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POWER
CORPORATION
OF CANADA

QUARTERLY REPORT

for the three months ended March 31, 2002

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To the Shareholders

Power Corporation of Canada's consolidated net earnings for the three months ending March 31, 2002 were $171 million or $0.75 per share, compared with $163 million or $0.72 per share in 2001.

Operating earnings for the first three months of 2002 were $171 million or $0.75 per share. For the same period in 2001, operating earnings before goodwill amortization were $153 million or $0.68 per share. On a per share basis, operating earnings increased 10.3 per cent over 2001, reflecting strong growth in operating earnings at Power Financial Corporation, partly offset by lower gains from hedges on technology securities.

Net earnings for the first quarter of 2001 included goodwill amortization expense of $12 million, and other income of a non-recurring nature of $22 million. Under revised accounting standards, which took effect on January 1, 2002, goodwill is no longer amortized. Other income in 2001 represented the Corporation's share of non-operating income recorded within the Pargesa group as well as net gains at Power Technology Investment Corporation. Power had no other income in 2002.

Subsidiaries' Results

Power Financial Corporation

Power Financial Corporation reported operating earnings of $237 million or $0.65 per share in the first quarter of 2002, compared with $193 million or $0.54 per share for the same period in 2001. On a per share basis, operating earnings increased 20.4 per cent over 2001, primarily reflecting strong growth in earnings at Great-West Lifeco Inc. and Investors Group Inc.

Net earnings in the first quarter of 2001 also included goodwill amortization of $16 million and other income of $21 million, which represented Power Financial's share of non-operating income recorded within the Pargesa group.

Therefore, net earnings were $198 million or $0.55 per share in the first quarter of 2001, compared with $237 million or $0.65 per share for the same period of 2002.

Gesca Ltée and Power Technology Investment Corporation

The combined contribution from Gesca Ltée and Power Technology Investment Corporation declined in the first quarter of 2002. In the corresponding period of 2001, this contribution included net gains recorded by Power Technology Investment Corporation.

Dividends

The Board of Directors today declared a dividend on the First Preferred Shares, 1986 Series payable July 15, 2002 to shareholders of record June 21, 2002 in an amount per share to be determined in accordance with the Articles of Continuance of the Corporation.

A dividend of 35 cents per share was declared on the First Preferred Shares, Series A payable July 15, 2002 to shareholders of record June 21, 2002.

A dividend of 33.4375 cents per share was declared on the First Preferred Shares, Series B payable July 15, 2002 to shareholders of record June 21, 2002.

A dividend of 20.625 cents per share was declared on the Participating Preferred and Subordinate Voting Shares payable June 28, 2002 to shareholders of record June 7, 2002. This represents an increase of 3.125 cents or 18 per cent over the previous quarterly dividend of 17.5 cents.

On behalf of the Board of Directors,

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

André Desmarais
President and
Co-Chief Executive Officer

May 23, 2002

Forward-looking Statements This report includes forward-looking statements about objectives, strategies and expected financial results. These statements are inherently subject to risks and uncertainties beyond the Corporation's control including, but not limited to, economic and financial conditions globally, regulatory developments in Canada and elsewhere, technological developments and competition. These and other factors may cause the Corporation's actual performance to differ materially from that contemplated by forward-looking statements, and the reader is therefore cautioned not to place undue reliance on these statements.

The following is a discussion and analysis of the interim consolidated financial condition and results of operations of Power Corporation of Canada ("Power Corporation" or the "Corporation") for the three-month period ended March 31, 2002. This document should be read in conjunction with: the unaudited Interim Consolidated Financial Statements of Power Corporation and notes thereto for the three-month period ended March 31, 2002; Management's Discussion and Analysis of Operating Results included in the annual report of the Corporation for the year ended December 31, 2001; and the Consolidated Financial Statements and notes thereto for the year ended December 31, 2001.

Power Corporation's principal asset is its 67.4 per cent interest in Power Financial Corporation ("Power Financial"), which holds substantial interests in the financial services industry in Canada and the United States. Power Financial holds a controlling interest in Great-West Lifeco Inc. ("Lifeco") and Investors Group Inc. ("Investors Group"). Power Financial also holds, jointly with the Frère group of Belgium, a significant interest in Pargesa Holding S.A. ("Pargesa"). The Pargesa group has substantial holdings in a group of major media, energy, water, waste services and specialty minerals companies based in Europe.

Through its wholly owned subsidiary Gesca Ltée ("Gesca"), Power Corporation has an interest in the communications sector. Gesca is engaged in the publication of newspapers, including the Montréal daily newspaper *La Presse* and six other daily newspapers in the provinces of Québec and Ontario. These include *Le Soleil* in Québec City, *Le Droit* in Ottawa and *Le Quotidien* in Chicoutimi, acquired in January 2001.

Power Corporation also holds 100 per cent of Power Technology Investment Corporation ("PTIC"), which focuses on the biotechnology and technology sectors.

Three-month Results

In this section, Power Financial, Gesca and PTIC are accounted for on the equity basis.

Net earnings of the Corporation for the three-month period are subdivided into the following components:

- operating earnings, which include the Corporation's share of earnings of its subsidiaries, before other income, as well as results from corporate activities. In order to provide the reader with a more accurate basis for comparison in analysing operating activities, given the introduction of new rules regarding goodwill (which is no longer amortized), operating earnings for 2001 are presented before goodwill amortization (both amortization of the Corporation's own goodwill on its investments and its share of goodwill recorded by subsidiaries).
- goodwill amortization, which refers only to 2001 (see above).
- other income.

Earnings Summary

Period ended March 31 *(in millions of dollars, except per share amounts) (unaudited)*

	2002		2001	
	Total [1]	**per share**	**Total** [1]	**per share**
Operating earnings	**171**	**0.75**	153	0.68
Goodwill amortization	–	–	(12)	(0.06)
Other income	–	–	22	0.10
Net earnings	**171**	**0.75**	163	0.72

[1] Before dividends on preferred shares

Operating Earnings

For the three-month period ended March 31, 2002, operating earnings were $171 million or $0.75 per share, as against $153 million or $0.68 per share in 2001. This represents a 10.3 per cent increase on a per share basis. This growth reflects primarily:

- strong growth in operating earnings at Power Financial,
- partly offset by a decrease in results from corporate activities. This decrease is mainly due to lower gains on the sale of securities received as distributions in kind from Sutter Hill. These gains were primarily achieved through hedging programs maturing in 2000 and, to a lesser extent, in 2001. All these hedges have now matured.

Goodwill Amortization

Goodwill, which is no longer amortized since January 1st of this year under Canadian accounting standards, resulted in an expense of $12 million or $0.06 per share in the first quarter of 2001. Goodwill amortization consisted primarily of the Corporation's share of goodwill recorded by its subsidiaries.

Other Income

Other income was nil during the first quarter of 2002. In 2001, other income was $22 million or $0.10 per share, and included the Corporation's share of Pargesa's non-operating earnings, as well as net gains recorded by PTIC.

Net Earnings

Net earnings were $171 million or $0.75 per share in the first quarter of 2002, as against $163 million or $0.72 per share in the corresponding period of 2001.

Cash Flow

On a consolidated basis, cash and cash equivalents decreased during the three-month period by $194 million, as compared with an increase of $61 million during the same period of last year.

Cash flow from operating activities was a net outflow of $325 million during the period of 2002, compared with a net inflow of $156 million for the corresponding period of 2001. Financing activities resulted in a net outflow of $189 million in 2002, compared with one of $40 million in 2001.

Cash flow from investing activities resulted in a net inflow of $320 million in 2002, compared with a net outflow of $55 million in 2001.

Dividend per Participating Share

The Corporation declared a quarterly dividend of 20.625 cents per participating share for the first quarter of 2002. This represents an increase of 3.125 cents or 18 per cent over the previous quarterly dividend of 17.5 cents.

Shareholders' Equity

Power Corporation's shareholders' equity amounted to $4,802 million at March 31, 2002, compared with $4,692 million at the end of 2001. The increase of $110 million is primarily due to:

- an increase of $127 million in retained earnings,
- partly offset by a $22 million decrease in foreign currency translation adjustments.

Power Financial Corporation

The information contained herein concerning Power Financial's subsidiaries has been summarized from quarterly information publicly disclosed by them. Information concerning three-month results of Pargesa has been based on that company's press release issued on May 15, 2002.

In establishing its statement of earnings, Power Financial uses the flow-through presentation as reported by Pargesa. Pargesa's financial statements have been adjusted to conform to Canadian GAAP. In that respect, Pargesa's earnings for the first quarter of 2002 have been adjusted for goodwill, which under new Canadian standards is no longer amortized. Based on information provided by the European affiliate, Power Financial's share of these adjustments (which relate primarily to Bertelsmann AG) amounted to $0.02 per share for the period ended March 31, 2002.

Three-Month Results

In this section, the principal subsidiaries, namely Great-West Lifeco Inc. and Investors Group Inc., which make the most significant contribution to the earnings of Power Financial, are accounted for on the equity basis.

Net earnings of Power Financial for the three-month period are subdivided into the following components:

- operating earnings, which include Power Financial's share of earnings of its subsidiaries and affiliate, before other income, as well as results from corporate activities. In order to provide the reader with a more accurate basis for comparison in analysing operating activities given the introduction of new rules regarding goodwill (which is no longer amortized), operating earnings for 2001 are presented before goodwill amortization (both amortization of Power Financial's own goodwill on its investments and its share of goodwill recorded by subsidiaries and affiliate).
- goodwill amortization, which refers only to 2001 (see above).
- other income.

Earnings Summary

Period ended March 31 *(in millions of dollars, except per share amounts) (unaudited)*

	2002		2001	
	Total [1]	**per share**	**Total [1]**	**per share**
Operating earnings	**237**	**0.65**	193	0.54
Goodwill amortization	**–**	**–**	(16)	(0.05)
Other income	**–**	**–**	21	0.06
Net earnings	**237**	**0.65**	198	0.55

[1] Before dividends on preferred shares

Operating Earnings

For the three-month period ended March 31, 2002, operating earnings were $237 million or $0.65 per share, as against $193 million or $0.54 per share in 2001. This represents a 20.4 per cent increase on a per share basis. Increased contribution from both Lifeco and Investors Group was partly offset by a decrease in share of earnings from the European affiliate and lower returns on short-term investments.

Goodwill Amortization

Goodwill, which is no longer amortized since January 1st of this year under Canadian accounting standards, resulted in an expense of $16 million or $0.05 per share in the first quarter of 2001. Goodwill amortization consisted primarily of Power Financial's share of goodwill recorded by its subsidiaries and affiliate.

Other Income

Other income was nil during the first quarter of 2002. In 2001, Power Financial recorded its share of non-operating earnings within the Pargesa group, which amounted to $21 million or $0.06 per share.

Net Earnings

Net earnings were $237 million or $0.65 per share in the first quarter of 2002, as against $198 million or $0.55 per share in the corresponding period of 2001.

Cash Flow

On a consolidated basis, cash and cash equivalents decreased during the three-month period by $200 million, as compared with an increase of $57 million during the same period of last year.

Operating activities were a use of cash of $347 million during the period of 2002, compared with a source of cash of $184 million for the corresponding period of 2001. Financing activities resulted in a net outflow of $207 million in 2002, compared with one of $170 million in 2001.

Cash flow from investing activities resulted in a net inflow of $354 million in 2002, compared with one of $43 million in 2001.

Dividend per Common Share

Power Financial declared a dividend of 26 cents per common share for the first quarter of 2002. This represents an increase of 2 cents or 8.3 per cent over the previous quarterly dividend of 24 cents. Compared with 22 cents a year ago, the increase is 18 per cent.

Shareholders' Equity

Power Financial's shareholders' equity amounted to $5,941 million at March 31, 2002, compared with $5,828 million at the end of 2001. The increase of $113 million is primarily due to:

- an increase of $143 million in retained earnings,
- partly offset by a $32 million decrease in foreign currency translation adjustments primarily related to Power Financial's indirect investment in Pargesa.

Great-West Lifeco Inc.

Lifeco reported net income attributable to common shareholders of $222 million or $0.602 per common share for the three months ended March 31, 2002, compared with $0.446 per common share reported for the first quarter 2001 ($0.489 prior to goodwill amortization).

Highlights

- Total premiums and deposits were up 2 per cent from a year ago.
- Return on common shareholders' equity was 21.2 per cent for the twelve months ended March 31, 2002, compared with 20.3 per cent in 2001, excluding 2001 non-recurring items from both calculations.
- Quarterly dividends declared were $0.225 per common share for June 28, 2002. Dividends paid on common shares for the three months of 2002 were 22 per cent higher than a year ago.

Consolidated net earnings for Lifeco are the net operating earnings of The Great-West Life Assurance Company ("Great-West Life") in Canada and Great-West Life & Annuity Insurance Company ("GWL&A") in the United States, together with Lifeco's corporate results. The following comparative figures for 2001 have been adjusted to exclude goodwill amortization.

In Canada, Great-West Life's first quarter net income attributable to common shareholders increased 16 per cent to $107 million from $92 million at March 31, 2001. Including the Canadian portion of Lifeco corporate results, Canadian consolidated net earnings of Lifeco for the first quarter of 2002 were $103 million, compared with $90 million a year ago.

Great-West Life's net income for the three months ended March 31, 2002 included a gain of $31 million realized on the sale of London Life Insurance Company's interests in London Guarantee Insurance Company, essentially offset by an increase in credit loss provisions related to technology holdings, and a strengthening of corporate and actuarial reserves.

Total assets under administration of Great-West Life at March 31, 2002 were $54.3 billion, up 5 per cent from a year ago.

In the United States, GWL&A's first quarter net income attributable to common shareholders increased 27 per cent to US$78 million from US$62 million at March 31, 2001. Including the United States portion of Lifeco corporate results and translated to Canadian dollars, Lifeco's United States consolidated net earnings for the first quarter of 2002 were $119 million, compared with $92 million a year ago.

Total assets under administration of GWL&A were $44.1 billion at March 31, 2002, up 6 per cent from a year ago.

Great-West Lifeco Inc.

Financial highlights

Period ended March 31 *(in millions of dollars, except per share amounts) (unaudited)*

	2002			2001			Change (%)
	Canada	**U.S.**	**Total**	**Canada**	**U.S.**	**Total**	
Premiums							
Life insurance, guaranteed annuities and insured health products	**1,033**	**750**	**1,783**	970	836	1,806	(1)
Reinsurance and property and casualty	**1,125**	–	**1,125**	600	–	600	88
Self-funded premium equivalents (ASO contracts) (1)	**326**	**2,150**	**2,476**	302	2,368	2,670	(7)
Segregated fund deposits: (1)							
Individual products	**617**	**199**	**816**	558	137	695	17
Group products	**260**	**1,075**	**1,335**	266	1,323	1,589	(16)
Total premiums and deposits	**3,361**	**4,174**	**7,535**	2,696	4,664	7,360	2
Fee and other income	**102**	**361**	**463**	95	384	479	(3)
Paid or credited to policyholders	**2,377**	**925**	**3,302**	1,768	1,052	2,820	17
Net income attributable to:							
Preferred shareholders	**7**	–	**7**	7	–	7	–
Common shareholders	**103**	**119**	**222**	75	91	166	34
Goodwill amortization adjustment (2)	–	–	–	15	1	16	
Adjusted net income attributable to common shareholders (2)	**103**	**119**	**222**	90	92	182	22
Return on common shareholders' equity (12 months):							
Net income			**14.6%**			18.7%	
Adjusted net income (2)			**21.2%**			20.3%	
Per common share							
Basic earnings			**0.602**			0.446	35
Goodwill amortization adjustment (2)			–			0.043	
Adjusted basic earnings (2)			**0.602**			0.489	23
Dividends paid			**0.225**			0.185	22
Book value			**10.77**			10.31	4
At March 31							
Total assets	**34,613**	**23,948**	**58,561**	33,737	23,722	57,459	2
Segregated fund assets (1)	**19,708**	**20,152**	**39,860**	18,083	17,976	36,059	11
Total assets under administration	**54,321**	**44,100**	**98,421**	51,820	41,698	93,518	5
Capital stock and surplus			**4,502**			4,364	3

(1) Segregated fund deposits and self-funded premium equivalents (ASO contracts)

The financial statements of a life insurance company do not include the assets, liabilities, deposits and withdrawals of segregated funds or the claims payments related to administrative services only (ASO) Group health contracts. However, the company does earn fee and other income related to these contracts.

Both segregated fund and ASO contracts are an important aspect of the overall business of the company and should be considered when comparing volumes, size and trends.

(2) In addition to net income, adjusted net income for 2001 is also presented. 2001 results include a charge of $16 million after-tax or $0.043 per common share related to the amortization of goodwill. On January 1, 2002, the company stopped amortizing goodwill in accordance with new Canadian Institute of Chartered Accountants standard Goodwill and Other Intangible Assets (see note 1 of the interim financial statements). Return on common shareholders' equity is also presented excluding 2001 non-recurring items.

Investors Group Inc.

Investors Group reported net income attributable to common shareholders for the three months ended March 31, 2002 of $116.5 million, compared with $64.1 million for the same period in 2001. Earnings per share were $0.440 cents, compared with $0.304 cents in 2001 ($0.310 prior to goodwill amortization). The results for the three months reflected the acquisition of Mackenzie Financial Corporation ("Mackenzie") as of April 20, 2001.

A change in accounting estimate effective April 1, 2001, related to amortization of sales commissions reduced expenses and increased earnings by $19.8 million or $0.075 cents per share. Excluding this change, earnings per share for the quarter would have been $0.365 cents per share. Investors Group changed the period of amortization of these expenditures to reflect a more accurate estimate of their useful life. This estimate is also consistent with that used by Mackenzie and the industry generally.

Highlights

- Gross revenues for the first three months of 2002 were $505.9 million, compared with $296.3 million last year. Operating expenses were $303.7 million for the three months, compared with $181.6 million in the prior year.
- Client assets under management and administration at March 31, 2002 totalled $86.2 billion, compared with $44.5 billion at March 31, 2001, reflecting the increase in assets resulting from last year's acquisition of Mackenzie.
- Shareholders' equity at March 31, 2002 was $2.74 billion, compared with $2.68 billion at December 31, 2001. Return on average common equity for the three months, excluding goodwill amortization, was 19.8 per cent, compared with 23.4 per cent for the same period in 2001.

Investors Group's Operations

Mutual fund sales for the three-month period were $1.7 billion, compared with $2.0 billion in the prior year. Through Investors Group's own consultant network, mutual fund net sales increased 18.4 per cent from $481 million in 2001 to $570 million in 2002. Net sales of long-term funds (excluding money market funds) for the Investors Group consultant network were $484 million, 33.3 per cent above 2001 net sales of $363 million.

Mutual fund assets at March 31, 2002 of $43.1 billion increased 6.4 per cent, compared with $40.5 billion at March 31, 2001. Mutual fund assets in 2001 exclude $2.2 billion in Maxxum assets transferred to Mackenzie effective October 5, 2001.

Investors Group's redemption rate at March 31, 2002, excluding money market funds, was 9.1 per cent compared with 11.0 per cent a year ago.

Mackenzie's Canadian Operations

Mutual fund sales for the three-month period were $1.8 billion, compared with $1.6 billion in the prior year. Mutual fund net sales for the period were $241 million, compared with $345 million in the prior year. Net sales of long-term funds (excluding money market and managed yield funds) were $440 million for the period, compared with net redemptions of $38 million in 2001.

Mutual fund assets under management at March 31, 2002 were $34.7 billion, an increase of 13.0 per cent from $30.7 billion one year ago.

Mackenzie's redemption rate at March 31, 2002, excluding money market and managed yield funds, was 11.5 per cent compared with 10.8 per cent a year ago.

Investors Group Inc.

Financial highlights

For the three months ended March 31 *(in millions of dollars, except per share amounts) (unaudited)*

	2002	2001	Change (%)
Net income available to common shareholders	**116.5**	64.1	81.8
Goodwill amortization adjustment (1)	–	1.4	
Adjusted net income available to common shareholders	**116.5**	65.5	78.0
Diluted earnings per share	**0.440**	0.304	44.7
Goodwill amortization adjustment (1)	–	0.006	
Adjusted diluted earnings per share	**0.440**	0.310	41.9
Dividends per share	**0.205**	0.175	17.1
Return on equity	**19.8%**	23.4%	
Mutual funds			
Investors Group			
Sales	**1,730.8**	2,042.6	(15.3)
Net sales	**569.5**	581.6	(2.1)
Assets under management (2)	**43,079.6**	42,815.8	0.6
Mackenzie Financial Corporation (3)			
Sales	**1,828.7**	–	–
Net sales	**240.8**	–	–
Assets under management (2)	**34,706.9**	–	–
Combined mutual fund assets under management	**77,786.5**	42,815.8	81.7
Insurance in force (face amount)	**25,126.9**	22,016.0	14.1
Securities operations assets under administration (4)	**4,418.8**	2,651.5	66.7
Mortgages serviced (4)	**7,463.0**	7,037.5	6.0
Deposits and certificates (4)	**680.8**	213.7	218.6
Clients (4)	**2,663,424**	1,171,757	127.3
Client accounts (4)	**9,657,048**	4,949,756	95.1
Consultants	**3,361**	3,456	(2.7)
Employees (4)	**3,507**	2,061	70.2
Financial Planning Centres	**103**	102	1.0

(1) On January 1, 2002, Investors Group stopped amortizing goodwill in accordance with new Canadian Institute of Chartered Accountants standard Goodwill and Other Intangible Assets (see note 1 of the interim financial statements). 2001 results have been adjusted to present net income and earnings per share on a consistent basis.

(2) Assets of $2,214.5 million were transferred to Mackenzie on integration of Maxxum operations with Mackenzie, effective October 5, 2001.

(3) For Canadian mutual fund operations only

(4) Includes Mackenzie Financial Corporation as at March 31, 2002.

Note: Certain comparative figures in this report have been restated to conform with current year presentation.

Pargesa Holding S.A.

Consolidated results for the first quarter of 2002 (as released by Pargesa)

(in millions of SF) (unaudited)	First quarter 2002	First quarter 2001	Year 2001
Operating contribution of major holdings			
– Consolidated holdings (equity method):			
Imerys	**20.0**	18.4	84.1
RTL Group (until June 30, 2001)	**–**	3.0	9.7
Bertelsmann (from July 1, 2001)	**(42.0)**	–	(72.6)
– Non-consolidated holdings (dividends):			
TotalFinaElf	**–**	–	58.4
Suez	**–**	–	36.4
Operating contribution of major holdings	**(22.0)**	21.4	116.0
Operating contribution of other companies subject to equity accounting	**1.4**	1.4	11.9
Operating income contributed by holding companies	**(5.2)**	(5.9)	11.4
Operating income	**(25.8)**	16.9	139.3
Non-operating income of companies subject to equity accounting	**0.3**	9.9	(36.7)
Non-operating income of holding companies	**(1.2)**	72.8	328.2
Depreciation of goodwill by holding companies	**(2.1)**	(8.7)	(25.3)
Net income	**(28.8)**	90.9	405.5
Per share (SF): Operating income	**(15)**	10	83
Net income	**(17)**	54	242
Average number of shares outstanding (thousands)	**1,676**	1,673	1,676

It should be noted that the seasonality of earnings and the timing of dividend distributions by the holdings entail that Pargesa's first quarter results cannot be extrapolated to determine those for the full year.

Consolidated Holdings

With regard to Imerys, the first quarter of 2002 featured a stabilized demand on the group's main markets, after its regular decline during the 2001 financial year. The effects of structural measures taken to reinforce the group and the close monitoring of borrowing costs led to an increase of earnings, with net recurring income growing by 13.3 per cent to €41.1 million.

Pargesa's share of Imerys' recurring income, after depreciation of goodwill and expressed in Swiss francs, increased by 9 per cent to SF20 million.

With regard to Bertelsmann, according to information given by the company, the net operating income of its divisions during the first quarter was higher than budget and above the figure for the first quarter of the previous year. The group's net profit for the first quarter was €2,538 million. It included an EBITA of €2,817 million which featured capital gains of €2,797 million on AOL shares, a depreciation of goodwill for €199 million, interest expenses of €62 million, tax charges of €25 million and minority interests for €7 million.

Pargesa's share of Bertelsmann's profit is a negative amount of SF42 million, due to the reversal of capital gains on AOL already included in the purchase price allocation at the time of the exchange of RTL Group shares for Bertelsmann shares.

It should be noted that, during the second quarter of 2002, Bertelsmann will pay GBL a dividend of €135 million, representing a share of SF98 million for Pargesa, which will substantially increase the Pargesa group's cash earnings. Out of this amount, SF46 million represents a preferred dividend which will increase Bertelsmann's contribution to Pargesa's 2002 results.

Non-consolidated Holdings

The holdings in TotalFinaElf and Suez, which are carried at cost, do not provide any contribution during the first quarter, since their dividends, which are due to increase, will only be recorded during the second quarter.

Non-operating Income

The non-operating income of holding companies for the period is non-significant, whereas during the first quarter of 2001, this item included mainly a SF74 million capital gain on the tender of Lasmo shares by GBL to the public takeover bid for this company by Eni.

Dividend

The Annual General Meeting of Pargesa, which was held in Geneva on May 15, 2002, approved the payment of a dividend of SF80 per bearer share, up from SF75 in the previous year, showing a 7 per cent increase and representing a total distribution of SF134.1 million. Payment date will be May 22, 2002.

Consolidated Balance Sheets *(in millions of dollars)*	March 31	December 31
(unaudited)	**2002**	2001
Assets		
Cash and cash equivalents	**2,396**	2,590
Investments		
Shares	**2,159**	2,237
Bonds	**32,535**	32,585
Mortgages and other loans	**15,094**	15,237
Real estate	**1,245**	1,276
	51,033	51,335
Investment in affiliate, at equity	**1,373**	1,406
Goodwill and intangibles	**5,011**	4,861
Other assets	**8,333**	8,538
	68,146	68,730
Liabilities		
Policy liabilities		
Actuarial liabilities	**43,946**	43,909
Other	**3,451**	3,690
Deposits and certificates	**681**	671
Long-term debt	**2,532**	2,544
Other liabilities	**5,779**	6,347
	56,389	57,161
Non-controlling interests	**6,955**	6,877
Shareholders' Equity		
Stated capital (Note 2)		
Non-participating shares	**406**	407
Participating shares	**365**	360
Retained earnings	**3,827**	3,700
Foreign currency translation adjustments	**204**	225
	4,802	4,692
	68,146	68,730

Consolidated Statements of Earnings for the three months ended March 31 *(in millions of dollars, except per share amounts)*

(unaudited)	**2002**	2001
Revenues		
Premium income	**2,908**	2,406
Investment income	**1,023**	997
Fees and media income	**1,016**	831
	4,947	4,234
Expenses		
Paid or credited to policyholders and beneficiaries including policyholder dividends and experience refunds	**3,302**	2,820
Commissions and operating expenses	**1,047**	949
Interest expense	**40**	17
	4,389	3,786
	558	448
Share of earnings of affiliate	**1**	3
Other income, net (Note 5)		31
Earnings before income taxes, amortization of goodwill and non-controlling interests	**559**	482
Income taxes	**192**	165
Amortization of goodwill		21
Non-controlling interests	**196**	133
Net earnings	**171**	163
Earnings per participating share (Note 4)		
Basic	**0.75**	0.72
Diluted	**0.74**	0.71
Earnings before amortization of goodwill per participating share		
Basic	**0.75**	0.78
Diluted	**0.74**	0.77

Consolidated Statements of Retained Earnings for the three months ended March 31 *(in millions of dollars)*

(unaudited)	**2002**	2001
Retained earnings, beginning of year	**3,700**	3,239
Add		
Net earnings	**171**	163
	3,871	3,402
Deduct		
Dividends		
Non-participating shares	**5**	3
Participating shares	**39**	33
Other		1
	44	37
Retained earnings, end of period	**3,827**	3,365

Consolidated Statements of Cash Flows for the three months ended March 31 *(in millions of dollars)*

(unaudited)	**2002**	2001
Operating activities		
Net earnings	**171**	163
Non-cash charges (credits)		
Increase (decrease) in policy liabilities	**(113)**	573
Decrease (increase) in funds withheld by ceding insurers	**215**	(333)
Amortization and depreciation	**12**	28
Future income taxes	**89**	57
Non-controlling interests	**196**	133
Other	**(895)**	(465)
Cash from operating activities	**(325)**	156
Financing activities		
Dividends paid		
By subsidiaries to non-controlling interests	**(86)**	(64)
Non-participating shares	**(4)**	(3)
Participating shares	**(39)**	(33)
	(129)	(100)
Issue of subordinate voting shares	**6**	2
Repurchase of non-participating shares for cancellation	**(1)**	(1)
Issue of common shares by subsidiaries	**10**	6
Repurchase of common shares by subsidiaries	**(38)**	(32)
Issue of long-term debt, commercial paper and other loans		135
Repayment of long-term debt, commercial paper and other loans	**(46)**	(47)
Other	**9**	(3)
	(189)	(40)
Investment activities		
Bond sales and maturities	**5,593**	4,783
Mortgage loan repayments	**431**	733
Sale of shares	**121**	299
Change in loans to policyholders	**(19)**	(252)
Change in repurchase agreements	**34**	353
Investment in subsidiaries	**72**	(148)
Investment in bonds	**(5,612)**	(4,600)
Investment in mortgage loans	**(297)**	(943)
Investment in shares	**(53)**	(296)
Other	**50**	16
	320	(55)
Increase (decrease) in cash and cash equivalents	**(194)**	61
Cash and cash equivalents, beginning of year	**2,590**	2,024
Cash and cash equivalents, end of period	**2,396**	2,085

Notes to Consolidated Financial Statements (unaudited)

Note 1. **Significant accounting policies**

The interim unaudited consolidated financial statements of Power Corporation of Canada at March 31, 2002 have been prepared in accordance with generally accepted accounting principles in Canada, using the accounting policies described in Note 1 of the Corporation's consolidated financial statements for the year ended December 31, 2001, except as noted below.

Goodwill

Effective January 1, 2002, the Corporation adopted the recommendations of the CICA Handbook Section 3062 – Goodwill and Other Intangible Assets. Under this standard, goodwill and intangible assets with an indefinite life will no longer be amortized but must be reviewed at least annually for impairment, and written down for impairment losses. Goodwill and intangible assets related to the acquisition of Mackenzie will be determined after a comprehensive evaluation of the fair value of the assets acquired and liabilities assumed is completed.

Any impairment loss resulting from the transitional impairment test will be recorded as a cumulative effect of change in accounting policy and charged to opening retained earnings. Other than the elimination of goodwill amortization charges and a reclassification of $129 million from Future Income Taxes to Goodwill on the Corporation's balance sheet, the new standards had no impact on the financial statements for the three months ended March 31, 2002.

Foreign Currency Translation

On January 1, 2002, the Corporation adopted the recommendations of the CICA Handbook Section 1650 – Foreign Currency Translation. The amended standards eliminate the deferral and amortization approach to exchange gains and losses on long-term monetary items and require the disclosure of exchange gains and losses included in the calculation of net income. There is no material effect of this change in accounting policy on the financial statements of the Corporation.

Stock-based Compensation

Effective January 1, 2002, the Corporation adopted the recommendations of the CICA Handbook Section 3870 – Stock-based Compensation and Other Stock-based Payments. Under this standard, all stock-based payments to non-employees must be accounted for using a fair value-based method of accounting. This new standard encourages, but does not require, the use of the fair value-based method to account for stock-based transactions with employees. When the fair value-based method of accounting is not used for stock-based transactions with employees, pro-forma net income and pro-forma earnings per share must be disclosed as if the fair value-based method of accounting had been used to account for stock-based compensation cost. A subsidiary of the Corporation issued stock options during the period ended March 31, 2002. Utilization of the fair value-based accounting method would have no impact on net earnings or earnings per share presented in these financial statements.

Comparative Figures

Certain of 2001 amounts presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

Note 2. **Capital Stock and Stock Option Plan**

Stated Capital *(in millions of dollars)*	**March 31**	December 31
	2002	2001
Non-participating shares		
Cumulative Redeemable First Preferred Shares, 1986 Series		
Authorized – Unlimited number of shares		
Issued – 2002 1,119,878 shares	**56**	57
Issued – 2001 1,139,878 shares		
Series A First Preferred Shares		
Authorized and issued		
6,000,000 shares	**150**	150
Series B First Preferred Shares		
Authorized and issued		
8,000,000 shares	**200**	200
	406	407
Participating shares		
Participating Preferred Shares		
Authorized – Unlimited number of shares		
Issued – 2002 24,427,386 shares	**27**	27
Issued – 2001 24,427,386 shares		
Subordinate Voting Shares		
Authorized – Unlimited number of shares		
Issued – 2002 197,353,452 shares	**338**	333
Issued – 2001 196,681,452 shares		
	365	360

Stock Option Plan

Options were outstanding at March 31, 2002 to purchase, until October 21, 2011, 9,537,700 shares at various prices from $7.28125 to $35.325 per share.

Notes to Consolidated Financial Statements (unaudited)

Note 3. Segmented information

Information on profit measure for the three months ended March 31, 2002 *(in millions of dollars)*

	Lifeco	Investors	Parjointco	Other	Total
Revenues					
Premium income	2,908				2,908
Net investment income	942	31		50	1,023
Fees and media income	463	475		78	1,016
	4,313	506		128	4,947
Expenses					
Insurance claims	3,302				3,302
Commissions, other operating expenses	669	284		94	1,047
Interest expense		20		20	40
	3,971	304		114	4,389
	342	202		14	558
Share of earnings of affiliate			1		1
Earnings before the following:	342	202	1	14	559
Income taxes	104	80		8	192
Non-controlling interests	123	75	1	(3)	196
Contribution to consolidated net earnings	115	47	0	9	171

Information on profit measure for the three months ended March 31, 2001 *(in millions of dollars)*

	Lifeco	Investors	Parjointco	Other	Total
Revenues					
Premium income	2,406				2,406
Net investment income	904	23		70	997
Fees and media income	479	274		78	831
	3,789	297		148	4,234
Expenses					
Insurance claims	2,820				2,820
Commissions, other operating expenses	680	181		88	949
Interest expense		1		16	17
	3,500	182		104	3,786
	289	115		44	448
Share of earnings of affiliate			3		3
Other income – net			21	10	31
Earnings before the following:	289	115	24	54	482
Income taxes	96	51		18	165
Amortization of goodwill	16			5	21
Non-controlling interests	91	33	8	1	133
Contribution to consolidated net earnings	86	31	16	30	163

Note 4. **Earnings per share**

The following is a reconciliation of the numerators and the denominators of the basic and diluted earnings per participating share computations:

For the three months ended March 31 *(in millions of dollars)*

	2002	2001
Net earnings	**171**	163
Dividends on non-participating shares	**(5)**	(3)
Net earnings available to participating shareholders	**166**	160
Weighted number of participating shares outstanding (millions)		
Basic	**221.4**	220.5
Exercise of stock options	**9.5**	8.3
Shares repurchased	**(5.3)**	(3.8)
Weighted number of participating shares outstanding (denominator) (millions)		
Diluted	**225.6**	225.0

Note 5. **Other income, net**

For the three months ended March 31 *(in millions of dollars)*

	2002	2001
Share of Pargesa gains on disposal of long-term investments, net	–	21
Other	–	10
	–	31

POWER
CORPORATION
OF CANADA

QUARTERLY REPORT

for the six months ended June 30, 2002

751 VICTORIA SQUARE, MONTRÉAL, QUÉBEC, CANADA H2Y 2J3 TELEPHONE (514) 286-7400 TELECOPIER (514) 286-7424

To the Shareholders

Power Corporation of Canada's operating earnings for the first six months of 2002 were $367 million or $1.61 per share, compared with $335 million or $1.49 per share in the corresponding period of 2001. This represents an 8.1 per cent increase on a per share basis, reflecting strong growth in operating earnings at Power Financial Corporation, partly offset by a decrease in results from corporate activities principally, as a consequence of lower gains on the disposal of technology securities.

Net earnings for the six-month period ended June 30, 2002 were $366 million or $1.60 per share, compared with $387 million or $1.73 per share during the same period in 2001.

Net earnings in 2001 included other income of $173 million, consisting primarily of the Corporation's share of Power Financial's other income of $214 million. This was mainly composed of a dilution gain resulting from the issue of common shares by Investors Group in connection with the acquisition of Mackenzie Financial Corporation, partly offset by Power Financial's $33 million share of a restructuring charge related to this acquisition. Other income in 2001 also included net capital gains realized by Power's wholly owned subsidiary, Power Technology Investment Corporation.

Net earnings for the first six months of 2001 also included goodwill amortization of $33 million and a charge of $88 million representing Power Corporation's share of specific charges recorded by Great-West Lifeco Inc. Under revised accounting standards, which took effect on January 1, 2002, goodwill is no longer amortized.

Second Quarter Results

For the quarter ended June 30, 2002, Power Corporation's operating earnings were $196 million or $0.86 per share, compared with $182 million or $0.81 per share in the second quarter of 2001, representing an increase of 6.2 per cent on a per share basis.

Net earnings for the second quarter of 2002 were $195 million or $0.85 per share. This figure includes a charge to other income of $1 million and compares with $224 million or $1.01 per share in the second quarter of 2001. Net earnings for the second quarter of 2001 included goodwill amortization of $21 million, the Corporation's share of specific charges recorded by Lifeco of $88 million, and other income of $151 million.

Results of Power Financial Corporation

Power Financial Corporation reported operating earnings of $534 million or $1.48 per share for the six-month period ended June 30, 2002, compared with $457 million or $1.27 per share for the same period in 2001. This represents a 16.5 per cent increase on a per share basis, primarily reflecting growth in its share of earnings from its subsidiaries and affiliate. Net earnings for the first six months of 2001 included goodwill amortization of $45 million, Power Financial's share of specific charges recorded by Lifeco of $131 million and other income of a non-recurring nature of $214 million. Under revised accounting standards, which took effect on January 1, 2002, goodwill is no longer amortized. Power Financial had no other income of a non-recurring nature in the first six months of 2002.

Therefore, net earnings were $534 million or $1.48 per share for the six-month period ended June 30, 2002, compared with $495 million or $1.38 per share during the same period last year.

Dividends on Preferred Shares

A dividend was declared on the First Preferred Shares, 1986 Series payable October 15, 2002 to shareholders of record September 24, 2002 in an amount per share to be determined in accordance with the Articles of Continuance of the Corporation.

A dividend of 35 cents per share was declared on the First Preferred Shares, Series A payable October 15, 2002 to shareholders of record September 24, 2002.

A dividend of 33.4375 cents per share was declared on the First Preferred Shares, Series B payable October 15, 2002 to shareholders of record September 24, 2002.

Dividends on Participating Shares

A dividend of 20.625 cents per share was declared on the Participating Preferred and Subordinate Voting Shares payable September 30, 2002 to shareholders of record September 9, 2002.

On behalf of the Board of Directors,

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

André Desmarais
President and
Co-Chief Executive Officer

August 1, 2002

Forward-looking Statements This report may include forward-looking statements about objectives, strategies and expected financial results. These statements are inherently subject to risks and uncertainties beyond the Corporation's control including, but not limited to, economic and financial conditions globally, regulatory developments in Canada and elsewhere, technological developments and competition. These and other factors may cause the Corporation's actual performance to differ materially from that contemplated by forward-looking statements, and the reader is therefore cautioned not to place undue reliance on these statements.

The following is a discussion and analysis of the interim consolidated financial condition and results of operations of Power Corporation of Canada ("Power Corporation" or the "Corporation") for the three-month and six-month periods ended June 30, 2002. This document should be read in conjunction with: the unaudited Interim Consolidated Financial Statements of Power Corporation and notes thereto for the three-month and six-month periods ended June 30, 2002; Management's Discussion and Analysis of Operating Results included in the Annual Report of the Corporation for the year ended December 31, 2001; the Consolidated Financial Statements and notes thereto for the year ended December 31, 2001, as well as the unaudited Interim Consolidated Financial Statements and notes thereto for the quarter ended March 31, 2002.

Power Corporation's principal asset is its 67.4 per cent interest in Power Financial Corporation ("Power Financial"), which holds substantial interests in the financial services industry in Canada and the United States. Power Financial holds a controlling interest in Great-West Lifeco Inc. ("Lifeco") and Investors Group Inc. ("Investors Group"). Jointly with the Frère group of Belgium, Power Financial also holds a significant interest in Pargesa Holding S.A. ("Pargesa"). The Pargesa group has substantial holdings in a group of major media, energy, water, waste services and specialty minerals companies based in Europe.

Through its wholly owned subsidiary Gesca Ltée ("Gesca"), Power Corporation has an interest in the communications sector. Gesca is engaged in the publication of newspapers, including the Montréal daily newspaper *La Presse* and six other daily newspapers in the provinces of Québec and Ontario, including *Le Soleil* in Québec City, *Le Droit* in Ottawa and *Le Quotidien* in Chicoutimi.

Power Corporation also holds 100 per cent of Power Technology Investment Corporation ("PTIC"), which focuses on the biotechnology and technology sectors.

Six-month Results

In this section, Power Financial, Gesca and PTIC are accounted for on the equity basis.

Net earnings of the Corporation are subdivided into the following components:

- operating earnings, which include the Corporation's share of earnings of its subsidiaries before non-recurring items as well as results from corporate activities. In order to provide the reader with a more accurate basis for comparison in analysing operating activities, given the introduction of new rules under which goodwill is no longer amortized, operating earnings for 2001 are

presented before amortization of goodwill, both on the Corporation's investments and its share of goodwill as recorded by subsidiaries;
- goodwill amortization, which applies only to 2001; and
- other income.

Results for 2001 included Power Corporation's share of specific charges recorded by Lifeco relating to Alta Health & Life Insurance Company ("Alta"), a subsidiary of Great-West Life & Annuity Insurance Company ("GWL&A").

Earnings Summary

(in millions of dollars, except per share amounts) (unaudited)	Six months 2002		Six months 2001	
	Total [1]	per share	Total [1]	per share
Operating earnings	**367**	**1.61**	335	1.49
Goodwill amortization	–	–	(33)	(0.15)
Share of specific charges	–	–	(88)	(0.40)
Other income	**(1)**	**(0.01)**	173	0.79
Net earnings	**366**	**1.60**	387	1.73

(1) before dividends on preferred shares

Operating Earnings

For the six-month period ended June 30, 2002, operating earnings were $367 million or $1.61 per share, as against $335 million or $1.49 per share in 2001, an increase of 8.1 per cent on a per share basis. The increase in operating earnings reflects primarily:
- strong growth in operating earnings at Power Financial;
- a decrease in results from corporate activities, mostly due to the lower gains recorded by the Corporation on the disposal of technology securities received as distributions in kind from investment funds.

On a per share basis, 2002 six-month operating earnings also include the effect of increased dividends paid on the Corporation's Preferred Shares, including dividends on the Preferred Shares Series B which were issued at the end of 2001.

Goodwill Amortization

Goodwill, which is no longer amortized under new Canadian accounting standards effective January 1st of this year, resulted in an expense of $33 million or $0.15 per share in the six-month period ended June 30, 2001.

Goodwill amortization consisted primarily of the Corporation's share of goodwill recorded by its subsidiaries.

Share of Specific Charges

During the second quarter of last year, Power Corporation recorded its share ($88 million or $0.40 per share) of specific charges related to Alta.

Other Income

Other income consisted of a charge of $1 million or $0.01 per share in the six-month period ended June 30, 2002, compared with income of $173 million or $0.79 per share in the corresponding period of last year.

During the six-month period of 2001, the Corporation recorded its share of Power Financial's other income of $214 million, consisting primarily of a dilution gain recorded in the second quarter and resulting from the issuance of common shares of Investors Group in connection with the acquisition of Mackenzie Financial Corporation ("Mackenzie"), partly offset by Power Financial's share of a restructuring charge related to this acquisition. Net capital gains recorded by PTIC were also included in 2001 other income, mostly during the second quarter.

Net Earnings

Net earnings were $366 million or $1.60 per share in the six-month period ended June 30, 2002, compared with $387 million or $1.73 per share in the corresponding period of 2001.

Second Quarter Results

Operating earnings were $196 million or $0.86 per share in the second quarter of 2002, compared with $182 million or $0.81 per share in the corresponding period of last year, an increase of 6.2 per cent on a per share basis.

Net earnings for the second quarter of 2002 were $195 million or $0.85 per share, compared with $224 million or $1.01 in 2001. The figure for 2002 includes a charge to other income of $1 million. Net earnings for the second quarter of 2001 included goodwill amortization of $21 million, Power Corporation's share of specific charges recorded by Lifeco, and other income of $151 million.

Cash Flow

On a consolidated basis, cash and cash equivalents decreased during the six-month period by $74 million, as compared with an increase of $207 million during the same period of last year.

Operating activities produced a net inflow of $716 million during the period in 2002, compared with a net inflow of $715 million for the corresponding period of 2001.

Cash flow from financing activities resulted in a net outflow of $579 million in 2002, compared with a net inflow of $2,200 million in the six-month period of 2001. Included in the 2001 figure were the financing activities relating to the acquisition of Mackenzie by Investors Group.

Cash flow from investing activities resulted in a net outflow of $211 million in 2002, compared with a net outflow of $2,708 million in 2001, which included the acquisition of Mackenzie by Investors Group.

Dividend per Participating Share

Power Corporation declared a dividend of 20.625 cents per participating share during the second quarter of 2002, compared with 17.5 cents for the same quarter of the previous year, an increase of 17.9 per cent. For the six-month period, total dividends declared per participating share amounted to 38.125 cents in 2002, compared with 32.50 cents in 2001, an increase of 17.3 per cent.

Shareholders' Equity

Power Corporation's shareholders' equity amounted to $4,942 million at June 30, 2002, compared with $4,692 million at the end of 2001. The increase of $250 million is primarily due to:

- an increase of $271 million in retained earnings;
- a net $28 million negative variation in foreign currency translation adjustments, relating primarily to the Corporation's indirect investments in Pargesa and GWL&A.

The information contained herein concerning Lifeco and Investors Group has been summarized from quarterly information publicly disclosed by them. Pargesa will release its six-month results for 2002 in September, consequently, specific information relating to this company has not been disclosed. The contribution from the European affiliate reported for the six-month period of 2002 has been calculated from information provided by its management and is based in part on preliminary figures. Furthermore, in order to conform to Canadian GAAP, Pargesa's estimated results have been adjusted to eliminate the effect of amortization of goodwill, which consists primarily of Pargesa's share of goodwill amortization recorded by Bertelsmann.

Six-month Results

In this section, the principal subsidiaries, which make the most significant contribution to the earnings of Power Financial (Lifeco and Investors Group), are accounted for on the equity basis.

Net earnings of Power Financial are subdivided into the following components:

- operating earnings, which include Power Financial's share of earnings of its subsidiaries and affiliate before non-recurring items as well as results from corporate activities. In order to provide the reader with a more accurate basis for comparison in analysing operating activities, given the introduction of new rules under which goodwill is no longer amortized, operating earnings for 2001 are presented before amortization of goodwill, both on the corporation's investments and its share of goodwill as recorded by subsidiaries and affiliate;
- goodwill amortization, which applies only to 2001; and
- other income.

Results for 2001 included Power Financial's share of specific charges recorded by Lifeco relating to Alta.

Earnings Summary

(in millions of dollars, except per share amounts) (unaudited)	Six months 2002		Six months 2001	
	Total [1]	per share	Total [1]	per share
Operating earnings	**534**	**1.48**	457	1.27
Goodwill amortization	–	–	(45)	(0.13)
Share of specific charges	–	–	(131)	(0.38)
Other income	–	–	214	0.62
Net earnings	**534**	**1.48**	495	1.38

(1) before dividends on preferred shares

Operating Earnings

For the six-month period ended June 30, 2002, operating earnings were $534 million or $1.48 per share, as against $457 million or $1.27 per share in 2001, an increase of 16.5 per cent on a per share basis.

The increase in operating earnings reflects primarily:

- growth in the contribution from the subsidiaries and affiliate. Pargesa's contribution to operating earnings for the six-month period includes dividends received by Groupe Bruxelles Lambert ("GBL") from its holdings in Suez and TotalFinaElf. These holdings are accounted for at cost. Readers are reminded that these dividends are received once a year, during the second quarter. GBL received as well a dividend from Bertelsmann in May 2002, a portion of which is accounted for as a preferred dividend and is thus not eliminated in the consolidation process;
- the foregoing is partly offset by a decrease in corporate results.

On a per share basis, 2002 six-month operating earnings also include the effect of increased dividends paid on the Corporation's Preferred Shares, including dividends on the Preferred Shares Series E, which were issued by Power Financial at the end of 2001.

Goodwill Amortization

Goodwill, which is no longer amortized under new Canadian accounting standards effective January 1st of this year, resulted in an expense of $45 million or $0.13 per share in the six-month period ended June 30, 2001.

Goodwill amortization consisted primarily of Power Financial's share of goodwill recorded by its subsidiaries and affiliate.

Share of Specific Charges

During the second quarter of last year, Power Financial recorded its share ($131 million or $0.38 per share) of specific charges related to Alta.

Other Income

Other income was nil in the six-month period ended June 30, 2002, compared with income of $214 million or $0.62 per share in the corresponding period of last year.

During the second quarter of 2001, Power Financial recorded a $231 million dilution gain as a result of the decrease in its ownership in Investors Group. In the Mackenzie transaction, which was completed in April 2001, Investors Group issued common shares to third parties at a price above book value. This gain has been partly offset by Power Financial's share ($33 million on an after-tax basis) of the special charge related to the costs to be incurred in realizing synergies from the acquisition of Mackenzie by Investors Group. In addition, Power Financial's share of net gains recorded within the Pargesa group in the six-month period of last year amounted to $16 million.

Net Earnings

Net earnings were $534 million or $1.48 per share in the six-month period ended June 30, 2002, compared with $495 million or $1.38 per share in the corresponding period of 2001.

Second Quarter Results

Operating earnings were $297 million or $0.83 per share in the second quarter of 2002, compared with $264 million or $0.73 per share in the corresponding period of last year. This represents an increase of 13.6 per cent on a per share basis.

Net earnings were $297 million or $0.83 per share during the second quarter of 2002, identical with the figure for the second quarter of 2001. Net earnings in 2001 included goodwill amortization of $29 million, Power Financial's share of specific charges recorded by Lifeco of $131 million and other income of $193 million.

Cash Flow

On a consolidated basis, cash and cash equivalents decreased during the six-month period by $68 million, compared with an increase of $155 million during the same period of last year.

Operating activities produced a net inflow of $681 million during the period in 2002, compared with a net inflow of $730 million for the corresponding period of 2001.

Cash flow from financing activities resulted in a net outflow of $608 million in 2002, compared with a net inflow of $2,067 million in the six-month period of 2001. Included in the 2001 figure were the financing activities relating to the acquisition of Mackenzie by Investors Group.

Cash flow from investing activities resulted in a net outflow of $141 million in 2002, compared with a net outflow of $2,642 million in 2001, which included the acquisition of Mackenzie by Investors Group.

Dividend per Common Share

Power Financial declared a dividend of 26 cents per common share during the second quarter of 2002, compared with 22 cents for the same quarter of the previous year, an increase of 18.2 per cent. For the six-month period, total dividends declared per common share amounted to 50 cents in 2002, compared with 42 cents in 2001, an increase of 19 per cent.

Shareholders' Equity

Power Financial's shareholders' equity amounted to $6,133 million at June 30, 2002, compared with $5,828 million at the end of 2001. The increase of $305 million is primarily due to:

- an increase of $341 million in retained earnings;
- a net $37 million negative variation in foreign currency translation adjustments, relating primarily to Power Financial's indirect investments in Pargesa and GWL&A.

Subsequent Events

- On June 25, 2002, Power Financial gave notice of its intention to redeem all of its outstanding Variable Rate Exchangeable Debentures, due April 30, 2014. The aggregate principal amount of these Exchangeable Debentures outstanding was approximately $105 million. The Exchangeable Debentures were issued by Power Financial in May 1989 following the sale of its subsidiary, Montreal Trustco Inc. Pursuant to their rights under the terms of the trust indenture governing the Exchangeable Debentures, the holders of all the outstanding debentures exercised their rights to receive a specified number of shares of BCE Inc. and Nortel Networks Corporation held by Power Financial. As a result, on July 12, 2002, Power Financial delivered to such holders 5,465,742 shares of BCE Inc. and 8,583,325 shares of Nortel Networks Corporation in the aggregate, in lieu of the cash redemption proceeds to which they would have otherwise been entitled.
- On June 26, 2002, Power Financial announced the issue of 6,000,000 Non-Cumulative First Preferred Shares, Series F, for gross proceeds of $150 million. Completion and closing of the issue took place on July 16, 2002. The Preferred Shares were priced at $25 per share and carry a 5.90% annual dividend. Proceeds from the issue will be used to supplement Power Financial's financial resources and for general corporate purposes.

Lifeco reported net income attributable to common shareholders of $456 million or $1.236 per common share for the six months ended June 30, 2002, compared with $0.543 per common share reported in the same period of last year.

Adjusted for goodwill amortization and specific charges related to Alta, six-month earnings per share would have been $1.069 in 2001. On this basis, six-month earnings per share in 2002 of $1.236 represent an increase of 16 per cent over the 2001 figure.

For the second quarter, net income attributable to common shareholders was $234 million, compared with adjusted 2001 results of $216 million.

Highlights – First Six Months 2002

- Earnings per common share increased 16 per cent over 2001 adjusted levels, reflecting solid increases in earnings from both Canadian and United States operations.
- Return on common shareholders' equity was 22.5 per cent for the twelve months ended June 30, 2002, compared with 20.9 per cent in 2001, using 2001 adjusted results.
- Quarterly dividends declared were increased by 10 per cent or $0.0225 to $0.2475 per common share for September 30, 2002. Dividends paid on common shares for six months of 2002 were 22 per cent higher than a year ago.

Consolidated net earnings for Lifeco are the net operating earnings of The Great-West Life Assurance Company ("Great-West Life") in Canada and GWL&A in the United States, together with Lifeco's corporate results. The following comparative figures for 2001 have been adjusted to exclude goodwill amortization and Alta charges.

In Canada, Great-West Life's six months net income attributable to common shareholders increased 16 per cent to $220 million from $189 million for the six-month period ended June 30, 2001. For the second quarter, Great-West Life's net income was $113 million in 2002, compared with $97 million in 2001, an increase of 16 per cent.

Including the Canadian portion of Lifeco's corporate results, Canadian consolidated net earnings of Lifeco for the first six months of 2002 were $211 million, compared with $185 million a year ago.

Total assets under administration at June 30, 2002 were $53.7 billion, up 3 per cent from a year ago and essentially the same as at December 31, 2001.

In the United States, GWL&A's six months net income attributable to common shareholders increased 12 per cent to US$161 million from US$144 million at June 30, 2001. For the second quarter, GWL&A's net earnings were $82 million essentially unchanged from a year ago, after adjusting for charges related to Alta in 2001.

Including the United States portion of Lifeco's corporate results and translated to Canadian dollars, Lifeco's United States consolidated net earnings for the first six months of 2002 increased 15 per cent to $245 million from $213 million a year ago.

Total assets under administration were $41.3 billion at June 30, 2002, relatively unchanged from a year ago, and down $2.9 billion compared with December 31, 2001, essentially due to changes in foreign exchange translation rates.

Financial highlights *(unaudited)*

For the six months ended June 30 *(in millions of dollars, except per share amounts)*

	2002			2001			Change (%)
	Canada	**U.S.**	**Total**	Canada	U.S.	Total	
Premiums:							
Life insurance, guaranteed annuities and insured health products	**2,096**	**1,446**	**3,542**	1,994	1,598	3,592	(1)
Reinsurance & specialty general insurance	**1,655**	**–**	**1,655**	1,475	–	1,475	12
Self-funded premium equivalents (ASO contracts) [1]	**670**	**4,159**	**4,829**	620	4,565	5,185	(7)
Segregated funds deposits: [1]							
Individual products	**1,012**	**327**	**1,339**	926	283	1,209	11
Group products	**590**	**1,858**	**2,448**	532	2,236	2,768	(12)
Total premiums and deposits	**6,023**	**7,790**	**13,813**	5,547	8,682	14,229	(3)
Fee and other income	**214**	**724**	**938**	188	741	929	1
Paid or credited to policyholders	**4,141**	**1,771**	**5,912**	3,823	2,003	5,826	1
Net income attributable to:							
Preferred shareholders	**15**	**1**	**16**	15	1	16	–
Common shareholders	**211**	**245**	**456**	155	47	202	126
2001 adjustments [2]							
Goodwill amortization	**–**	**–**	**–**	30	2	32	
Alta	**–**	**–**	**–**	–	164	164	
Adjusted net income attributable to common shareholders [2]	**211**	**245**	**456**	185	213	398	15
Return on common shareholders' equity (12 months):							
Net income			**20.1%**			15.2%	
Adjusted net income [2]			**22.5%**			20.9%	
Per common share							
Basic earnings			**1.236**			0.543	128
2001 adjustments [2]							
Goodwill amortization			**–**			0.086	
Alta			**–**			0.440	
Adjusted basic earnings [2]			**1.236**			1.069	16
Dividends paid			**0.450**			0.370	22
Book value			**10.80**			9.92	9
At June 30							
Total assets	**34,494**	**23,529**	**58,023**	33,542	22,911	56,453	3
Segregated funds assets [1]	**19,153**	**17,814**	**36,967**	18,464	18,473	36,937	–
Total assets under administration	**53,647**	**41,343**	**94,990**	52,006	41,384	93,390	2
Capital stock and surplus			**4,510**			4,214	7

(1) Segregated funds deposits and self-funded premium equivalents (ASO contracts)

The financial statements of a life insurance company do not include the assets, liabilities, deposits and withdrawals of segregated funds or the claims payments related to administrative services only (ASO) Group health contracts. However, the company does earn fee and other income related to these contracts.

Both segregated fund and ASO contracts are an important aspect of the overall business of the company and should be considered when comparing volumes, size and trends.

(2) In addition to net income (Canadian GAAP basis), adjusted net income for 2001 is presented for information. 2001 results include:

(i) a charge of $32 million after tax or $0.086 per common share related to the amortization of goodwill. On January 1, 2002, the company stopped amortizing goodwill in accordance with new Canadian Institute of Chartered Accountants standard 3062 Goodwill and Other Intangible Assets;

(ii) a charge of $164 million after tax or $0.440 per common share related to Alta, an indirect wholly owned subsidiary and part of the company's United States Employee Benefits segment.

Return on common shareholders' equity is also presented excluding 2001 adjustments.

Figures below reflect the inclusion of Mackenzie from the date of acquisition effective April 20, 2001.

Investors Group reported net income attributable to common shareholders for the six months ended June 30, 2002 of $247.1 million or $0.931 per share, compared with $167.4 million or $0.722 per share for the same period in 2001[1], after excluding both the restructuring charge of $54.1 million after tax taken in the second quarter of last year related to the acquisition of Mackenzie and goodwill amortization (related to the acquisition of Mackenzie and to the company's investment in Lifeco). This represents an increase of 28.9 per cent on a per share basis.

A change in accounting estimates effective April 1, 2001 related to amortization of sales commissions, reduced expenses and increased earnings for the six months ended June 30, 2002 by $19.8 million after tax or $0.074 per share. Excluding this change, earnings per share for the six-month period would have been $0.857, an increase of 18.7 per cent over the 2001 figure. Investors Group changed the period of amortization of these expenditures to reflect a more accurate estimate of their useful life. This estimate is also consistent with that used by Mackenzie and the Canadian industry generally.

For the three months ended June 30, 2002, net income attributable to common shareholders was $130.6 million or $0.492 per share, compared with $101.9 million or $0.404 per share in the second quarter of 2001 after excluding the restructuring charge and goodwill amortization, an increase of 21.8 per cent on a per share basis.

Highlights

- Gross revenues for the six months of 2002 were $1,013.2 million, compared with $771.2 million last year. Operating expenses were $593.3 million for the six months, compared with $478.8 million in 2001.
- Client assets under management and administration at June 30, 2002 totalled $80.5 billion, compared with $81.9 billion at June 30, 2001.
- Shareholders' equity at June 30, 2002 was $2.8 billion, compared with $2.7 billion at December 31, 2001. Return on average common equity for the six months was 19.7 per cent, compared with 20.8 per cent for the same period in 2001.
- The Board of Directors declared an increase of $0.02 in the quarterly dividend payable October 31, 2002 on the corporation's common shares, from $0.205 to $0.225 per share.

1) Including the restructuring charge and goodwill amortization, net earnings attributable to common shareholders were $90.4 million for the six-month period in 2001.

Investors Group's Operations

Mutual fund sales for the six-month period through Investors Group's own consultant network were $3.0 billion, compared with $3.1 billon in the prior year. Mutual fund net sales for the period were $547 million, compared with last year's $592 million. Net sales of long-term funds (excluding money market funds) were $459 million, 9.7 per cent above 2001 net sales of $418 million.

Mutual fund assets at June 30, 2002 were $39.9 billion, declining 3.6 per cent from $41.4 billion at June 30, 2001. Mutual fund assets in 2001 have been restated to exclude $2.4 billion in Maxxum assets transferred to Mackenzie effective October 5, 2001.

Investors Group's redemption rate at June 30, 2002 (excluding money market funds) was 9.2 per cent compared with 10.6 per cent a year ago.

Mackenzie's Canadian Operations

Mutual fund sales for the six-month period were $3.5 billion, compared with $3.0 billion in the prior year. Mutual fund net sales for the period were $377.7 million, compared with $185.1 million in the prior year. Mackenzie's net sales of long-term funds (excluding money market and managed yield funds) were $778.9 million for the period, compared with net redemptions of $374.6 million in 2001.

Mutual fund assets under management at June 30, 2002 were $32.5 billion, compared with $30.5 billion a year ago. Mutual fund assets in 2002 reflect the transfer of Maxxum assets.

Mackenzie's redemption rate at June 30, 2002 (excluding money market and managed yield funds) was 11.2 per cent compared with 11.1 per cent a year ago.

Financial highlights *(unaudited)*

(in millions of dollars, except per share amounts)	For the three months ended June 30			For the six months ended June 30		
	2002	2001	Change (%)	2002	2001	Change (%)
Net income available to common shareholders [1]	**130.6**	100.7	29.7	**247.1**	164.9	49.9
Goodwill amortization [2]	**–**	1.2		**–**	2.5	
Adjusted net income	**130.6**	101.9	28.2	**247.1**	167.4	47.6
Diluted earnings per share [1]	**0.492**	0.399	23.3	**0.931**	0.712	30.8
Goodwill amortization [2]	**–**	0.005		**–**	0.010	
Adjusted diluted earnings per share	**0.492**	0.404	21.8	**0.931**	0.722	28.9
Dividends per share	**0.205**	0.175	17.1	**0.410**	0.350	17.1
Return on equity				**19.7%**	20.8%	
Mutual funds						
Investors Group						
Sales	**1,256.3**	1,470.4	(14.6)	**2,987.1**	3,512.9	(15.0)
Net sales	**(22.7)**	178.8	(112.7)	**546.8**	760.5	(28.1)
Assets under management [3]				**39,921.0**	43,822.1	(8.9)
Mackenzie Financial Corporation [4]						
Sales	**1,672.3**	937.4	N/M	**3,501.0**	937.4	N/M
Net sales	**136.9**	(71.6)	N/M	**377.7**	(71.6)	N/M
Assets under management [3]				**32,464.1**	30,510.4	6.4
Combined mutual fund assets under management				**72,385.1**	74,332.5	(2.6)
Insurance in force (face amount)				**26,489.1**	22,952.5	15.4
Securities operations assets under administration [5]				**4,309.3**	3,600.5	19.7
Mortgages serviced [5]				**7,256.7**	7,865.8	(7.7)
Deposits and certificates [5]				**698.6**	620.1	12.7
Clients [5]				**2,671,169**	2,660,307	0.4
Client accounts [5]				**9,701,539**	9,477,254	2.4
Consultants				**3,321**	3,532	(6.0)
Employees [5]				**3,385**	3,652	(7.3)
Financial planning centres				**108**	104	3.8

(1) Net income and earnings per share for the three- and six-month periods ended June 30, 2001 exclude both a restructuring charge of $95.6 million ($54.1 million after tax) taken in the second quarter and goodwill amortization related to the acquisition of Mackenzie. Including these items, net earnings attributable to common shareholders were $26.3 million and $90.4 million for the three-month and six-month periods ended June 30, 2001, respectively.

(2) Represents goodwill amortization related to the company's investment in affiliate to reflect accounting standards now in effect. (See Note 1 of the interim financial statements.)

(3) Assets of $2,214.5 million were transferred to Mackenzie on integration of Maxxum operations with Mackenzie effective October 5, 2001.

(4) For Canadian mutual fund operations only. 2001 results are from date of acquisition or as at June 30.

(5) Includes Mackenzie.

Note: Certain comparative figures in this report have been restated to conform with current-year presentation.

Consolidated Balance Sheets *(in millions of dollars)*	**June 30**	December 31
(unaudited)	**2002**	2001
Assets		
Cash and cash equivalents	**2,516**	2,590
Investments		
Shares	**2,461**	2,237
Bonds	**31,921**	32,585
Mortgages and other loans	**14,945**	15,237
Real estate	**1,240**	1,276
	50,567	51,335
Investment in affiliate, at equity	**1,494**	1,406
Goodwill and intangibles (Note 2)	**5,187**	4,930
Future income taxes	**346**	543
Other assets	**7,582**	7,926
	67,692	68,730
Liabilities		
Policy liabilities		
Actuarial liabilities	**42,935**	43,909
Other	**3,516**	3,690
Deposits and certificates	**699**	671
Long-term debt	**2,503**	2,544
Future income taxes	**451**	313
Other liabilities	**5,618**	6,034
	55,722	57,161
Non-controlling interests	**7,028**	6,877
Shareholders' Equity		
Stated capital (Note 3)		
Non-participating shares	**405**	407
Participating shares	**369**	360
Retained earnings	**3,971**	3,700
Foreign currency translation adjustments	**197**	225
	4,942	4,692
	67,692	68,730

Consolidated Statements of Earnings *(in millions of dollars, except per share amounts)*	For the three months ended June 30		For the six months ended June 30	
(unaudited)	**2002**	2001	**2002**	2001
Revenues				
Premium income	**2,289**	2,661	**5,197**	5,067
Investment income	**942**	1,013	**1,965**	2,000
Fees and media income	**1,039**	968	**2,055**	1,799
	4,270	4,642	**9,217**	8,866
Expenses				
Paid or credited to policyholders and beneficiaries including policyholder dividends and experience refunds	**2,610**	3,006	**5,912**	5,826
Commissions and operating expenses	**1,043**	1,082	**2,090**	2,032
Special charges	**–**	202	**–**	202
Interest expense	**40**	40	**80**	46
	3,693	4,330	**8,082**	8,106
	577	312	**1,135**	760
Share of earnings of affiliate	**45**	31	**46**	34
Other income, net (Note 6)	**(2)**	158	**(2)**	189
Earnings before income taxes, amortization of goodwill and non-controlling interests	**620**	501	**1,179**	983
Income taxes	**209**	87	**401**	252
Amortization of goodwill	**–**	37	**–**	58
Non-controlling interests	**216**	153	**412**	286
Net earnings	**195**	224	**366**	387
Earnings per participating share (Note 5)				
Basic	**0.85**	1.01	**1.60**	1.73
Diluted	**0.84**	0.97	**1.57**	1.68
Earnings before amortization of goodwill per participating share				
Basic	**0.85**	1.10	**1.60**	1.88
Diluted	**0.84**	1.06	**1.57**	1.83

Consolidated Statements of Retained Earnings For the six months ended June 30 *(in millions of dollars)*

(unaudited)	2002	2001
Retained earnings, beginning of year	**3,700**	3,239
Add		
Net earnings	**366**	387
	4,066	3,626
Deduct		
Dividends		
Non-participating shares	**10**	6
Participating shares	**85**	72
Other	**–**	2
	95	80
Retained earnings, end of period	**3,971**	3,546

Consolidated Statements of Cash Flows *(in millions of dollars)*	For the three months ended June 30		For the six months ended June 30	
(unaudited)	**2002**	2001	**2002**	2001
Operating activities				
Net earnings	**195**	224	**366**	387
Non-cash charges (credits)				
Increase (decrease) in policy liabilities	**(15)**	(37)	**(128)**	536
Decrease (increase) in funds withheld by ceding insurers	**140**	84	**355**	(249)
Amortization and depreciation	**15**	55	**27**	83
Future income taxes	**12**	(131)	**101**	(74)
Non-controlling interests	**216**	153	**412**	286
Other	**478**	211	**(417)**	(254)
Cash from operating activities	**1,041**	559	**716**	715
Financing activities				
Dividends paid				
By subsidiaries to non-controlling interests	**(89)**	(59)	**(175)**	(123)
Non-participating shares	**(5)**	(3)	**(9)**	(6)
Participating shares	**(46)**	(38)	**(85)**	(71)
	(140)	(100)	**(269)**	(200)
Issue of subordinate voting shares	**4**	2	**10**	4
Repurchase of non-participating shares for cancellation	**(1)**	(1)	**(2)**	(2)
Issue of common shares by subsidiaries	**8**	4	**18**	10
Issue of preferred shares by subsidiaries	**–**	360	**–**	360
Repurchase of common shares by subsidiaries	**(37)**	(34)	**(76)**	(66)
Issue of long-term debt, commercial paper and other loans	**–**	2,047	**–**	2,182
Repayment of long-term debt, commercial paper and other loans	**(243)**	(12)	**(289)**	(59)
Other	**19**	(26)	**29**	(29)
	(390)	2,240	**(579)**	2,200
Investment activities				
Bond sales and maturities	**4,895**	5,304	**10,488**	10,087
Mortgage loan repayments	**436**	786	**867**	1,519
Sale of shares	**–**	371	**212**	670
Change in loans to policyholders	**(151)**	21	**(170)**	(231)
Change in repurchase agreements	**68**	(2)	**102**	351
Investment in subsidiaries	**–**	(2,602)	**–**	(2,602)
Investment in bonds	**(5,067)**	(5,975)	**(10,679)**	(10,575)
Investment in mortgage loans	**(396)**	(447)	**(693)**	(1,390)
Investment in shares	**(387)**	(93)	**(462)**	(537)
Other	**71**	(16)	**124**	–
	(531)	(2,653)	**(211)**	(2,708)
Increase (decrease) in cash and cash equivalents	**120**	146	**(74)**	207
Cash and cash equivalents, beginning of period	**2,396**	2,085	**2,590**	2,024
Cash and cash equivalents, end of period	**2,516**	2,231	**2,516**	2,231

Note 1. **Significant Accounting Policies**

The interim unaudited consolidated financial statements of Power Corporation of Canada at June 30, 2002 have been prepared in accordance with generally accepted accounting principles in Canada, using the accounting policies described in Note 1 of the Corporation's consolidated financial statements for the year ended December 31, 2001, except as noted below.

Goodwill

Effective January 1, 2002, the Company adopted the recommendations of the CICA Handbook Section 3062 – Goodwill and Other Intangible Assets. Under this standard, goodwill and intangible assets with an indefinite life are no longer amortized but must be reviewed at least annually.

Any impairment loss resulting from the transitional impairment test is to be recorded as a cumulative effect of change in accounting policy and charged to opening retained earnings. Other than the elimination of goodwill amortization charges and a reclassification of $216 million from Future Income Taxes to Goodwill on the Corporation's balance sheet, the new standards had no impact on the financial statements for the three months and six months ended June 30, 2002.

Goodwill amortization amounted to $37 million and $58 million, respectively, for the three months and six months ended June 30, 2001. In accordance with the provisions of Section 3062, prior periods have not been restated.

Foreign Currency Translation

On January 1, 2002, the Corporation adopted the recommendations of the CICA Handbook Section 1650 – Foreign Currency Translation. The amended standards eliminate the deferral and amortization approach to exchange gains and losses on long-term monetary items and require the disclosure of exchange gains and losses included in the calculation of net income. This change in accounting policy had no material effect on the financial statements of the Corporation.

Stock-based Compensation

Effective January 1, 2002, the Company adopted the recommendations of the CICA Handbook Section 3870 – Stock-based Compensation and Other Stock-based Payments. Under this standard, all stock-based payments to non-employees must be accounted for using a fair value-based method of accounting. This new standard encourages, but does not require, the use of the fair value-based method to account for stock-based transactions with employees. The Corporation has chosen to continue to account for stock-based compensation using the intrinsic value method. When the fair value-based method of accounting is not used for stock-based transactions with employees, pro-forma net income and pro-forma earnings per share must be disclosed as if the fair value-based method of accounting had been used to account for stock-based compensation cost. Subsidiaries of the Corporation issued stock options during the six-month period ended June 30, 2002. Had the fair value-based accounting method been applied to options granted in the period, net earnings and earnings per share would have been similar to reported earnings.

Comparative Figures

Certain of 2001 amounts presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

Notes to Consolidated Financial Statements (unaudited)

Note 2. Goodwill and Intangible Assets

A summary of changes in the Corporation's goodwill and intangible assets for the first six months is as follows:

(in millions of dollars)	
Goodwill	
Balance, beginning of period	4,861
Reclassification between goodwill and intangible assets	(1,389)
Reclassification between goodwill and future income taxes	216
Other	41
Balance, end of period	3,729
Intangible assets	
Balance, beginning of period	69
Reclassified from goodwill	1,389
Balance, end of period	1,458

Intangible assets represent the fair value of mutual fund management contracts, trade names, brands and trademarks and shareholders' portion of acquired future participating account profits. These are indefinite-life intangible assets and are not subject to amortization.

Note 3. Capital Stock and Stock Option Plan

Stated Capital *(in millions of dollars)*	**June 30 2002**	December 31 2001
Non-participating shares		
Cumulative Redeemable First Preferred Shares, 1986 Series		
Authorized – Unlimited number of shares		
Issued – 2002 1,099,878 shares	**55**	57
Issued – 2001 1,139,878 shares		
Series A First Preferred Shares		
Authorized and issued		
6,000,000 shares	**150**	150
Series B First Preferred Shares		
Authorized and issued		
8,000,000 shares	**200**	200
	405	407
Participating shares		
Participating Preferred Shares		
Authorized – Unlimited number of shares		
Issued – 2002 24,427,386 shares	**27**	27
Issued – 2001 24,427,386 shares		
Subordinate Voting Shares		
Authorized – Unlimited number of shares		
Issued – 2002 197,699,052 shares	**342**	333
Issued – 2001 196,681,452 shares		
	369	360

Stock Option Plan

Options were outstanding at June 30, 2002 to purchase, until October 21, 2011, 9,192,100 Subordinate Voting Shares at various prices from $9.15625 to $35.325 per share.

Note 4. Segmented Information

Information on Profit Measure For the three months ended June 30, 2002 *(in millions of dollars)*

	Lifeco	Investors	Parjointco	Other	Total
Revenues					
Premium income	**2,289**				**2,289**
Net investment income	**884**	**30**		**28**	**942**
Fees and media income	**475**	**477**		**87**	**1,039**
	3,648	**507**		**115**	**4,270**
Expenses					
Insurance claims	**2,610**				**2,610**
Commissions, other operating expenses	**673**	**270**		**100**	**1,043**
Interest expense		**20**		**20**	**40**
	3,283	**290**		**120**	**3,693**
	365	**217**		**(5)**	**577**
Share of earnings of affiliate			**45**		**45**
Other income – net				**(2)**	**(2)**
Earnings before the following:	**365**	**217**	**45**	**(7)**	**620**
Income taxes	**119**	**82**		**8**	**209**
Non-controlling interests	**124**	**83**	**14**	**(5)**	**216**
Contribution to consolidated net earnings	**122**	**52**	**31**	**(10)**	**195**

Information on Profit Measure For the three months ended June 30, 2001 *(in millions of dollars)*

	Lifeco	Investors	Parjointco	Other	Total
Revenues					
Premium income	2,661				2,661
Net investment income	940	38		35	1,013
Fees and media income	450	435		83	968
	4,051	473		118	4,642
Expenses					
Insurance claims	3,006				3,006
Commissions, other operating expenses	706	272		104	1,082
Special charges	202				202
Interest expense		24		16	40
	3,914	296		120	4,330
	137	177		(2)	312
Share of earnings of affiliate			31		31
Other income – net		(95)	(5)	258	158
Earnings before the following:	137	82	26	256	501
Income taxes	52	32		3	87
Amortization of goodwill	16	21			37
Non-controlling interests	50	17	8	78	153
Contribution to consolidated net earnings	19	12	18	175	224

Notes to Consolidated Financial Statements (unaudited)

Note 4. **Segmented Information** (cont'd)

Information on Profit Measure For the six months ended June 30, 2002 *(in millions of dollars)*

	Lifeco	Investors	Parjointco	Other	Total
Revenues					
Premium income	**5,197**				**5,197**
Net investment income	**1,826**	**61**		**78**	**1,965**
Fees and media income	**938**	**952**		**165**	**2,055**
	7,961	**1,013**		**243**	**9,217**
Expenses					
Insurance claims	**5,912**				**5,912**
Commissions, other operating expenses	**1,342**	**554**		**194**	**2,090**
Interest expense		**40**		**40**	**80**
	7,254	**594**		**234**	**8,082**
	707	**419**		**9**	**1,135**
Share of earnings of affiliate			**46**		**46**
Other income – net				**(2)**	**(2)**
Earnings before the following:	**707**	**419**	**46**	**7**	**1,179**
Income taxes	**223**	**162**		**16**	**401**
Non-controlling interests	**247**	**158**	**15**	**(8)**	**412**
Contribution to consolidated net earnings	**237**	**99**	**31**	**(1)**	**366**

Information on Profit Measure For the six months ended June 30, 2001 *(in millions of dollars)*

	Lifeco	Investors	Parjointco	Other	Total
Revenues					
Premium income	5,067				5,067
Net investment income	1,844	62		94	2,000
Fees and media income	929	709		161	1,799
	7,840	771		255	8,866
Expenses					
Insurance claims	5,826				5,826
Commissions, other operating expenses	1,386	454		192	2,032
Special charges	202				202
Interest expense		25		21	46
	7,414	479		213	8,106
	426	292		42	760
Share of earnings of affiliate			34		34
Other income – net		(95)	16	268	189
Earnings before the following:	426	197	50	310	983
Income taxes	148	83		21	252
Amortization of goodwill	32	21		5	58
Non-controlling interests	141	51	16	78	286
Contribution to consolidated net earnings	105	42	34	206	387

Note 5. **Earnings per Share**

The following is a reconciliation of the numerators and the denominators of the basic and diluted earnings per participating share computations:

For the six months ended June 30 *(in millions of dollars)*

	2002	2001
Net earnings	**366**	387
Dividends on non-participating shares	**(10)**	(6)
Net earnings available to participating shareholders	**356**	381
Weighted number of participating shares outstanding (millions)		
Basic	**221.6**	220.6
Exercise of stock options	**9.2**	10.5
Shares repurchased	**(5.1)**	(3.8)
Weighted number of participating shares outstanding (denominator) (millions)		
Diluted	**225.7**	227.3

For the three months ended June 30 *(in millions of dollars)*

	2002	2001
Net earnings	**195**	224
Dividends on non-participating shares	**(5)**	(3)
Net earnings available to participating shareholders	**190**	221
Weighted number of participating shares outstanding (millions)		
Basic	**221.8**	220.8
Exercise of stock options	**9.2**	10.5
Shares repurchased	**(5.0)**	(3.8)
Weighted number of participating shares outstanding (denominator) (millions)		
Diluted	**226.0**	227.5

Notes to Consolidated Financial Statements (unaudited)

Note 6. **Other Income, Net**

(in millions of dollars)	For the three months ended June 30		For the six months ended June 30	
	2002	2001	**2002**	2001
Share of Pargesa gains		(5)		16
Gain resulting from the dilution of the Corporation's interest in Investors Group		231		231
Restructuring costs		(95)		(95)
Other	**(2)**	27	**(2)**	37
	(2)	158	**(2)**	189

Note 7. **Subsequent Events**

In July 2002, Power Financial Corporation redeemed all of its outstanding Variable Rate Exchangeable Debentures due April 30, 2014. The holders of the Exchangeable Debentures elected to receive shares of BCE Inc. ("BCE") and Nortel Networks Corporation ("Nortel") in lieu of the cash redemption proceeds to which they would have otherwise been entitled. As a result, Power Financial Corporation will no longer hold BCE and Nortel shares.

On July 16, 2002, Power Financial Corporation proceeded with the issue of 6,000,000 Non-Cumulative First Preferred Shares, Series F, carrying a 5.90% annual dividend, for proceeds of $150 million.