Great-West Lifeco announced the acquisition of Irish Life Group Limited, the largest life and pensions group and investment manager in Ireland, consistent with Lifeco's global business strategy of developing significant market positions in the sectors where the company participates.

Our investment activities continued to demonstrate their return potential. In applying the Power Corporation investment principles and taking advantage of the Corporation's expertise, knowledge and relationships, these businesses provide superior returns and diversification. The Sagard funds, whose management entities are wholly owned by Power Corporation, consist of Sagard Europe, which focuses on European private equity, Sagard Capital, which invests in core shareholder stakes in small and mid-size companies in the United States, and Sagard China, which actively manages Chinese "A", "B", and "H" share equity holdings. Power's North American limited partnership investments also produced attractive returns.

2012

$527 BILLION	$963 MILLION	$584 MILLION	10.6%	$2.09	$1.16
CONSOLIDATED ASSETS AND ASSETS UNDER MANAGEMENT	OPERATING EARNINGS ATTRIBUTABLE TO PARTICIPATING SHAREHOLDERS	TOTAL DIVIDENDS DECLARED	RETURN ON EQUITY BASED ON OPERATING EARNINGS	OPERATING EARNINGS PER PARTICIPATING SHARE	DIVIDENDS DECLARED PER PARTICIPATING SHARE

MISSION

Enhancing shareholder value by actively managing operating businesses and investments which can generate long-term, sustainable growth in earnings and dividends. Value is best achieved through a prudent approach to risk and through responsible corporate citizenship. Power Corporation aims to act like an owner with a long-term perspective and a strategic vision anchored in strong core values.

FINANCIAL RESULTS

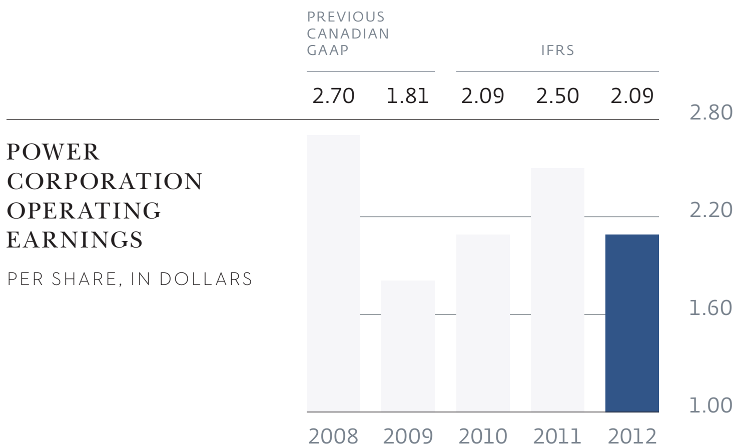
Power Corporation of Canada's operating earnings attributable to participating shareholders were $963 million or $2.09 per participating share for the year ended December 31, 2012, compared with $1,152 million or $2.50 per share in 2011. This represents a decrease of 16.4 per cent on a per share basis.

Subsidiaries contributed $1,108 million to Power Corporation's operating earnings for the twelve-month period ended December 31, 2012, compared with $1,150 million in the corresponding period in 2011, a decrease of 3.7 per cent. Results from corporate activities represented a net charge of $95 million in the twelve-month period ended December 31, 2012, compared with a net contribution of $43 million in the same period in 2011.

Other items, not included in operating earnings, were a charge of $131 million in 2012, compared with a net charge of $77 million in the corresponding period of 2011. Other items in 2012 represented the Corporation's share of other items of Power Financial as discussed below, as well as impairment charges of $92 million related to the Corporation's investment in CITIC Pacific and Square Victoria Communications Group.

As a result, net earnings attributable to participating shareholders were $832 million or $1.81 per share for 2012, compared with $1,075 million or $2.34 per share in the corresponding period in 2011.

Dividends declared totalled $1.16 per share in 2012, unchanged from 2011.



RESULTS OF GROUP COMPANIES

POWER FINANCIAL CORPORATION

Power Financial's operating earnings attributable to common shareholders for the year ended December 31, 2012 were $1,686 million or $2.38 per share, compared with $1,729 million or $2.44 per share in the corresponding period in 2011.

For the twelve-month period ended December 31, 2012, other items represented a charge of $60 million, compared with a charge of $7 million in the corresponding period in 2011.

Other items in 2012 included Power Financial's share of the impact of litigation provision adjustments at Lifeco in the fourth quarter of 2012, as well as its share of impairment charges at GBL, net of gains on the disposal of two investments during the year.

Net earnings attributable to common shareholders, including other items, were $1,626 million or $2.30 per share for the year ended December 31, 2012, compared with $1,722 million or $2.43 per share in 2011.

Dividends declared by Power Financial Corporation totalled $1.40 per common share in 2012, unchanged from 2011.

GREAT-WEST LIFECO

Great-West Lifeco's financial condition continues to be very solid as a result of its continued strong performance in 2012. The company delivered superior results compared to peer companies in its industry due to strong organic growth of premiums and deposits, and solid investment performance, despite challenging market conditions.

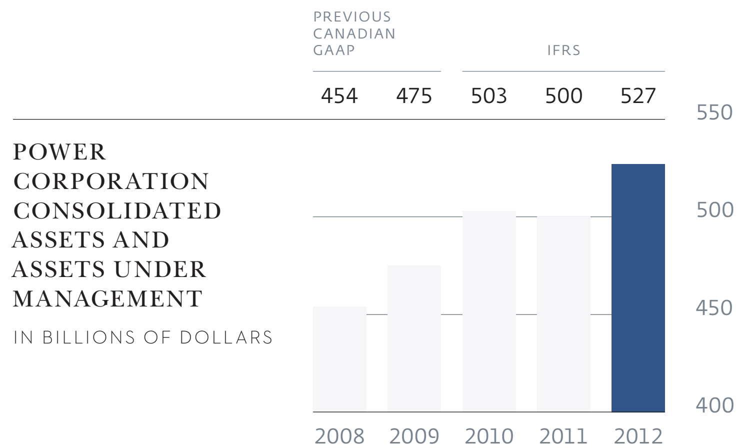
Great-West Lifeco reported operating earnings attributable to common shareholders of $1,955 million or $2.059 per share for 2012, compared with $1,898 million or $2.000 per share for 2011.

Great-West Lifeco's return on equity (ROE) of 15.9 per cent on operating earnings and 14.7 per cent on net earnings for the twelve months ended December 31, 2012 continued to rank among the strongest in the financial services sector.

Other measures of Great-West Lifeco's performance in 2012 include:

> Premiums and deposits of $59.8 billion, compared with $62.3 billion in 2011.

> An increase in general fund and segregated fund assets from $238.8 billion to $253.7 billion in 2012.



> Total assets under administration at December 31, 2012 of $546 billion, compared with $502 billion twelve months ago.

The dividend on Great-West Lifeco's common shares remained unchanged in 2012.

Great-West Lifeco's companies continue to benefit from prudent and conservative investment policies and practices with respect to the management of their consolidated assets. In addition, Great-West Lifeco's conservative product underwriting standards and disciplined approach to introducing new products have proved beneficial for the company and its subsidiaries over the long term. Also, Great-West Lifeco's approach to asset/liability management has minimized its exposure to interest rate movements. In Canada, the company continued to offer segregated fund guarantees in a prudent and disciplined manner, thereby limiting its risk exposure. As a result, Great-West Lifeco's balance sheet is one of the strongest in the industry.

The Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio for Great-West Life was 207 per cent on a consolidated basis at December 31, 2012.

In Canada, Great-West Lifeco's companies maintained leading market positions in their individual and group businesses, and experienced strong organic growth. This was achieved by focusing on three broad goals in 2012: improving products and services for clients and advisors, maintaining strong financial discipline, and improving tools, information and processes to enable greater productivity and effectiveness.

Group retirement services business recorded strong growth, group insurance business continued to experience excellent persistency, and individual segregated fund and mutual fund businesses maintained positive net cash flows. Individual insurance sales in Canada increased 15 per cent and sales of proprietary retail investment funds increased 2.8 per cent year over year.

Together, Great-West Lifeco's subsidiaries Great-West Life, London Life and Canada Life remain Canada's number one provider of individual insurance solutions.

In the United States, a single brand identity, Great-West Financial, was introduced in 2012 across all of the lines of business operated by Great-West Life & Annuity. The clarity of one brand with a focused and well-positioned message is helping build name recognition and creating stronger brand equity in all Great-West Financial markets, to further augment growth.

Diverse products, expanded partnerships, enhanced tools and a new brand identity all contributed to Great-West Financial's solid growth in 2012. Sales of 401(k) plans increased 14 per cent, business-owned life insurance sales were up 20 per cent and single premium life insurance sales jumped 56 per cent year over year.

In 2012, Putnam continued its focus on investment performance and innovation. For the second time in the last four years, *Barron's* magazine ranked Putnam #1 out of 62 fund companies in 2012, based upon its fund performance over a broad range of investment categories. Putnam's financial advisor website was ranked the industry's best by researcher kasina, and the FundVisualizer analytical tool received an award from the Mutual Fund Education Alliance, as well as from *Money Management Executive*, in conjunction with the National Investment Company Service Association.

In Europe, Canada Life has operations in the United Kingdom, Isle of Man, Ireland and Germany. As a result of its continued focus on credit and expense controls, Great-West Lifeco's European operations were in a strong position coming into 2012, and this focus was maintained throughout the year.

IGM FINANCIAL

IGM Financial and its operating companies experienced an increase in total assets under management in 2012.

Investors Group and Mackenzie Investments, the company's principal businesses, continued to generate business growth through product innovation, pricing enhancements, additional investment management resources and overall resource management throughout the year.

Operating earnings available to common shareholders, excluding other items, for the year ended December 31, 2012, were $750 million or $2.94 per share, compared with $833 million or $3.22 per share in 2011.

Net earnings available to common shareholders for the year ended December 31, 2012, were $762 million or $2.99 per share, compared with $901 million or $3.48 per share in 2011.

Total assets under management at December 31, 2012 stood at $120.7 billion. This compared with total assets under management of $118.7 billion at December 31, 2011, an increase of 1.7 per cent.

Dividends were $2.15 per share for the year, up from $2.10 in the prior year.

Investors Group expanded the number of its region offices by two in 2012, for a total of 108 across Canada. As at December 31, 2012, there were 4,518 consultants working with clients to help them understand the impact of financial market volatility on their long-term financial planning.

Investors Group continued to respond to the complex financial needs of its clients by delivering a diverse range of products and services in the context of personalized financial advice. In May 2012, Investors Group announced enhanced pricing for the majority of its funds effective June 30, 2012, and the addition of alternative high net worth series for households investing $500,000 or more with the company.

Investors Group mutual fund assets under management were $60.6 billion at the end of 2012, compared with $57.7 billion at December 31, 2011. Mutual fund sales were $5.8 billion, compared with mutual fund sales in 2011 of $6.0 billion. The redemption rate on long-term mutual funds was 10.0 per cent at December 31, 2012, compared to 8.8 per cent at December 31, 2011. Net redemptions of mutual funds in 2012 were $724 million.

Mackenzie maintained its focus on delivering consistent long-term investment performance, while emphasizing product innovation and communication with advisors and investors. Mackenzie's relationship with financial advisors is strengthened by the work it does through investor and advisor education programs, and through its commitment to focusing on active investment management strategies. During 2012, Mackenzie broadened its investment choices for Canadians by adding several new funds and more options, including tax-deferred solutions.

Mackenzie's total assets under management were $61.5 billion at the end of 2012, compared with $61.7 billion at December 31, 2011. Total sales were $10.0 billion, compared with the prior year level of $10.3 billion. Total net redemptions for the year were $4.2 billion, compared with $2.5 billion in 2011.

IGM Financial continues to build its business through its extensive network of distribution opportunities delivering high-quality advice and innovative, flexible solutions for investors. Its investment in technology and operations continues to help it manage its resources effectively and develop long-term growth in its business.

PARGESA

Through the Belgian holding company Groupe Bruxelles Lambert (GBL), the Pargesa group holds significant positions 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. 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.

Pargesa's operating earnings stood at SF359 million in 2012, compared with SF343 million in 2011, an increase of 4.7 per cent. Although Imerys' income increased by 2.3 per cent in 2012, its contribution at the Pargesa level declined due to the latter's decreased economic interest in this holding following the sale of Pargesa's share of Imerys to GBL. Lafarge reported operating earnings of €772 million in 2012, compared with €453 million in 2011. Including non-operating income consisting primarily of gains on the disposal by GBL of its interest in Arkema and the partial disposal by GBL of its interest in Pernod Ricard, and of an impairment charge recorded by GBL on its investment in GDF Suez, Pargesa's net income in 2012 was SF418 million.

At the end of December 2012, Pargesa's adjusted net asset value was SF7.6 billion. This represents a value of SF90.4 per Pargesa share, compared with SF79.0 at the end of 2011, an increase of 14.4 per cent.

At the next annual meeting of shareholders on May 8, 2013, Pargesa's board of directors is expected to propose paying a stable dividend of SF2.57 per bearer share, for a total distribution of SF217.5 million.

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 2012, *La Presse* continued to work on developing a tablet edition, La Presse +, which will be launched in April 2013. 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 LaPresse.ca, a leading French-language point of reference for online news and information in Canada.

Square Victoria Digital Properties (SVDP) holds the Corporation's interest in digital services, television production, book and magazine publishing. Providing access to a combination of capital, strategic guidance and partnership development, SVDP helps realize the full potential of its investments. SVDP is particularly active in the digital space, most notably through its interest in Workopolis, the leading online recruitment company in Canada, Bytheowner Inc., Canada's largest commission-free real estate network, Tuango, Québec's largest group-buying website, and Olive Media, a leading Canadian online sales representation company. SVDP also owns LP8 Média (formerly La PresseTélé), one of the leading independent television production companies in Québec.

INVESTMENT ACTIVITIES

Separate from its investment in Group companies, Power Corporation conducts investment activities that build on historic relationships and take advantage of opportunities that may also provide superior long-term returns and diversification for the Corporation. These investments include our long-standing activities in Asia, wholly owned investment businesses and specific investment funds. Readers are cautioned, though, that 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.

In Asia, Power Corporation holds a 4.3 per cent interest in CITIC Pacific. The company achieved a profit attributable to shareholders of HK$7.0 billion for the year 2012, a 25 per cent decrease from 2011.

The specialty steel sector contributed HK$211 million to CITIC Pacific's profits; the large decline in steel sector contribution was mainly due to a weak market as a result of slower growth in China and the global economy, affecting particularly special steel prices in the second half of 2012.

The number one priority for CITIC Pacific management continues to be the building of its iron ore mine in Western Australia and bringing it into full production as early as possible. Test runs of the first production line since November 2012 produced high grade iron ore fines with 65.6 per cent Fe content. The first shipment of the product is expected in April 2013. The commissioning of the second production line is planned for the second quarter. Expected annual production capacity of the two lines at the end of 2013 will be approximately 4 million tons of iron ore fines.

Performance in the property sector maintained its steady pace in a policy-induced slow residential real estate market in China. The property sector earnings in 2011 included recognition of one-time earnings from the sale of two large office towers completed in that year, which will unlikely repeat itself in future year earnings. Excluding the impact of these completed projects, performance of other on-going development projects and investment properties remained steady in 2012. CITIC Pacific also signed framework agreements to build and sell four more office buildings in Shanghai, given the strong demand for quality office and commercial properties. The total contract value is estimated to be over RMB20 billion.

At its next annual meeting of shareholders in May 2013, CITIC Pacific is expected to propose a final dividend of HK$0.30 per share, for a total dividend of HK$0.45 in 2012, the same as in 2011.

Since 2004, Power Corporation is also involved in selected investment projects in China and was granted a licence to operate as a Qualified Foreign Institutional Investor (QFII) in the Chinese "A" shares market. As at December 31, 2012, the fair market value of the investments in this program had increased to an amount of $232 million, excluding cash of $11 million. In addition, the Corporation had allocated US$50 million to invest 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, 2012, the fair value of the "B" and "H" shares program was $17 million, excluding cash of $26 million. Together, the Chinese "A", "B" and "H" share investment activity is defined by the Corporation as Sagard China.

On December 28, 2011, the Corporation finalized the purchase from CITIC Securities Co. Ltd. of a 10 per cent stake in China Asset Management Co. Ltd. (China AMC) for an amount of approximately $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.

Over the years, Power Corporation has also invested directly or through wholly owned subsidiaries in a number of selected investment funds, hedge funds and securities.

In 2002, Power Corporation made a commitment of €100 million to Sagard Private Equity Partners (Sagard 1), a €535 million fund which targets mid-sized companies in France, Belgium and Switzerland, to which GBL also made an investment commitment of €50 million. Sagard 1 has completed twelve investments, of which ten had been sold by year-end. As of December 31, 2012, the Corporation had received cumulative cash distributions from Sagard 1 in the amount of €273 million.

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 to Sagard 2 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. The investment period for Sagard 2 ended in December 2012 and as at that date, the fund held seven investments. The Sagard 1 and 2 funds are managed by Sagard SAS, a wholly owned subsidiary of the Corporation based in Paris, France. Power Corporation's commitments to Sagard 1 and Sagard 2 were made pursuant to a plan to further diversify its portfolio.

In addition, Sagard Capital Partners, L.P., a U.S. limited partnership indirectly owned by Power Corporation, has been principally 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. As at December 31, 2012, the carrying value of these investments was $369 million.

Power Corporation has invested for many years in private equity funds. The carrying value of these investments was $287 million at December 31, 2012. The Corporation has invested, directly or through wholly owned subsidiaries, in a number of selected hedge funds and securities. At December 31, 2012, the carrying value of the investments in hedge funds was $67 million.

GROUP DEVELOPMENTS

On February 19, 2013, Great-West Lifeco announced that it had reached an agreement with the Government of Ireland to acquire all of the shares of Irish Life Group Limited for $1.75 billion (€1.3 billion). Established in 1939, Irish Life is the largest life and pensions group and investment manager in Ireland. The acquisition is transformational for the Lifeco companies in Ireland. With this single transaction, Lifeco achieves the leading position in life insurance, pensions and investment management, which is consistent with Lifeco's global business strategy of developing significant market positions in the sectors where the company participates.

Great-West Lifeco also announced a $1.25 billion offering of subscription receipts exchangeable into common shares by way of a $650 million bought deal public offering as well as concurrent private placements of subscription receipts to Power Financial and IGM Financial at the same price as the public offering.

On March 12, 2013, Power Financial and IGM Financial purchased $550 million and $50 million, respectively, of Great-West Lifeco subscription receipts. Each subscription receipt entitles the holder to receive one common share of Lifeco upon closing of the acquisition of Irish Life, without any action on the part of the holder and without payment of additional consideration.

Should the subscription receipts be converted into common shares of Great-West Lifeco, Power Financial will hold, directly and indirectly, a 69.4% economic interest in Lifeco.

Power Financial also announced on February 28, 2013, the closing of an offering of $300 million of First Preferred Shares. Proceeds from the issue were used to acquire the subscription receipts of Great-West Lifeco referred to above.

THE VALUE OF FINANCIAL ADVICE

Most people who invest know and appreciate the benefits of working with a financial advisor. In repeated surveys since 2006, the Investment Funds Institute of Canada has found approximately 85 per cent of mutual fund investors prefer to invest through an advisor, and rate highly their advisor's support.

Research shows that Canadians who rely on advice to guide their financial decisions are wealthier, more confident and better prepared for the financial implications of marriage, a new child, their children's education, retirement and other life events.

A groundbreaking 2012 study from the Montréal-based Center for Interuniversity Research and Analysis on Organizations (CIRANO) shows that advisors positively affect the level of wealth of Canadian households. The research conducted by Professor Claude Montmarquette and Nathalie Viennot-Briot uses econometric modelling techniques on a very robust sample of Canadian households to demonstrate convincingly that financial advisors contribute significantly to the accumulation of financial wealth. After controlling for a host of socio-economic, demographic, and attitudinal variables that can affect wealth, the research indicates that advised households have, on average, twice the level of financial assets when compared to their non-advised counterparts, and that this additional wealth is largely attributed to a greater savings discipline.

The CIRANO research further shows that having advice positively impacts retirement readiness and is an important contributor to levels of trust, satisfaction, and confidence in financial advisors, which are strong indicators of the value of advice.

BOARD OF DIRECTORS

At the May 2013 Annual Meeting, shareholders will be asked to elect Mr. J. David A. Jackson to the Board.

Mr. Jackson retired as a Partner of the law firm Blake, Cassels & Graydon LLP in 2012, and currently serves as Senior Counsel to the firm, providing advice primarily in the areas of mergers and acquisitions and corporate governance. He was the Chairman of Blakes from 1995 to 2001. He is recognized as a leading practitioner in the areas of mergers and acquisitions, corporate finance and corporate governance by numerous independent assessment organizations. Mr. Jackson served as a Director of Investors Group Inc. from 1991 to 2001, and has also served as a director of a number of public and private organizations. Mr. Jackson has also been nominated for election to the Boards of Power Financial Corporation and Great-West Lifeco.

Mr. T. Timothy Ryan, Jr. will not stand for re-election to the Board at the May 2013 Annual Meeting of Shareholders. Mr. Ryan joined the Board of Power Corporation in 2011. Mr. Ryan was recently appointed Managing Director, Global Head of Regulatory Strategy and Policy for JPMorgan Chase & Co., a leading global financial services firm. He was previously the President and Chief Executive Officer of SIFMA, the Securities Industry and Financial Markets Association, a leading trade association representing global financial market participants. Mr. Ryan has chaired the Audit Committee of the Board, and has also served as a Director of Power Financial Corporation, Great-West Lifeco and many of its subsidiaries. Mr. Ryan brought to the Boards of our group companies the benefit of his broad international involvement in the financial services industry.

THE POWER GROUP

Power Corporation continues to adhere closely to investment and shareholder principles which have been developed over a long period of time. We invest in the equities of companies that have a long-term perspective, that maintain a prudent financial structure and that have the capacity for sustainable dividend cash flow. We adhere to our governance model in which we are active owners operating through the boards of directors of our controlled companies and participate with influence in our core shareholder investments. Lastly, we invest in a limited number of high-quality, socially responsible companies with sustainable franchises and attractive growth prospects.

Your Directors and management seek to deliver attractive long-term shareholder returns, as reflected in our share price and stable dividend. Nevertheless, the Power group of companies sees increasing opportunities to grow our business organically and through strategic and accretive acquisitions. The current environment lends itself well to companies with strong balance sheets, sound financial management and prudent liquidity positions taking advantage of these opportunities.

Your Directors wish to express gratitude on behalf of the shareholders for the important contribution made by the management and the employees of our Corporation and its associated companies to the solid results achieved in 2012 and look forward to 2013.

On behalf of the Board of Directors,

Signed,

Paul Desmarais, Jr., o.c., o.q.
Chairman and
Co-Chief Executive Officer

March 13, 2013

Signed,

André Desmarais, o.c., o.q.
Deputy Chairman,
President and
Co-Chief Executive Officer