



LOUISIANA LOTTERY CORPORATION
A COMPONENT UNIT OF THE STATE OF LOUISIANA
BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE PLAN YEAR ENDED DECEMBER 31, 2008

LOUISIANA LOTTERY CORPORATION
BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS
A COMPONENT UNIT OF THE STATE OF LOUISIANA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE PLAN YEAR ENDED DECEMBER 31, 2008

PREPARED BY ACCOUNTING DEPARTMENT

KAREN B. FOURNET

SENIOR VICE PRESIDENT

SECRETARY TREASURER

**LOUISIANA LOTTERY CORPORATION
 BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT**

TABLE OF CONTENTS

	PAGE
INTRODUCTORY SECTION	
LETTER OF TRANSMITTAL	1
ORGANIZATIONAL CHART	5
CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING.....	6
 FINANCIAL SECTION	
INDEPENDENT AUDITOR’S REPORT	7
MANAGEMENT’S DISCUSSION AND ANALYSIS	9
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS	16
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS	17
NOTES TO THE FINANCIAL STATEMENTS.....	18
SUPPLEMENTAL INFORMATION SCHEDULES	
SCHEDULES OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS, BY INVESTMENT OPTION	
SCHEDULE 1 - 401(A) BASIC PLAN FOR THE YEAR ENDED DECEMBER 31, 2008	27
SCHEDULE 2 - 401(A) SUPPLEMENTAL PLAN FOR THE YEAR ENDED DECEMBER 31, 2008	28
SCHEDULE 3 - 457(B) OPTIONAL SAVINGS PLAN FOR THE YEAR ENDED DECEMBER 31, 2008	29
 INVESTMENT SECTION	
INTRODUCTION.....	30
INVESTMENT POLICY APPROVED INVESTMENT OPTIONS	31
INVESTMENT STYLES.....	32
ASSET ALLOCATION	33
FAIR VALUE AND PERCENT OF TOTAL FAIR VALUE FOR EACH INVESTMENT.....	34

INVESTMENT PERFORMANCE	35
FUND FACT SHEETS	36

STATISTICAL SECTION

HISTORICAL STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS AND PLAN INVESTMENT RETURNS - BASIC PLAN	89
HISTORICAL STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS AND PLAN INVESTMENT RETURNS - SUPPLEMENTAL PLAN	90
HISTORICAL STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS AND PLAN INVESTMENT RETURNS - OPTIONAL SAVINGS PLAN	91
FINANCIAL TREND INFORMATION.....	92
DEMOGRAPHIC INFORMATION - PARTICIPATION AND DEFERRAL TRENDS	93

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	94
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------



June 30, 2009

Board of Directors, Louisiana Lottery Corporation

Introduction

The Louisiana Lottery Corporation (the Corporation) is pleased to submit its Comprehensive Annual Financial Report for the Basic, Supplemental, and Optional Savings retirement plans for the plan year ended December 31, 2008. Lottery management is responsible for the accuracy and completeness of all data and disclosures in this report. To the best of our knowledge, the information presented is accurate and complete in all material respects and fairly depicts the financial activities and position of these plans.

This report is organized into five sections. The introductory section includes this letter of transmittal and an organizational chart. The financial section includes the independent auditor's report, management's discussion and analysis, and the audited financial statements with accompanying notes. The investment section contains information about the funds available for investment by plan participants. Historical and demographic data are presented in the statistical section of this report. A report on compliance and internal control is included in the last section.

Government Finance Officers Association Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting (see page 6) to the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans for its comprehensive annual financial report for the year ended December 31, 2007. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Retirement Plans

The Corporation sponsors three defined contribution retirement plans as part of its employee benefits program. These plans are governmental plans established pursuant to the Louisiana Lottery Corporation Law in Louisiana Revised Statute 47:9015(A). The Basic and Supplemental Retirement Plans are both qualified plans under Section 401(a) of the Internal Revenue Code. The Optional Savings Plan is a voluntary deferred compensation plan adopted under the provisions of IRC Section 457(b).

Lottery employees do not participate in any State of Louisiana retirement plans, except for one employee grandfathered into the state plan. All part-time and full-time employees are automatically enrolled in the Basic Retirement Plan. Only full-time employees participate in the Supplemental Retirement Plan. Full-time employees may elect to participate in the Optional Savings Plan.

The Basic Retirement Plan serves as a replacement for participation in the Social Security system. Because of its governmental entity status, the Corporation was allowed to opt out of Social Security in 1993. Employee and employer contributions, 6.2% and 5%, respectively, are deposited into individual participants' accounts in lieu of transfer to the Social Security Administration. Income in retirement is funded through the balance in a participant's account which consists of accumulated contributions and investment earnings.

Supplemental Plan defined contributions consist of a 4.5% set percentage of compensation deposit each pay period and a potential 2% discretionary contribution at the end of the Corporation's fiscal year.

Participants of the Optional Savings Plan may elect to defer compensation as deposits into their accounts up to IRC limits. The Corporation matches the first 2.5% of these deferrals.

Detailed provisions of each plan are included in the notes to the financial statements beginning on page 18. Financial results for the plans are discussed in management's discussion and analysis beginning on page 9 and the remainder of the financial section. Historical financial results and demographic information is presented in the statistical section beginning on page 89.

Administration and Investments

Principal Life Insurance Company (PLIC), a member of the Principal Financial Group of Des Moines, Iowa, provides administrative and investment services for the plans. The administration and recordkeeping of participant information, account balances, investment earnings, distributions, investment transfers,

contribution deposits, and participant enrollment and education are conducted through PLIC's system and service team. PLIC selects and monitors investment managers for its foundation investment offerings made available through separate accounts. Several mutual funds are also available through PLIC for participant investment. Information about all of the separate accounts, mutual funds, and investment managers is included in the investment section of this report beginning on page 30.

The Corporation's Human Resources and Finance departments are responsible for the administration of the plans with oversight by the Employee Benefits Committee. The Investment Committee serves as the plans' fiduciaries in the selection and monitoring of investment options. Oversight, management, and responsibilities for the plans are presented in the organizational chart on page 5.

Internal Control Framework

Management is responsible for the design and operation of the control environment surrounding the administration and financial reporting of the plans. This internal control structure should provide reasonable assurance that corporate objectives will be achieved in the following categories:

- Reliability of financial reporting
- Safeguarding of the plans' assets
- Compliance with applicable laws and regulations

Management has assigned responsibilities and designed processes in an attempt to prevent potential conflicts of interest or unilateral control of critical functions. The Corporation has segregated duties in several key areas including the following:

- Human resources and payroll processing
- Participant enrollment and review
- Cash management and bank account reconciliations
- Contribution calculations and review
- Contribution deposits submission and reconciliation

Operational procedures have also been established for administration of the plans including the following:

- Monitoring of laws and regulations affecting the plans with PLIC and outside counsel
- Monitoring of investment performance and management through PLIC's due diligence program and other outside sources
- Reporting of employee termination information to PLIC
- Quarterly reconciliation of payroll contributions and the Corporation's general ledger to PLIC employer statements
- Annual preparation of the plans' financial statements and all related reconciliations

Employee compliance with these standards is constantly monitored and evaluated.

Independent Audit

The Louisiana Legislative Auditor performs an annual audit of the plans' financial statements. The audits are conducted in accordance with generally accepted auditing standards and generally accepted government auditing standards. The independent auditor's opinion on the plans' financial statements for the year ended December 31, 2008, is included in the financial section of this report.

Acknowledgements

The Accounting Department staff prepared each section of the Comprehensive Annual Financial Report. Their efforts have greatly contributed to the success of this informative document. In addition, we appreciate the efforts of the Legislative Auditor's Office in providing assistance with technical requirements.

We are committed to providing thorough and relevant financial information to the users of our financial statements. Our preparation of this Comprehensive Annual Financial Report reflects this commitment. The additional presentations and disclosures required will assist readers in obtaining an understanding of the plans' provisions, investment options, and historical and current financial results.

Respectfully submitted,

Employee Benefits Committee
Louisiana Lottery Corporation



Rose J. Hudson
President

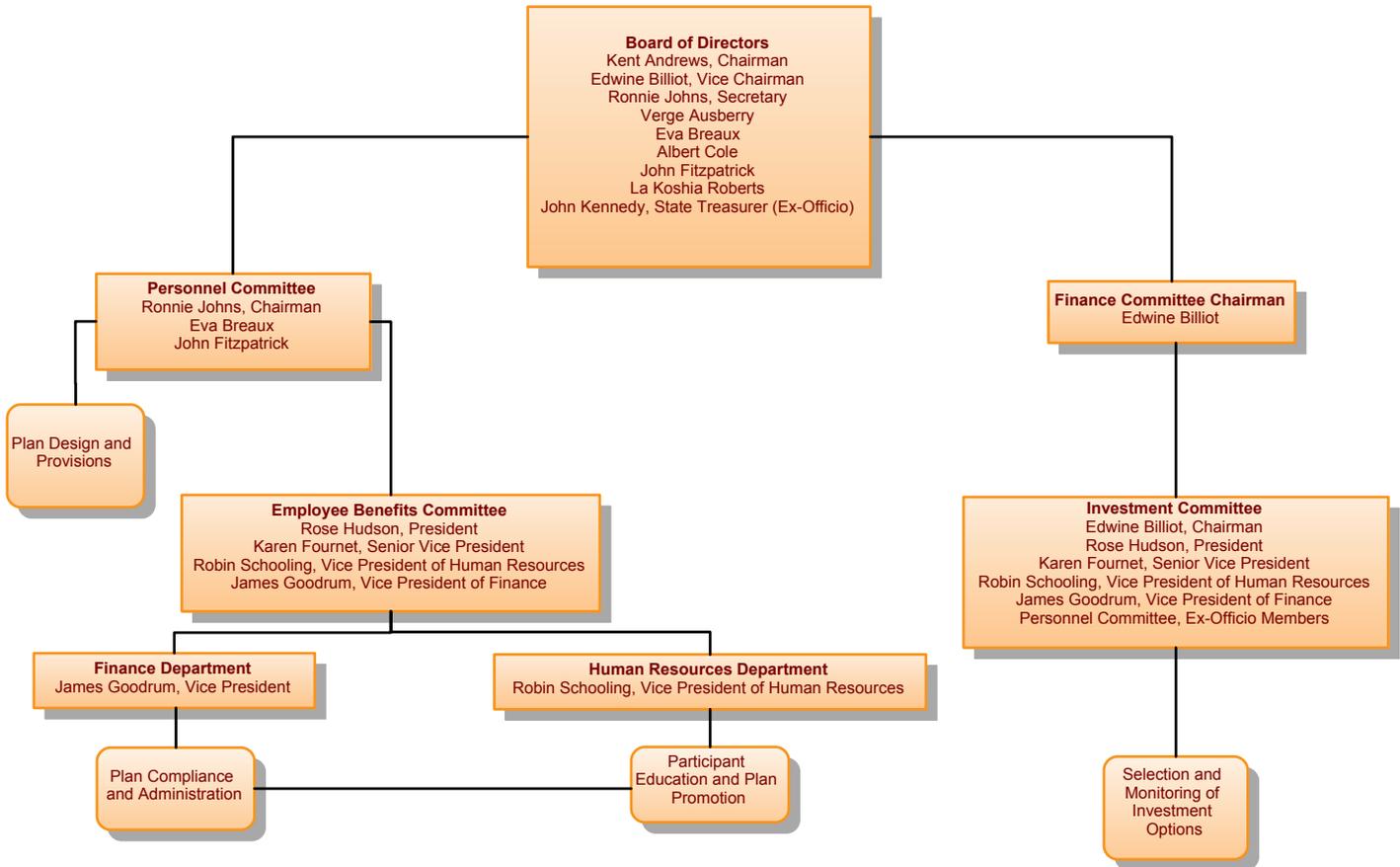


Karen B. Fournet
Senior Vice President and
Secretary Treasurer



James F. Goodrum
Vice President of Finance and Controller

Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Louisiana Lottery Corporation
Basic, Supplemental, and
Optional Savings Retirement Plans

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

FINANCIAL SECTION



LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

June 4, 2009

Independent Auditor's Report

**BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
BASIC, SUPPLEMENTAL, AND OPTIONAL
SAVINGS RETIREMENT PLANS
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the accompanying statement of net assets available for benefits of the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans as of December 31, 2008, and the related statement of changes in net assets available for benefits for the year then ended, which collectively comprise the Plans' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Louisiana Lottery Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans as of December 31, 2008, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

For the year ending December 31, 2007, comparative financial statements were presented and the amounts for the Basic and Supplemental Plans were combined. The December 31, 2008, financial statements referred to above are not presented with comparative prior year amounts and the amounts relating to the Basic and Supplemental Plans are reported separately.

LOUISIANA LOTTERY CORPORATION

BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS _____

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2009, on our consideration of the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 9 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans' basic financial statements. The accompanying supplemental information schedules of changes in net assets available for benefits, by investment option, introductory section, investment section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying supplemental information schedules of changes in net assets available for benefits by investment option have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

BF:WDD:EFS:PEP:dl

LLCRP08



**LOUISIANA LOTTERY CORPORATION
BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS
STATE OF LOUISIANA**

**Management's Discussion and Analysis
For the Year Ended December 31, 2008**

This discussion of the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans' financial statements provides an overview and analysis of the plans' financial position and activities for the year ended December 31, 2008. Please read it in conjunction with the plans' financial statements and notes to the financial statements.

Our annual report consists of two types of financial statements, supplementary information schedules, and accompanying notes that provide narrative explanations and additional details of the plans' provisions and activities. The statements, supplementary information schedules, and notes are presented using the accrual method of accounting. Under this method, financial transactions are recorded when earned or incurred regardless of when cash is received or disbursed.

The statement of net assets available for benefits on page 16 includes all assets and liabilities of the plans. The balances reported are as of the year ended December 31, 2008. Assets consist of the fair value of units held for the benefit of participants under each investment fund. Fair value is based on deposit values and quoted market prices of the underlying investments. No liabilities exist because all expenses due from the plans are deducted monthly from investment income and all benefits due to participants were distributed as of the end of the year.

A summary of all financial activities that occurred during the twelve-month periods ending December 31, 2008, is presented in the statement of changes in net assets available for benefits on page 17. The categories of activities included on this statement provide reasons for increases or decreases in plan net assets. Investment income includes all interest, dividends, and market value gains or losses earned by each investment fund during the year. This income is reflected net of the plans' administrative service provider's investment management fees. Participant and employer contributions are the funds deposited into participant accounts for each pay period during the year in accordance with the terms of the plans. Withdrawals paid to terminated or retired employees are included in the benefits paid to participants'

MANAGEMENT'S DISCUSSION AND ANALYSIS

category. A description of contribution and distribution requirements can be found in note 2 to the financial statements beginning on page 19.

The supplementary information schedules beginning on page 27 present the plans' activities and balances segregated by investment fund. Interfund transfers include participant-directed transfers of funds between investment accounts and the allocation of forfeited balances from nonvested participant accounts to the remaining active and eligible participant accounts.

The notes to the financial statements that begin on page 18 present information on accounting policies, plan provisions, investments, investment management fees, forfeitures, income tax status determinations, risk management, termination and merger provisions, and litigation. These notes are an integral part of the financial statements.

A condensed financial data comparison between the current year ended December 31, 2008, and the year ended December 31, 2007, is presented below.

401(a)		
Basic Plan		
Plan Years Ended December 31 for the Years Shown		
	2008	2007
Assets	\$4,600,089	\$6,713,613
Liabilities	NONE	NONE
Net assets available for benefits	\$4,600,089	\$6,713,613
Additions:		
Net investment income	(\$2,246,435)	\$385,703
Contributions:		
Participant	323,826	321,024
Employer	260,984	257,292
Total additions	(1,661,625)	964,019
Deductions:		
Benefits paid to participants	(451,899)	(400,802)
(Decrease) Increase in net assets	(\$2,113,524)	\$563,217

MANAGEMENT'S DISCUSSION AND ANALYSIS

**401 (a)
Supplemental Plan
Plan Years Ended December 31 for the Years Shown**

	2008	2007
Assets	\$2,679,081	\$3,837,742
Liabilities	NONE	NONE
Net assets available for benefits	\$2,679,081	\$3,837,742
Additions:		
Net investment income	(\$1,329,029)	\$237,927
Contributions:		
Participant	953	3,698
Employer	314,337	301,853
Total additions	(1,013,739)	543,478
Deductions:		
Benefits paid to participants	(144,922)	(193,500)
(Decrease) Increase in net assets	(\$1,158,661)	\$349,978

**457(b)
Optional Savings Plan
Plan Years Ended December 31 for the Years Shown**

	2008	2007
Assets	\$3,309,188	\$4,758,539
Liabilities	NONE	NONE
Net assets available for benefits	\$3,309,188	\$4,758,539
Additions:		
Net investment income	(\$1,642,628)	\$300,559
Contributions:		
Participant	367,608	336,897
Employer	122,485	117,225
Total additions	(1,152,535)	754,681
Deductions:		
Benefits paid to participants	(296,816)	(268,516)
(Decrease) Increase in net assets	(\$1,449,351)	\$486,165

The assets of the plans decreased because the combination of negative investment income and benefits paid to participants were greater than contributions. The reasons for the activity in each component outlined as follows provide the rationale for this overall change.

Investment income

The average investment return on the plans' portfolio, calculated as investment income divided by the average asset balance for the year, was as follows:

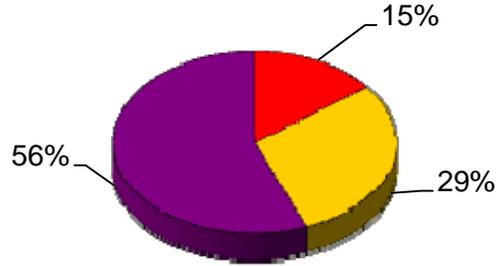
	<u>2008</u>	<u>2007</u>
<i>Basic Plan</i>	-39.71%	6.00%
<i>Supplemental Plan</i>	-40.79%	6.50%
<i>Optional Savings Plan</i>	-40.72%	6.66%

The reasons for this investment performance include the asset allocation of the plans' investment portfolio, economic conditions, and the losses and gains of the individual investment funds offered through the plans.

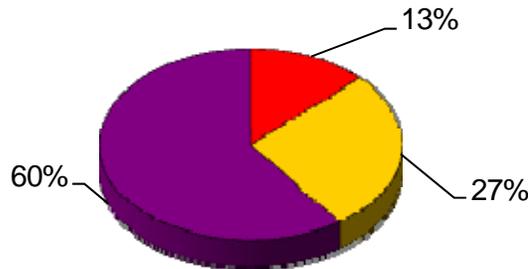
The underlying portfolios of the investments in the plans contain a mix of stocks, bonds, and cash. Each of these types of investments has different risk and return characteristics. Typically, a riskier investment has greater upside and greater downside performance potential. Stocks tend to be more volatile and risky investments that perform according to economic and corporate growth and profitability cycles. Bonds are usually more conservative investments that provide a fixed stream of income and fluctuations in values dependent upon changes in market interest rates. Cash investments include short-term government and corporate securities that offer a stable and very liquid principal value with an interest component.

An estimated asset allocation of the plans' portfolios is presented on the following page.

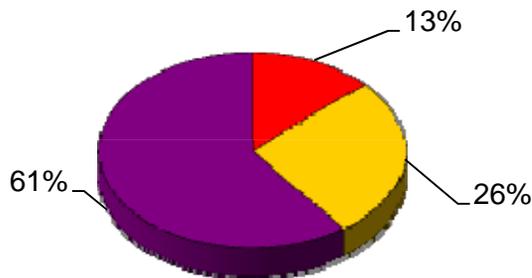
401(a) Basic Plan



401(a) Supplemental Plan



457(b) Optional Savings Plan



These charts illustrate that the plans' investment performance is heavily dependent upon changes in the stock and bond markets. These financial markets tend to fluctuate

MANAGEMENT'S DISCUSSION AND ANALYSIS

with economic trends and conditions. The following chart provides economic indicators and financial market results for each year.

	<u>2008</u>	<u>2007</u>
<u>Economic Indicators:</u>		
<i>Gross Domestic Product (GDP)</i>	1.10%	2.20%
<i>Federal Funds Rate</i>	0.25%	4.25%
<i>Unemployment Rate</i>	7.20%	5.00%
<i>Consumer Price Index (CPI)</i>	3.80%	2.80%
<u>Financial Markets:</u>		
<i>Dow Jones Industrial Average (DJIA)</i>	-33.83%	6.43%
<i>NASDAQ Composite Index</i>	-40.54%	9.81%
<i>Standard and Poor's 500 Index (S&P500)</i>	-38.49%	3.53%
<i>10-Year Treasury Note Yield</i>	2.24%	4.03%

The United States and global economies were severely strained in 2008 because of rising defaults in mortgage loans, rapid depreciation of real estate values, bank and financial industry failures, and increases in unemployment. The unprecedented collapse of major financial and investment institutions resulted in government intervention. The effects of these conditions and events drove the economies into recession.

These economic and financial market factors had an impact on the performance of investments. Most domestic and international stock funds had steep losses in 2008. Short-term money market fund returns fluctuated with changes in the Federal Funds Rate. The values of corporate and asset-backed fixed-income funds decreased because of credit quality issues. U.S. Treasury notes and bonds were the few safe-haven investments in 2008.

The investment performance of the individual funds offered through the plans was affected by the financial market environment. Investment income generated by each fund is listed on the supplementary schedules beginning on page 27. In addition, investment performance and benchmark comparisons are included in the investment section of this report beginning on page 30.

Contributions

The level of contributions to the plans is affected by annual compensation for all three plans and elective participant deferrals in the Optional Savings Plan. Total

MANAGEMENT'S DISCUSSION AND ANALYSIS

compensation was \$5.46 million in 2008 and \$5.27 million in 2007. Contributions are calculated as a percentage of wages. In addition, the average deferral percentages for the Optional Savings Plan for plan years 2008 and 2007 were 6.74% and 6.39%, respectively. The contribution provisions for both plans are outlined in note 2 to the financial statements beginning on page 19. Historical compensation and deferral information is provided in the demographic information in the statistical section of this report on page 93.

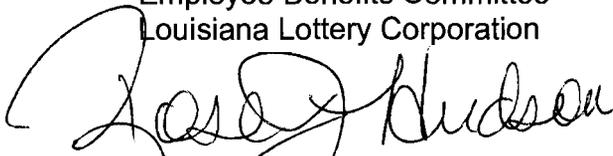
Benefits paid to participants

The amount of benefits paid out in any given year is dependent upon the volume of employee terminations or retirements, the length of service of these employees, the balances maintained in their accounts, and the distribution elections that determine the timing of payments. Differences in these factors can cause substantial variances in a year-to-year comparison of plan distributions. The distribution provisions for the plans are included in note 2 to the financial statements beginning on page 19.

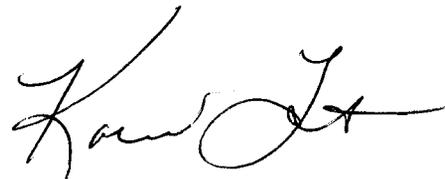
This financial overview of the Basic, Supplemental, and Optional Savings Retirement Plans is provided as a supplemental analysis of the financial position and activities of the plans as of and for the year ended December 31, 2008. It is based on currently known facts and decisions and includes information about transactions, events, and conditions that are reflected in the financial statements and accompanying notes. The additional presentations and disclosures are included to assist the users of this report in understanding the financial results of these retirement plans.

Respectfully submitted,

Employee Benefits Committee
Louisiana Lottery Corporation



Rose J. Hudson
President



Karen B. Fournet
Senior Vice President and
Secretary Treasurer



James F. Goodrum
Vice President of Finance and Controller

**LOUISIANA LOTTERY CORPORATION
BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS
STATE OF LOUISIANA**

**Statement of Net Assets Available for Benefits
December 31, 2008**

	401(a) Plans		457(b) Plan
	<u>Basic</u>	<u>Supplemental</u>	<u>Optional Savings</u>
ASSETS			
Investments (note 3)	\$4,600,089	\$2,679,081	\$3,309,188
LIABILITIES			
	NONE	NONE	NONE
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$4,600,089</u>	<u>\$2,679,081</u>	<u>\$3,309,188</u>

The accompanying notes are an integral part of this statement.

**LOUISIANA LOTTERY CORPORATION
BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS
STATE OF LOUISIANA**

**Statement of Changes in Net Assets Available for Benefits
For the Year Ended December 31, 2008**

	<u>401(a) Plans</u>		<u>457(b) Plan</u>
	<u>Basic</u>	<u>Supplemental</u>	<u>Optional Savings</u>
ADDITIONS			
Investment income	(\$2,236,217)	(\$1,329,029)	(\$1,642,628)
Less investment management fees (note 4)	(10,218)	NONE	NONE
Net investment income	(2,246,435)	(1,329,029)	(1,642,628)
Contributions:			
Participant	323,826	953	367,608
Employer	260,984	314,337	122,485
Total additions	(1,661,625)	(1,013,739)	(1,152,535)
DEDUCTIONS			
Benefits paid to participants	(451,899)	(144,922)	(296,816)
Net decrease	(2,113,524)	(1,158,661)	(1,449,351)
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	<u>6,713,613</u>	<u>3,837,742</u>	<u>4,758,539</u>
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	<u>\$4,600,089</u>	<u>\$2,679,081</u>	<u>\$3,309,188</u>

The accompanying notes are an integral part of this statement.

INTRODUCTION

The Louisiana Lottery Corporation (Corporation) is authorized under Louisiana Revised Statute (R.S.) 47:9015(A) to provide or arrange for a retirement plan. The Corporation's Basic, Supplemental, and Optional Savings Retirement Plans (the Plans) have been established pursuant to this statute.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and reporting principles.

The Corporation's Plans report on their financial position and results of operations. The financial statements account for contributions from participants and the employer, investment income, and benefits distributed to participants.

B. REPORTING ENTITY

Using the criteria in GASB Codification Section 2100, the Division of Administration, Office of Statewide Reporting and Accounting Policy, has defined the governmental reporting entity to be the State of Louisiana. The Corporation is considered to be a component unit of the State of Louisiana because the state has financial accountability for the Corporation. Although the Corporation appoints the Plans' governing board, the Corporation is not financially accountable for the Plans since, under the Internal Revenue Code (IRC), all assets and income of the Plans are held in trust for the exclusive benefit of participants. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Corporation's financial statements. In addition, administrative and investment services for the Plans are provided by an insurance company.

The accompanying financial statements present information only as to the transactions of the Corporation's Plans. The Corporation's financial statements and note disclosure relating to the Plans are reported within the State of Louisiana's *Comprehensive Annual Financial Report*, which is audited by the Louisiana Legislative Auditor.

C. BASIS OF ACCOUNTING

Basis of accounting refers to the timing of recognition of additions and deductions in the accounts and reporting in the financial statements. The financial statements of the Corporation's Plans are accounted for using the accrual basis of accounting. Accordingly, additions are recognized when earned and deductions are recognized when incurred. The Plans use the following practices in recognizing additions and deductions:

Contributions

Employer and employee contributions are recognized in the period when the compensation used to calculate the contributions is reported on Internal Revenue Service (IRS) Form W-2.

Investment Income

Investment income is accrued as earned, net of investment management fees.

Plan Expenses

Fees related to the record keeping and administration of the Plans are paid by the Louisiana Lottery Corporation. Investment management fees, which are based on the daily net assets, are deducted monthly from the investment income of the Basic Plan and, therefore, are not a liability of the Plans at December 31, 2008.

Benefits Paid to Participants

Benefits are recorded when paid.

D. VALUATION OF INVESTMENTS

Investments are reported at fair value, which is based on deposit values and quoted market prices.

2. DESCRIPTION OF THE PLANS

As of December 31, 2008, there were 135 participants in the Basic Plan, 107 participants in the Supplemental Plan, and 106 participants in the Optional Savings Plan.

A. BASIC RETIREMENT PLAN

The Corporation has a money purchase plan under Section 401(a) of the Internal Revenue Code (IRC) of 1986, as amended, which is intended to constitute a safe harbor within the meaning of Section 3121(b)(7) of the code and the regulations promulgated thereunder. The Basic Retirement Plan, which is a defined contribution plan, began September 1, 1993, with all employees eligible except those who elect coverage under a state retirement plan and those who are either independent contractors or leased employees.

Under the terms of the plan, an employee is eligible to participate in the plan immediately upon employment.

As defined in the Basic Retirement Plan, the Corporation's contribution shall be 5% of the participant's compensation for such plan year. The participant's contribution shall equal 6.2% of his or her compensation for such plan year.

A participant is fully vested immediately. In no event shall the assets of this plan revert for the benefit of the Corporation. No more than the social security wage base in effect as of the first day of the plan year shall be treated as compensation. As of June 1, 1994, the Corporation elected to treat all contributions to the basic retirement plan as pre-tax.

The distribution of a participant's benefits shall commence as of the date designated by the participant (annuity starting date) after termination of employment with the Corporation, but shall not be later than April 1 of the year following the calendar year in which the participant attains age 70½ or the date on which the participant terminates his or her employment, if later. Subject to certain restrictions, an active participant may also elect to receive a distribution upon attainment of age 62 without regard to whether the participant has terminated his or her employment.

The participant shall make a qualified election to receive the distribution in the form of a single-sum payment or to purchase a qualified joint and survivor annuity or single life annuity contract. This qualified election may be revoked, modified, or amended at any time, or multiple times before the participant's annuity starting date; however, the qualified election is irrevocable as of the participant's annuity starting date.

B. SUPPLEMENTAL RETIREMENT PLAN

The Corporation has a defined contribution retirement plan that covers substantially all full-time employees. The plan is a governmental plan within the meaning of Section 414(d) of the IRC of 1986, as amended, and is intended to constitute a profit-sharing plan under which contributions are determined without regard to the current or accumulated profits of the Corporation, if any. The Corporation contributes 4.5% of each participant's compensation for the year, as defined. Generally, participants are not permitted to contribute to the plan; however, participants may contribute proceeds from a qualified rollover distribution as allowed by IRC Section 402. An eligible employee shall participate in the plan as of the entry date that coincides with or immediately follows the date on which the eligible employee completes 90 consecutive calendar days of employment with the Corporation.

In addition, each plan year, the Board of Directors of the Corporation may determine the amount of a discretionary contribution not to exceed 2% of each participant's compensation for any plan year.

A participant's amount shall be fully vested and nonforfeitable upon such participant's death, disability, or attainment of the normal retirement age (65 years of age) or upon the completion of three years of service. A year of service is a plan year in which a participant is credited with 1,000 hours of service. In no event shall the assets of this plan revert for the benefit of the Corporation.

The distribution of a participant's vested and nonforfeitable portion of his/her account shall be made in the form of a single-sum payment after the participant terminates employment with the Corporation, attains the normal retirement age, or dies. A participant may elect to postpone the distribution, in writing on forms provided by the

Employee Benefits Committee, provided, however, in no event shall distribution be postponed later than April 1 following the close of the calendar year in which the participant attains age 70½ or the date on which the participant terminates his or her employment, if later.

C. OPTIONAL SAVINGS PLAN

The Optional Savings Plan is a voluntary deferred compensation plan adopted under the provisions of IRC Section 457(b). Under the terms of the Plan, an employee is eligible to participate in the Plan as of the entry date that coincides with or immediately follows the date on which the employee completes a 90-day employment period. For the plan year, the sum of compensation deferred by a participant and the Corporation's matching contributions made on behalf of such participant shall not exceed the lesser of such participant's compensation or \$15,500. The Corporation contributes a matching contribution equal to the amount of compensation deferred by each participant up to 2.5% of each participant's compensation as reported on IRS Form W-2, increased by the amount of any deferral under this Plan.

A participant's matching contribution account is fully vested and nonforfeitable upon such participant's death, disability, or attainment of the normal retirement age (65 years of age) or upon the completion of three years of service. A year of service is a plan year in which a participant is credited with 1,000 hours of service.

Before August 20, 1996, under requirements of IRC Section 457, the assets in the Plan remained the property of the employer until paid or made available to participants, subject only to the claims of the employer's general creditors. On August 20, 1996, IRC Section 457 was amended by the Small Business Job Protection Act to require that all assets and income of the Plan be held in trust for the exclusive benefit of the participants and their beneficiaries. The Corporation amended the Optional Savings Plan on January 1, 1997, to reflect this change in the IRC.

Benefits are payable to former employees at the time and in the manner designated by the participants on a distribution election form. In no event may a participant defer payment of benefits later than April 1 of the calendar year immediately following the year in which the participant attains age 70½. The distribution of benefits shall be made either in the form of a single-sum payment or in the form of substantially equal annual installment payments not to exceed 15 years.

3. INVESTMENTS

Principal Life Insurance Company (PLIC) provides administrative and investment services for the Plans. The Plans' investments at December 31, 2008, are held in pooled separate accounts or trusts. The separate accounts are established through a flexible investment annuity group contract with PLIC and consist of proprietary Principal funds and nonproprietary Russell LifePoints mutual funds. The Principal Stable Value Signature Fund is held in a trust with Union Bond & Trust Company (f.k.a. Gartmore Trust Company) serving as the trustee. Other

mutual fund investments are offered through a group custodial agreement that includes Principal Trust Company (f.k.a. Delaware Charter Guarantee & Trust Company) as trustee.

The Corporation's Retirement Plans Investment Committee (the Committee) is responsible for designating the funds available for investment by Plan participants in accordance with its formal investment policy. The primary objectives of the investment program are to provide quality investment options, allow participants to exercise control over the investment of their retirement accounts, and offer access to an appropriate range of prudent investment options that enables participants to construct a well-diversified portfolio. The policy includes qualitative and quantitative criteria for selecting and monitoring investment options and managers for both debt and equity investment funds. No specific credit ratings for funds invested in debt securities are required. In addition, the policy does not specifically address requirements for interest rate or foreign currency risk.

Participants in the Supplemental and Optional Savings Plans can allocate the investment of participant and employer contributions in whole percentages to any combination of funds reflected on the following page. Basic Plan participants can direct the investment of participant and employer contributions to any of the Principal LifeTime or Russell LifePoints separate accounts listed on the following page. The investment allocations in the Plans for current balances and future contributions can be changed on a daily basis.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2008, investments are composed of the following:

	<i>401(a)</i> <i>Plans</i>		<i>457(b)</i> <i>Plan</i>
	<u>Basic</u>	<u>Supplemental</u>	<u>Optional Savings</u>
Principal Stable Value Signature Fund (Union Bond & Trust Company - Trustee)		\$122,765	\$94,707
PLIC Flexible Investment Annuity Group Contract			
Separate Accounts:			
Principal Proprietary Funds R2 Rate Level:			
U.S. Property		8,481	16,416
LargeCap S&P 500 Index (f.k.a. LargeCap Stock Index)		159,156	167,817
MidCap Value I		7,145	12,173
International Growth (1)		32,354	14,498
Principal Proprietary Funds R3 Rate Level:			
Bond & Mortgage		80,550	42,886
LargeCap Blend II (f.k.a. LargeCap Blend)		47,157	63,393
LargeCap Growth I		29,543	59,809
LargeCap Value III (f.k.a. LargeCap Value I)		35,988	31,180
MidCap Growth III (f.k.a. MidCap Growth)		73,782	95,417
SmallCap Growth II		31,899	66,295
SmallCap Value I		64,398	66,575
Principal Proprietary Funds R6 Level:			
Principal LifeTime:			
LifeTime Strategic Income (1)	\$1,254		
LifeTime 2010 (1)	27,035	53,348	143,630
LifeTime 2020 (1)	90,355	33,690	43,174
LifeTime 2030 (1)	106,706	17,046	17,749
LifeTime 2040 (1)	35,483	5,361	4,939
LifeTime 2050 (1)	3,473	6,407	4,884
Nonproprietary Funds R6 Level:			
Russell LifePoints:			
Conservative Strategy (1)	200,450	67,088	170,682
Moderate Strategy (1)	178,602	135,084	314,146
Balanced Strategy (1)	2,309,448	710,687	572,755
Growth Strategy (1)	1,196,732	743,876	1,038,262
Equity Growth Strategy (1)	450,551	79,494	124,569
Mutual Fund Investments (Principal Trust Company - Trustee):			
American Century Equity Income A Fund		35,728	31,925
American Funds Growth Fund of America R3 Fund (1)		23,384	29,576
American Funds Europacific Growth R3 Fund (1)		74,670	81,731
Total	<u>\$4,600,089</u>	<u>\$2,679,081</u>	<u>\$3,309,188</u>

(1) At December 31, 2008, funds contain investments in international securities. In the Principal LifeTime funds, approximately 5% of Strategic Income, 12% of LifeTime

NOTES TO THE FINANCIAL STATEMENTS

2010, 16% of LifeTime 2020, 19% of LifeTime 2030, 22% of LifeTime 2040, and 23% of LifeTime 2050 are invested in international securities. In the Russell LifePoints funds, approximately 8% of Conservative, 13% of Moderate, 19% of Balanced, 24% of Growth, and 33% of Equity Growth are invested in international securities. The American Funds Growth Fund of America R3 Fund contains approximately 16% international investments. The Principal International Growth separate account and the American Funds Europacific Growth R3 Fund are international funds.

Several of the funds have material allocations to debt investments in the form of bond holdings. Most of the funds' underlying bond investments have credit quality ratings, but the funds are not specifically rated. Average credit quality ratings for the underlying bond portfolios of the funds are reported by Morningstar.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It provides a more accurate description of a bond's true interest-rate sensitivity than does maturity because it uses the present value of all expected cash flows, including prepayments and adjustable coupons, and weights those cash flows as a percentage of the investment's full price. This measurement is reported in years and indicates higher interest rate risk as the number increases.

Investments in mortgage-backed securities are based on flows from payments on the underlying mortgages that contain prepayment options which cause them to be highly sensitive to changes in interest rates. Generally, when interest rates fall, obligees tend to prepay the assets, thus eliminating the stream of interest payments that would have been received under the original amortization schedule. This reduced cash flow diminishes the fair value of the asset-backed investment. In addition, the risk of default of the underlying mortgages and market values of the real estate provided as collateral affect the fair value of these bonds.

The percentage of each funds' holdings invested in bonds at December 31, 2008, the average credit quality ratings, the average effective duration, and the percentage of bond holdings invested in mortgage-backed securities are presented for each fund in the chart below.

	Bond %	Average Credit Quality	Average Effective Duration (Years)	Mortgage- Backed Securities Exposure %
Principal Stable Value Signature Fund	78	AA+/Aa1	2.95	-
Principal Bond & Mortgage	87	AA	4.16	45.73
Principal LifeTime:				
LifeTime Strategic Income	62	AA	3.70	30.56
LifeTime 2010	43	AA	4.40	37.04
LifeTime 2020	32	A	3.63	34.90
LifeTime 2030	22	A	3.65	28.76
LifeTime 2040	14	A	3.66	20.82
LifeTime 2050	10	BBB	3.71	12.71
Russell LifePoints:				
Conservative Strategy	60	AA	4.41	34.05
Moderate Strategy	49	AA	4.95	29.21
Balanced Strategy	36	AA	4.95	20.01
Growth Strategy	19	AA	4.95	9.99

4. INVESTMENT MANAGEMENT FEES

An asset-based fee of 0.20% is assessed to the Basic Plan only pursuant to a service and expense agreement with PLIC. This fee, which is based on the daily net assets, is deducted monthly from the separate accounts. During the year ended December 31, 2008, investment management fees were \$10,218.

5. FORFEITURES

A participant's Supplemental and Optional Savings Plan nonvested employer contribution account is forfeited at the close of the plan year in which the participant's employment with the Corporation is terminated. These forfeitures are reallocated to the employer contribution accounts of all remaining active participants based on the proportion that each participant's compensation bears to total compensation of all participants.

During the year ended December 31, 2008, forfeited nonvested accounts of \$7,176 in the Supplemental Plan and \$1,750 in the Optional Savings Plan were reallocated to the accounts of remaining active participants at December 31, 2006.

At December 31, 2008, forfeiture account balances of \$12,529 and \$4,804 remain in the Supplemental Plan and Optional Savings Plan, respectively. These funds represent forfeited nonvested accounts for the 2007 and 2008 plan years that will be reallocated to the remaining participants that were active at the end of those years.

6. INCOME TAX STATUS

The Basic and Supplemental Retirement Plans obtained favorable determination letters from the IRS on July 3, 2002. The IRS stated that the Plans, as then designed, were in compliance with the applicable requirements of the IRC. The Plans have been amended since receiving the determination letters. However, the Plans' tax counsel believes that the Plans are currently designed and are being operated in compliance with the applicable requirements of the IRC. Therefore, the Plans were qualified and tax-exempt as of the financial statement date.

The Optional Savings Plan is an employee benefit plan that is established and maintained under Section 457(b) of the IRC. The Optional Savings Plan has not requested a private letter ruling, which is, in effect, a determination as to the legal status of the Plan. However, the Plan's tax counsel believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

7. RISK MANAGEMENT

The Corporation and the Plans' fiduciaries are exposed to various risks of loss related to investment performance, crime, and administrative errors or omissions. The Plans are governmental plans and are not subject to the requirements of the Employee Retirement Income Security Act (ERISA). However, in the best interests of the participants, the Plans' fiduciaries have elected to follow the guidelines in ERISA to provide adequate due diligence in the selection

and monitoring of investment options and managers. PLIC assists with these responsibilities and is a co-fiduciary with regard to the selection, monitoring, and retention of portfolio investment managers for its separate accounts. In addition, the Corporation has purchased fiduciary liability, crime, and employee benefits administration commercial insurance to cover potential losses.

8. TERMINATION

Although it has not expressed any intent to do so, the Board of Directors of the Corporation has the right, at any time, to terminate the Plans, in whole or in part, by delivering written notice to the administrative services provider and to each participant of such termination. A complete discontinuance of the Corporation's contributions to the Plans shall be deemed to constitute a termination. Upon such termination, the Employee Benefits Committee shall direct the administrative services provider to distribute the assets of the Plans to the participants. Upon termination (whether full or partial) or a complete discontinuance of contributions, all amounts allocated to the accounts of affected participants shall become fully vested and nonforfeitable.

9. MERGERS

The Basic and Supplemental Plans may be merged or consolidated with or its assets and liabilities may be transferred to another plan only if the benefits which would be received by a participant in the event of a termination of the Plans immediately after such transfer, merger, or consolidation are at least equal to the benefit such participant would have received if the Plans had terminated immediately before the transfer, merger, or consolidation.

10. LITIGATION

There is no pending litigation against the Plans at December 31, 2008.

SCHEDULES OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS, BY INVESTMENT OPTION

Whereas Statement B presents the totals for the Plans as a whole, these schedules present the changes in net assets available for benefits by investment option for the year ended December 31, 2008.

**LOUISIANA LOTTERY CORPORATION
BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS
STATE OF LOUISIANA**

**Schedule of Changes in Net Assets Available for Benefits, by Investment
Option for the 401(a) Basic Plan
For the Year Ended December 31, 2008**

	NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	INVESTMENT INCOME	INVESTMENT MANAGEMENT FEES	PARTICIPANT CONTRIBUTIONS	EMPLOYER CONTRIBUTIONS	BENEFITS PAID TO PARTICIPANTS	INTERFUND TRANSFERS	NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR
PLIC Flexible Investment Annuity Group Contract								
Separate Accounts:								
Principal Proprietary Funds R6 Rate Level:								
Principal Life Time:								
Life Time Strategic Income	\$ 624	(\$457)	(\$2)	\$1,371	\$1,105	(\$1,387)		\$1,254
Life Time 2010	7,805	(8,769)	(39)	17,513	14,124		(\$3,599)	27,035
Life Time 2020	12,656	(36,987)	(129)	27,965	22,552	(9,460)	73,758	90,355
Life Time 2030	17,356	(40,940)	(142)	46,992	37,729	(2,050)	47,761	106,706
Life Time 2040	7,712	(12,186)	(41)	20,486	16,521	(1,013)	4,004	35,483
Life Time 2050	181	(624)	(3)	2,582	2,082	(745)		3,473
Nonproprietary Funds R6 Rate Level:								
Russell LifePoints:								
Conservative Strategy	55,080	(16,938)	(260)	7,127	5,748	(2,866)	152,559	200,450
Moderate Strategy	229,533	(60,556)	(431)	15,173	12,237	(63,445)	46,271	178,602
Balanced Strategy	3,980,557	(1,091,721)	(5,116)	64,026	51,634	(358,570)	(331,362)	2,309,448
Growth Strategy	1,700,125	(655,317)	(2,889)	86,099	69,435	(10,602)	9,881	1,196,732
Equity Growth Strategy	702,164	(311,722)	(1,166)	34,492	27,817	(1,761)	727	450,551
Total	\$6,713,613	(\$2,236,217)	(\$10,218)	\$323,826	\$260,984	(\$451,899)	NONE	\$4,600,089

**LOUISIANA LOTTERY CORPORATION
BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS
STATE OF LOUISIANA**

**Schedule of Changes in Net Assets Available for Benefits, by Investment
Option for the 401(a) Supplemental Plan
For the Year Ended December 31, 2008**

	NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	INVESTMENT INCOME	PARTICIPANT CONTRIBUTIONS	EMPLOYER CONTRIBUTIONS	BENEFITS PAID TO PARTICIPANTS	INTERFUND TRANSFERS	NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR
Principal Stable Value Signature Fund (Union Bond & Trust Company - Trustee)	\$25,072	\$1,365		\$4,952		\$91,376	\$122,765
PLIC Flexible Investment Annuity Group Contract I							
Separate Accounts:							
Principal Proprietary Funds R2 Rate Level:							
U.S. Property	10,526	(1,325)		1,119		(1,839)	8,481
LargeCap S&P 500 Index	239,854	(85,650)		3,651	(\$14,679)	15,980	159,156
MidCap Value I	9,910	(3,843)		1,227		(149)	7,145
International Growth	7,447	(24,876)		2,466		47,317	32,354
Principal Proprietary Funds R3 Rate Level:							
Bond & Mortgage	57,300	(6,674)		3,275	(1,448)	28,097	80,550
LargeCap Blend II	73,599	(26,740)		3,621	(4,494)	1,171	47,157
LargeCap Growth I	55,000	(20,442)		2,234	(2,215)	(5,034)	29,543
LargeCap Value III	54,158	(23,766)		4,238	(891)	2,249	35,988
MidCap Growth III	169,973	(72,004)		4,511	(12,928)	(15,770)	73,782
SmallCap Growth II	63,198	(22,642)		3,096	(2,392)	(9,361)	31,899
SmallCap Value I	87,312	(29,696)	\$119	7,029	(8,213)	7,847	64,398
Principal Proprietary Funds R6 Rate Level:							
Principal LifeTime:							
LifeTime Strategic Income	21	(2)		36		(55)	
LifeTime 2010	210	2,150		725		50,263	53,348
LifeTime 2020	553	(14,045)		5,539		41,643	33,690
LifeTime 2030		(8,656)		6,983		18,719	17,046
LifeTime 2040	391	(1,853)		5,729		1,094	5,361
LifeTime 2050		(1,547)		722		7,232	6,407
Nonproprietary Funds R6 Rate Level:							
Russell LifePoints:							
Conservative Strategy	58,663	(14,991)		13,503	(4,364)	14,277	67,088
Moderate Strategy	248,399	(77,232)	296	15,488	(5,402)	(46,465)	135,084
Balanced Strategy	1,253,596	(358,511)		83,932	(52,440)	(215,890)	710,687
Growth Strategy	1,043,415	(406,314)	296	101,183	(19,768)	25,064	743,876
Equity Growth Strategy	135,034	(54,509)	123	21,259	(5,719)	(16,694)	79,494
Mutual Fund Investments							
(Principal Trust Company - Trustee):							
American Equity Income A Fund	49,848	(9,476)		3,884	(5,740)	(2,788)	35,728
American Funds Growth Fund of America R3 Fund	34,843	(14,208)		3,875	(1,180)	54	23,384
American Funds Europacific Growth R3 Fund	159,420	(53,542)	119	10,060	(3,049)	(38,338)	74,670
Total	\$3,837,742	(\$1,329,029)	\$953	\$314,337	(\$144,922)	NONE	\$2,679,081

**LOUISIANA LOTTERY CORPORATION
BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS
STATE OF LOUISIANA**

**Schedule of Changes in Net Assets Available for Benefits, by Investment
Option for the 457(b) Optional Savings Plan
For the Year Ended December 31, 2008**

	NET ASSETS AVAILABLE FOR BEGINNING OF YEAR	INVESTMENT INCOME	PARTICIPANT CONTRIBUTIONS	EMPLOYER CONTRIBUTIONS	BENEFITS PAID TO PARTICIPANTS	INTERFUND TRANSFERS	NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR
Principal Stable Value Signature Fund (Union Bond & Trust Company - Trustee)	\$57,373	\$2,248	\$19,160	\$2,442	(\$26,501)	\$39,985	\$94,707
PLIC Flexible Investment Annuity Group Contract Separate Accounts:							
Principal Proprietary Funds R2 Rate Level:							
U.S. Property	20,054	(2,572)	1,232	805	(24,451)	(3,103)	16,416
LargeCap S&P 500 Index	283,844	(102,492)	3,937	1,231	(24,451)	5,748	167,817
MidCap Value I	17,333	(6,569)	1,021	564	(1,076)	(176)	12,173
International Growth	17,176	(9,517)	956	480	(5,403)	5,403	14,498
Principal Proprietary Funds R3 Rate Level:							
Bond & Mortgage	48,832	(6,691)	3,395	1,233	(1,869)	(2,014)	42,886
LargeCap Blend II	97,944	(35,842)	4,108	1,339	(5,077)	921	63,393
LargeCap Growth I	104,953	(41,494)	3,278	963	(4,115)	(3,776)	59,809
LargeCap Value III	58,647	(21,680)	2,542	1,273	(34,280)	(9,602)	31,180
MidCap Growth III	249,498	(106,988)	4,992	1,727	(19,532)	(19,532)	95,417
SmallCap Growth II	109,145	(47,669)	2,926	1,145	(4,421)	5,169	66,295
SmallCap Value I	100,076	(31,328)	5,714	2,401	(8,749)	(1,539)	66,575
Principal Proprietary Funds R6 Rate Level:							
Principal LifeTime:							
LifeTime 2010	233	6,151	1,963	403	(304)	135,184	143,630
LifeTime 2020	676	(18,003)	3,136	2,042	(5,533)	55,323	43,174
LifeTime 2030		(8,055)	4,923	2,540	(142)	18,341	17,749
LifeTime 2040	216	(1,346)	2,677	2,189	(1,345)	1,345	4,939
LifeTime 2050		(1,133)	471	235	(11,110)	5,311	4,884
Nonproprietary Funds R6 Rate Level:							
Russell LifePoints:							
Conservative Strategy	56,780	(27,603)	21,880	5,470	(5,533)	119,688	170,682
Moderate Strategy	256,917	(88,866)	37,270	6,682	(2,691)	104,834	314,146
Balanced Strategy	1,222,687	(339,835)	74,971	29,337	(71,130)	(343,275)	572,755
Growth Strategy	1,647,618	(583,168)	126,084	40,913	(82,245)	(110,940)	1,038,262
Equity Growth Strategy	157,752	(85,753)	24,910	10,181	(11,110)	28,589	124,569
Mutual Fund Investments (Principal Trust Company - Trustee):							
American Century Equity Income A Fund	45,118	(8,211)	3,782	1,643	(5,919)	(4,488)	31,925
American Funds Growth Fund of America R3 Fund	41,494	(17,606)	4,083	1,525	(25)	105	29,576
American Funds Europacific Growth R3 Fund	164,173	(58,606)	8,197	3,722	(8,254)	(27,501)	81,731
Total	\$4,758,539	(\$1,642,628)	\$367,608	\$122,485	(\$296,816)	NONE	\$3,309,188

**INVESTMENT SECTION
(UNAUDITED)**

Investment Program Overview

The Investment Committee is responsible for the selection and monitoring of the investment options available to participants. A formal investment policy governs the structure and content of these responsibilities. The primary objectives of this policy are as follows:

- **Program Quality** - Provide quality investment options that generate a high level of participation and satisfaction for both current and former employees.
- **Participant Control** – Allow participants to exercise control over their retirement accounts by providing them the ability to direct the investment of account assets.
- **Diversification** – Offer participants access to an appropriate range of prudent investment options that enables them to construct a well-diversified portfolio. The availability of suitable investment options will allow Plan participants to materially affect the potential returns on amounts in their accounts, control the degree of risk to which such amounts are subject, and create a portfolio with aggregate risk and return characteristics normally appropriate for Plan participants.

The Committee has structured the Plans' menu of investment options towards meeting these objectives by selecting funds that are diversified across a selection of asset classes, styles and investment managers. Asset allocation funds, lifestyle and lifecycle options, are offered in all three plans. These funds are professionally managed pre-mixed portfolios that are fully diversified single investment options matched to a participant's retirement goals, risk tolerance, and/or investment time horizon. The Russell LifePoints Separate Accounts are risk-based (lifestyle) portfolios that are targeted to participant risk tolerances. Principal LifeTime Separate Accounts are age-based (lifecycle) portfolios that are managed and adjusted systematically based on targeted retirement dates. In addition, a broad variety of individual separate accounts and funds are offered in the Supplemental and Optional Savings Plans for the participants that are more involved in their individual investment allocations.

This section of the report contains the following information about the investments offered in the plans:

- **Investment Policy Approved Investment Options** (Page 31)
 - Contains a listing of funds available for investment by participants in each plan grouped into categories of investor preference (i.e. completely do-it-for-me, almost do-it-for-me, do-it-myself)
- **Investment Styles** (Page 32)
 - Reflects the diversification of the investment offerings by asset classes, styles, and investment managers
- **Asset Allocation** (Page 33)
 - Provides an overview of the allocation of plan assets by asset class at December 31, 2008
- **Fair Value and Percent of Total Fair Value for Each Investment** (Page 34)
 - Presents the fair value of each investment and percent to total plan assets fair value
- **Investment Performance** (Page 35)
 - Average annualized % rates of return for the 1, 3, and 5 year time periods and net expense ratios for each fund are provided
- **Fund Fact Sheets** (Pages 36-88)
 - Contain detailed information about each investment option including investment strategy, returns compared to market categories and benchmarks, statistics, and holdings

Investment balances and allocations are reported at fair value, which is based on deposit values and quoted market prices.

This section of the report was prepared by James F. Goodrum, Vice President of Finance and member of the Investment Committee.

Investment Policy Approved Investment Options

Source: Louisiana Lottery Corporation Retirement Plans Investment Policy

Louisiana Lottery Corporation Investment Policy Current Approved Investment Options

Investment Fund	Investment Style	Basic Plan	Supplemental Plan	Optional Savings Plan
Lifecycle (Age-Based) Funds:				
Completely "Do-it-for-me" Investors				
Principal LifeTime Portfolios: (1)				
<i>Target Date Portfolios</i>				
Principal LifeTime Strategic Income	Asset Allocation	√	√	√
Principal LifeTime 2010	Asset Allocation	√	√	√
Principal LifeTime 2020	Asset Allocation	√	√	√
Principal LifeTime 2030	Asset Allocation	√	√	√
Principal LifeTime 2040	Asset Allocation	√	√	√
Principal LifeTime 2050	Asset Allocation	√	√	√
Principal LifeTime (Future Date Portfolios)	Asset Allocation	√	√	√
Lifestyle (Risk-Based) Funds:				
Almost "Do-it-for-me" Investors				
Russell LifePoints Portfolios:				
<i>Target Risk Portfolio Series</i>				
Conservative Strategy	Asset Allocation	√	√	√
Moderate Strategy	Asset Allocation	√	√	√
Balanced Strategy	Asset Allocation	√	√	√
Growth Strategy	Asset Allocation	√	√	√
Equity Growth Strategy	Asset Allocation	√	√	√
Individual Separate Accounts and Funds:				
"Do-it-myself" Investors				
Principal Stable Value Signature Fund	Stable Value or Cash Equivalent		√	√
Principal Bond & Mortgage	Domestic Fixed Income		√	√
U.S. Property Separate Account	Core Real Estate Property		√	√
Principal LargeCap S&P 500 Index	Domestic Stock/Large Blend Index		√	√
LargeCap Blend II Separate Account	Domestic Stock/Large Blend		√	√
LargeCap Value III Separate Account	Domestic Stock/Large Value		√	√
LargeCap Growth I Separate Account	Domestic Stock/Large Growth		√	√
American Century Equity Income A Fund	Domestic Stock/Large Value		√	√
American Funds Growth Fund of America R3 Fund	Domestic Stock/Large Growth		√	√
MidCap Growth III Separate Account	Domestic Stock/Mid Growth		√	√
MidCap Value I Separate Account	Domestic Stock/Mid Value		√	√
SmallCap Growth II Separate Account	Domestic Stock/Small Growth		√	√
SmallCap Value I Separate Account	Domestic Stock/Small Value		√	√
International Growth Separate Account	International or Foreign Stock		√	√
American Funds Europacific Growth R3 Fund	International or Foreign Stock		√	√

√ - Approved investment option

(1) These targeted retirement date portfolios will be the default investment option for the plans if a participant does not make an affirmative investment election or elects a do-it-for-me option on an enrollment form.

Risk Spectrum

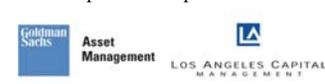
Low Risk/Return < _____ > High Risk/Return



Investment Styles

Source: Investment Committee and Principal Financial Group

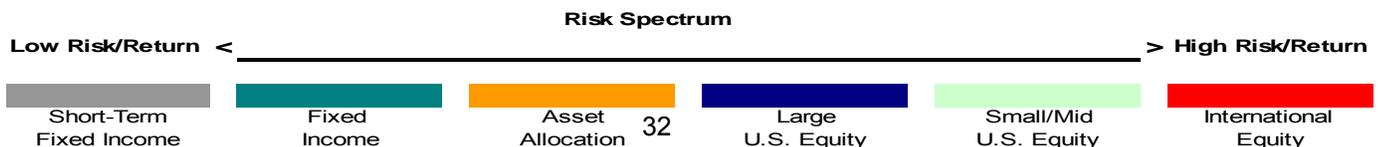
Domestic Funds Investment Style Box

	Value	Blend	Growth
Large Cap	<p>LargeCap Value III Separate Account</p>  <p>American Century Equity Income A Fund</p> 	<p>LargeCap S&P 500 Index Separate Account</p>  <p>LargeCap Blend II Separate Account</p> 	<p>LargeCap Growth I Separate Account</p>  <p>American Funds Growth Fund of America R3 Fund</p> 
	Small/Mid U.S. Equity		
Mid Cap	<p>MidCap Value I Separate Account</p>  <p>SmallCap Value I Separate Account</p> 		<p>MidCap Growth III Separate Account</p>  <p>SmallCap Growth II Separate Account</p> 
Small Cap			

Other Investment Styles

Short-Term Fixed Income	Fixed Income	Asset Allocation
<p>Principal Stable Value Signature Fund</p> 	<p>Bond & Mortgage Separate Account</p>  <p>U.S. Property Separate Account</p> <p>Principal Real Estate Investors</p>	<p>Russell LifePoints Separate Accounts</p>  <p>Principal LifeTime Separate Accounts</p> 

International Equity
<p>International Growth Separate Account</p>  <p>American Funds Europacific Growth R3 Fund</p> 



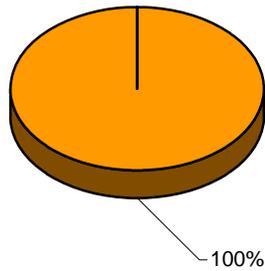
Asset Allocation

Source: Investment Committee

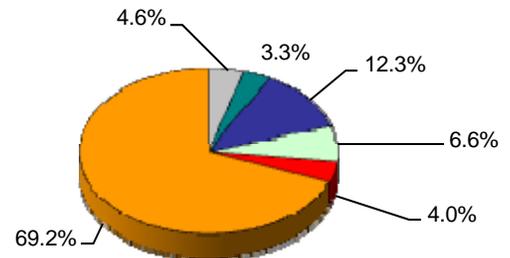
This chart reflects that the majority of participants prefer investing in the asset allocation funds offered in the investment menu for the Plans. The Basic Plan only allows investments into these lifestyle and lifecycle funds while the Supplemental and Optional Savings Plans offer the full menu of options approved in the investment policy.

401(a) Plans

Basic

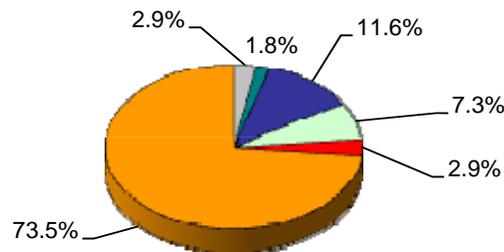


Supplemental

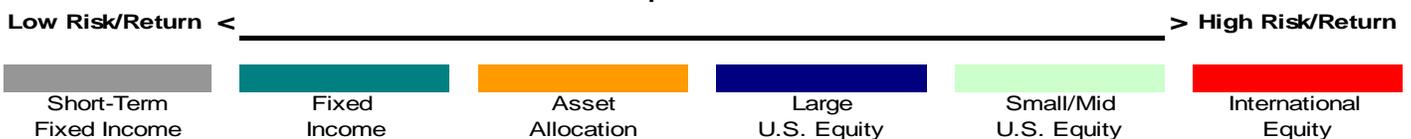


457(b) Plan

Optional Savings



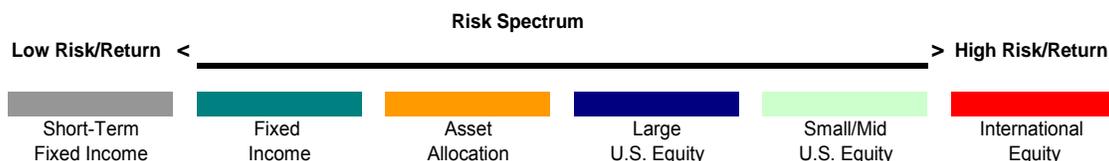
Risk Spectrum



Fair Value and Percent of Total Fair Value for Each Investment

Source: Principal Financial Group

	401(a) Plans				457(b) Plan	
	Basic		Supplemental		Optional Savings	
	<u>2008</u>	<u>%</u>	<u>2008</u>	<u>%</u>	<u>2008</u>	<u>%</u>
<u>Lifecycle (Age-Based) Funds:</u>						
Principal LifeTime Portfolios:						
<i>Target Date Portfolios</i>						
Principal LifeTime Strategic Income	\$1,254	0.03%				
Principal LifeTime 2010	27,035	0.59%	\$53,348	1.99%	\$143,630	4.34%
Principal LifeTime 2020	90,355	1.96%	33,690	1.26%	43,174	1.30%
Principal LifeTime 2030	106,706	2.32%	17,046	0.64%	17,749	0.54%
Principal LifeTime 2040	35,483	0.77%	5,361	0.20%	4,939	0.15%
Principal LifeTime 2050	3,473	0.08%	6,407	0.24%	4,884	0.15%
<u>Lifestyle (Risk-Based) Funds:</u>						
Russell LifePoints Portfolios:						
<i>Target Risk Portfolio Series</i>						
Conservative Strategy	200,450	4.36%	67,088	2.50%	170,682	5.16%
Moderate Strategy	178,602	3.88%	135,084	5.04%	314,146	9.49%
Balanced Strategy	2,309,448	50.20%	710,687	26.53%	572,755	17.31%
Growth Strategy	1,196,732	26.02%	743,876	27.77%	1,038,262	31.38%
Equity Growth Strategy	450,551	9.79%	79,494	2.97%	124,569	3.76%
<u>Individual Separate Accounts and Funds:</u>						
Principal Stable Value Signature Fund			122,765	4.58%	94,707	2.86%
Principal Bond & Mortgage Separate Account			80,550	3.01%	42,886	1.30%
U.S. Property Separate Account			8,481	0.32%	16,416	0.50%
Principal LargeCap S&P 500 Index Separate Account			159,156	5.94%	167,817	5.07%
LargeCap Blend II Separate Account			47,157	1.76%	63,393	1.92%
LargeCap Value III Separate Account			35,988	1.34%	31,180	0.94%
LargeCap Growth I Separate Account			29,543	1.10%	59,809	1.81%
American Century Equity Income A Fund			35,728	1.33%	31,925	0.96%
American Funds Growth Fund of America R3 Fund			23,384	0.87%	29,576	0.89%
MidCap Growth III Separate Account			73,782	2.75%	95,417	2.88%
MidCap Value I Separate Account			7,145	0.27%	12,173	0.37%
SmallCap Growth II Separate Account			31,899	1.19%	66,295	2.00%
SmallCap Value I Separate Account			64,398	2.40%	66,575	2.01%
International Growth Separate Account			32,354	1.21%	14,498	0.44%
American Funds Europacific Growth R3 Fund			74,670	2.79%	81,731	2.47%
	<u>\$4,600,089</u>	<u>100.00%</u>	<u>\$2,679,081</u>	<u>100.00%</u>	<u>\$3,309,188</u>	<u>100.00%</u>



Investment Performance

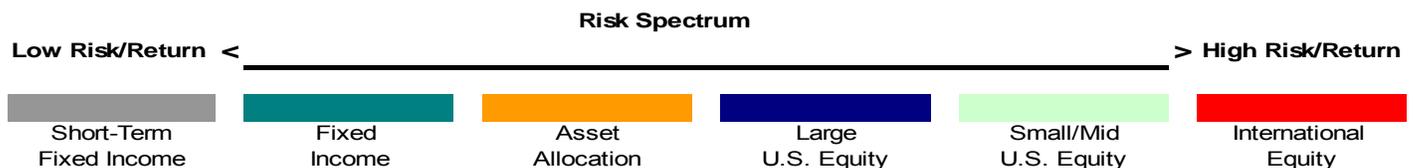
Source: Principal Financial Group

Comparisons to benchmarks and peer groups included in fund fact sheets beginning on page 36

% Rates of Return Through December 31, 2008

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>Net Expense Ratio</u>
<u>Lifecycle (Age-Based) Funds:</u>				
Principal LifeTime Portfolios:				
<i>Target Date Portfolios</i>				
Principal LifeTime Strategic Income	-22.42	-4.96	-0.20	0.84
Principal LifeTime 2010	-30.38	-6.96	-1.07	0.93
Principal LifeTime 2020	-33.81	-7.44	-0.89	0.98
Principal LifeTime 2030	-36.36	-8.06	-1.07	1.01
Principal LifeTime 2040	-38.20	-8.67	-1.35	1.03
Principal LifeTime 2050	-39.14	-8.95	-1.39	1.05
<u>Lifestyle (Risk-Based) Funds:</u>				
Russell LifePoints Portfolios:				
<i>Target Risk Portfolio Series</i>				
Conservative Strategy	-15.68	-2.01	0.11	1.34
Moderate Strategy	-23.75	-4.01	-0.24	1.45
Balanced Strategy	-30.10	-5.72	-0.24	1.52
Growth Strategy	-36.25	-7.77	-0.92	1.59
Equity Growth Strategy	-42.21	-9.87	-1.63	1.66
<u>Individual Separate Accounts and Funds:</u>				
Principal Stable Value Signature Fund	3.58	3.70	3.48	0.85
Principal Bond & Mortgage Separate Account	-13.55	-2.41	-0.19	1.12
U.S. Property Separate Account	-13.74	3.64	7.99	1.74
Principal LargeCap S&P 500 Index Separate Account	-37.47	-9.12	-3.04	0.90
LargeCap Blend II Separate Account	-36.85	-8.52	-2.62	1.32
LargeCap Value III Separate Account	-41.15	-11.95	-4.22	1.33
LargeCap Growth I Separate Account	-40.93	-12.44	-4.83	1.30
American Century Equity Income A Fund	-20.25	-1.18	2.05	1.22
American Funds Growth Fund of America R3 Fund	-39.24	-9.41	-1.13	0.91
MidCap Growth III Separate Account	-48.77	-12.42	-3.70	1.57
MidCap Value I Separate Account	-36.26	-9.33	0.55	1.75
SmallCap Growth II Separate Account	-42.55	-13.16	-5.08	1.57
SmallCap Value I Separate Account	-32.52	-10.54	-1.47	1.58
International Growth Separate Account	-47.33	-10.13	1.45	1.75
American Funds Europacific Growth R3 Fund	-40.71	-5.14	4.21	1.07

*Performance calculations are time-weighted rates of return based on market rates of return



Fund Fact Sheets

Source: Reprinted with permission from Principal Financial Group

Principal LifeTime Strategic Income Separate Account-R6

as of 12/31/2008

Investment Strategy

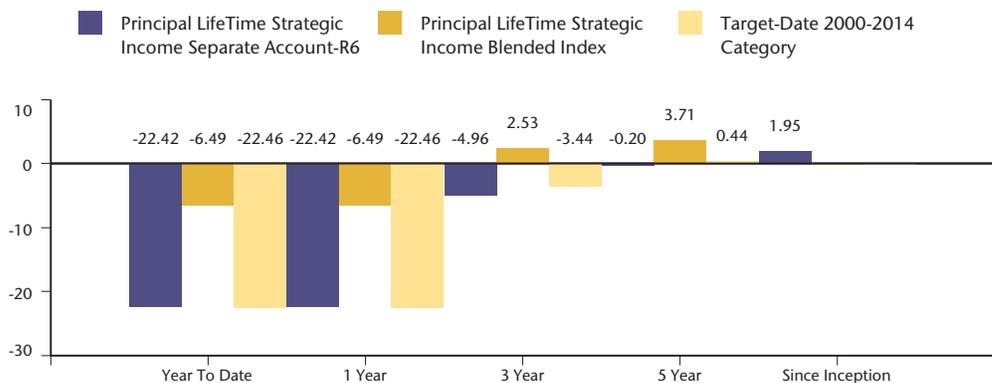
The investment seeks current income. The fund invests in underlying fixed-income funds, but also invests in underlying equity and hybrid funds according to an asset allocation strategy designed for investors seeking current income from their investment. It invests most of the assets in underlying funds which are intended primarily to give the fund broad exposure to income-producing securities through their investments in fixed-income securities, "hybrid" securities and dividend generating domestic and foreign stocks.



Portfolio managers

Dirk Laschanzky, CFA. Since 03/01/2001. M.B.A., U of Iowa
James Fennessey, CFA. Since 05/29/2007. B.S., Truman State U
Michael P. Finnegan, CFA. Since 05/29/2007. M.A., U of Iowa
Randy L. Welch Since 05/29/2007. M.B.A., Drake U
David Blake, CFA. Since 03/31/2008. M.B.A., Saint Louis U

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-22.42	-22.42	-4.96	-0.20	1.95
Principal LifeTime Strategic Income Blended Index %	-6.49	-6.49	2.53	3.71	-
Target-Date 2000-2014 Category %	-22.46	-22.46	-3.44	0.44	-
Morningstar Percentile Rankings	-	43	63	60	-
# of Funds in Category	304	304	182	89	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-22.42	1.57	8.95	3.96	10.92
Principal LifeTime Strategic Income Blended Index %	-6.49	7.10	6.90	3.48	6.15
Target-Date 2000-2014 Category %	-22.46	5.22	8.58	3.68	6.82
Morningstar Percentile Rankings	43	96	39	45	11
# of Funds in Category	304	266	188	126	88

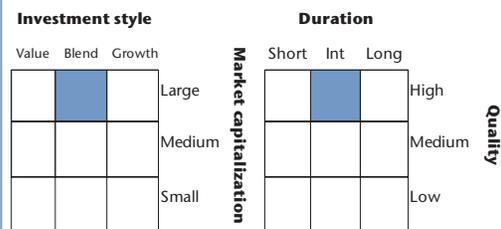
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2000-2014

Morningstar Style Box™

As of 11/30/2008



Risk and Return Statistics

as of 12/31/2008 Relative to Principal LifeTime Strategic Income Blended Index

	3Yr	5Yr
Alpha	-7.04	-3.82
Beta	1.28	1.28
R-Squared	74.49	74.69
Standard Deviation	8.34	7.19
Mean	-4.95	-0.20
Sharpe Ratio	-1.04	-0.44
Excess Return	-7.45	-3.87
Excess Risk	4.37	3.80
Information Ratio	-1.70	-1.02

Operations

Total Investment Expense Net	0.84%
Total Investment Expense Gross	0.84%
Inception Date	03/30/2001
Total Net Assets (mil)	\$438.80



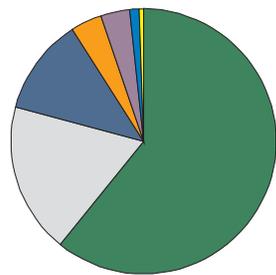
© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Principal LifeTime Strategic Income Separate Account-R6

as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008



Asset Class	% of Assets
U.S. Bonds	60.83
Cash	18.33
U.S. Stocks	11.79
Non-U.S. Stocks	3.80
Preferred	3.51
Non-U.S. Bonds	1.20
Other	0.52
Convertibles	0.02

Top ten holdings

Rank	Top ten holdings	% of net assets
1.	Principal Bond & Mtg Securities Inst	44.21
2.	Principal Ultra Short Bond Inst	13.71
3.	Principal Inflation Protection Inst	13.54
4.	Principal Preferred Securities Inst	5.84
5.	Principal Real Estate Securities Inst	3.42
6.	Principal Discp Large Cap Blend Inst	2.98
7.	Principal International Growth Inst	2.49
8.	Principal Large Cap Blend I Inst	1.73
9.	Principal Core Plus Bond I Institutional	1.61
10.	Principal Large Cap Growth Inst	1.51
% of net assets in top ten holdings*		91.05

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	23
GeoAvgCap (mil)	\$15,313.99
Turnover Ratio	25%
P/C Ratio	5.85
P/E Ratio	11.29
P/B Ratio	1.51

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.02	Healthcare	10.88	Consumer Goods	8.23
Hardware	6.04	Consumer Services	6.67	Industrial Materials	9.88
Media	1.29	Business Services	4.76	Energy	9.34
Telecom	4.00	Financial Services	32.02	Utilities	3.89

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal LifeTime Strategic Income Separate Account-R6.

Principal LifeTime Strategic Income Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime Strategic Income portfolio. The weightings as of March 31, 2008 are 19.0% Russell 3000 Index, 6.0% MSCI EAFE Index, and 75.0% Barclays Capital Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

This Separate Account invests directly in the Institutional class shares of a Principal LifeTime Fund. The mutual fund operating expenses for each Principal LifeTime Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying funds in which the Principal LifeTime Fund invests. Based on the asset allocation of the Principal LifeTime Funds as in the prospectus dated February 29, 2008, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.55%; Principal LifeTime 2010, 0.65%; Principal LifeTime 2015, 0.70%; Principal LifeTime 2020, 0.70%; Principal LifeTime 2025, 0.74%; Principal LifeTime 2030, 0.73%; Principal LifeTime 2035, 0.75%; Principal LifeTime 2040, 0.77%; Principal LifeTime 2045, 0.77%; Principal LifeTime 2050, 0.76%; Principal LifeTime 2055, 0.77%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal LifeTime Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Principal LifeTime 2010 Separate Account-R6 as of 12/31/2008

Investment Strategy

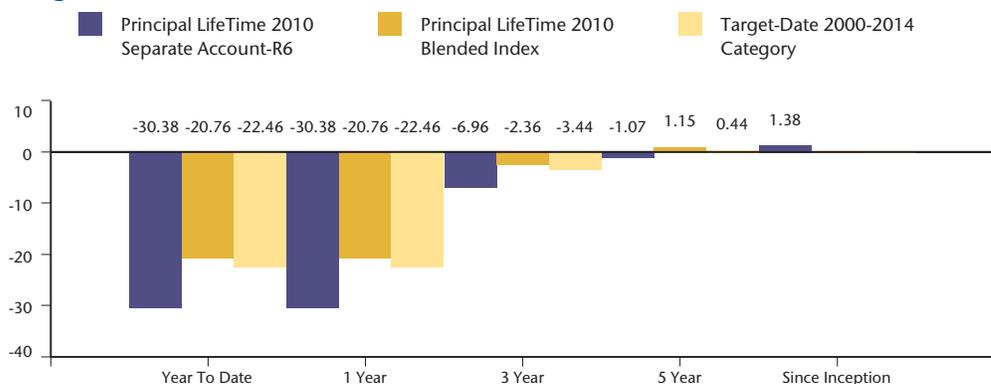
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. It allocates the assets more conservatively over time. The fund may invest in any of the Institutional class shares of the equity funds or fixed-income funds of Principal Funds, at the sub-advisors discretion.



Portfolio managers

- Dirk Laschanzky**, CFA. Since 03/01/2001. M.B.A., U of Iowa
- James Fennessey**, CFA. Since 05/29/2007. B.S., Truman State U
- Michael P. Finnegan**, CFA. Since 05/29/2007. M.A., U of Iowa
- Randy L. Welch** Since 05/29/2007. M.B.A., Drake U
- David Blake**, CFA. Since 03/31/2008. M.B.A., Saint Louis U

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-30.38	-30.38	-6.96	-1.07	1.38
Principal LifeTime 2010 Blended Index %	-20.76	-20.76	-2.36	1.15	-
Target-Date 2000-2014 Category %	-22.46	-22.46	-3.44	0.44	-
Morningstar Percentile Rankings	-	91	91	84	-
# of Funds in Category	304	304	182	89	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-30.38	3.44	11.84	5.40	11.62
Principal LifeTime 2010 Blended Index %	-20.76	7.02	8.73	4.11	7.92
Target-Date 2000-2014 Category %	-22.46	5.22	8.58	3.68	6.82
Morningstar Percentile Rankings	91	84	18	7	2
# of Funds in Category	304	266	188	126	88

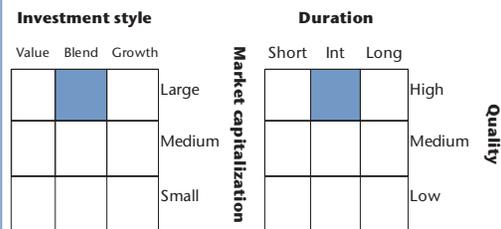
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2000-2014

Morningstar Style Box™

As of 11/30/2008



Risk and Return Statistics

as of 12/31/2008 Relative to Principal LifeTime 2010 Blended Index

	3Yr	5Yr
Alpha	-3.13	-1.53
Beta	1.23	1.24
R-Squared	95.06	94.53
Standard Deviation	12.16	10.15
Mean	-6.96	-1.07
Sharpe Ratio	-0.85	-0.37
Excess Return	-4.54	-2.15
Excess Risk	3.44	3.00
Information Ratio	-1.32	-0.72

Operations

Total Investment Expense Net	0.93%
Total Investment Expense Gross	0.93%
Inception Date	03/30/2001
Total Net Assets (mil)	\$1,302.61

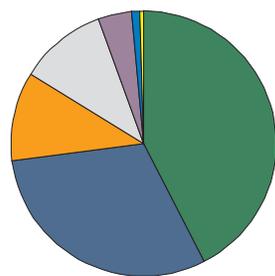


© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Principal LifeTime 2010 Separate Account-R6 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008



Asset Class	% of Assets
U.S. Bonds	42.41
U.S. Stocks	30.47
Non-U.S. Stocks	10.91
Cash	10.67
Preferred	4.03
Non-U.S. Bonds	1.04
Other	0.45
Convertibles	0.02

Top ten holdings

1. Principal Bond & Mtg Securities Inst	32.05
2. Principal Discp Large Cap Blend Inst	8.56
3. Principal Preferred Securities Inst	6.40
4. Principal International Growth Inst	6.21
5. Principal Real Estate Securities Inst	4.86
6. Principal Large Cap Blend I Inst	4.52
7. Principal Inflation Protection Inst	4.23
8. Principal Ultra Short Bond Inst	4.07
9. Principal Large Cap Growth Inst	3.65
10. Principal Large Cap Growth I Inst	3.51
% of net assets in top ten holdings*	78.06

% of net assets

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	27
GeoAvgCap (mil)	\$17,557.32
Turnover Ratio	15%
P/C Ratio	5.58
P/E Ratio	10.85
P/B Ratio	1.52

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.29	Healthcare	11.87	Consumer Goods	8.48
Hardware	6.89	Consumer Services	7.13	Industrial Materials	10.87
Media	1.48	Business Services	5.38	Energy	9.79
Telecom	4.49	Financial Services	26.02	Utilities	4.31

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal LifeTime 2010 Separate Account-R6.

Principal LifeTime 2010 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2010 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2008 are 40.9% Russell 3000 Index, 14.6% MSCI EAFE Index, and 44.5% Barclays Capital Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

This Separate Account invests directly in the Institutional class shares of a Principal LifeTime Fund. The mutual fund operating expenses for each Principal LifeTime Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying funds in which the Principal LifeTime Fund invests. Based on the asset allocation of the Principal LifeTime Funds as in the prospectus dated February 29, 2008, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.55%; Principal LifeTime 2010, 0.65%; Principal LifeTime 2015, 0.70%; Principal LifeTime 2020, 0.70%; Principal LifeTime 2025, 0.74%; Principal LifeTime 2030, 0.73%; Principal LifeTime 2035, 0.75%; Principal LifeTime 2040, 0.77%; Principal LifeTime 2045, 0.77%; Principal LifeTime 2050, 0.76%; Principal LifeTime 2055, 0.77%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal LifeTime Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Principal LifeTime 2020 Separate Account-R6 as of 12/31/2008

Investment Strategy

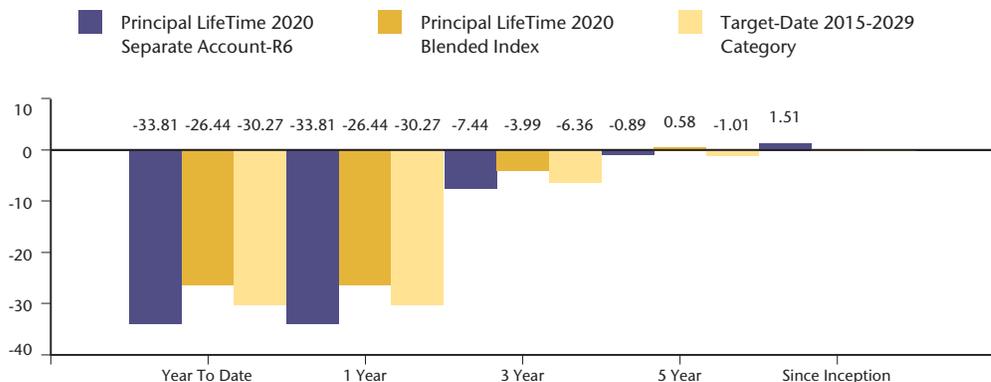
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. It allocates the assets more conservatively over time. The fund may invest in any of the Institutional Class shares of the equity funds or fixed-income funds of Principal Funds, at the sub-advisors discretion.



Portfolio managers

Dirk Laschanzky, CFA. Since 03/01/2001. M.B.A., U of Iowa
James Fennessey, CFA. Since 05/29/2007. B.S., Truman State U
Michael P. Finnegan, CFA. Since 05/29/2007. M.A., U of Iowa
Randy L. Welch Since 05/29/2007. M.B.A., Drake U
David Blake, CFA. Since 03/31/2008. M.B.A., Saint Louis U

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-33.81	-33.81	-7.44	-0.89	1.51
Principal LifeTime 2020 Blended Index %	-26.44	-26.44	-3.99	0.58	-
Target-Date 2015-2029 Category %	-30.27	-30.27	-6.36	-1.01	-
Morningstar Percentile Rankings	-	68	54	46	-
# of Funds in Category	422	422	183	65	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-33.81	5.08	14.03	7.49	12.19
Principal LifeTime 2020 Blended Index %	-26.44	7.00	11.30	5.12	9.54
Target-Date 2015-2029 Category %	-30.27	6.05	12.45	5.80	9.18
Morningstar Percentile Rankings	68	70	24	4	10
# of Funds in Category	422	303	173	103	52

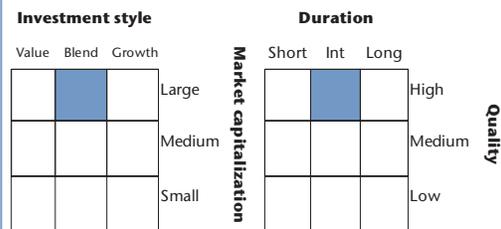
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2015-2029

Morningstar Style Box™

As of 11/30/2008



Risk and Return Statistics

as of 12/31/2008 Relative to Principal LifeTime 2020 Blended Index

	3Yr	5Yr
Alpha	-1.92	-0.78
Beta	1.19	1.19
R-Squared	97.62	97.13
Standard Deviation	14.02	11.73
Mean	-7.44	-0.89
Sharpe Ratio	-0.75	-0.29
Excess Return	-3.38	-1.41
Excess Risk	3.02	2.67
Information Ratio	-1.12	-0.53

Operations

Total Investment Expense Net	0.98%
Total Investment Expense Gross	0.98%
Inception Date	03/30/2001
Total Net Assets (mil)	\$2,945.62

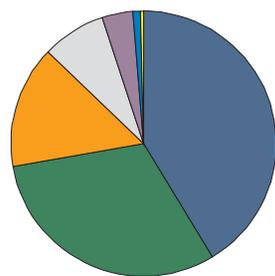


© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Principal LifeTime 2020 Separate Account-R6 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008



% of Assets

U.S. Stocks	41.29
U.S. Bonds	30.92
Non-U.S. Stocks	15.00
Cash	7.73
Preferred	3.72
Non-U.S. Bonds	0.94
Other	0.40
Convertibles	0.01

Top ten holdings

1. Principal Bond & Mtg Securities Inst	24.17
2. Principal Discp Large Cap Blend Inst	11.14
3. Principal International Growth Inst	7.65
4. Principal Preferred Securities Inst	5.73
5. Principal Large Cap Blend I Inst	5.67
6. Principal Large Cap Growth I Inst	4.93
7. Principal High Yield I Inst	4.68
8. Principal Large Cap Growth Inst	4.67
9. Principal Real Estate Securities Inst	4.41
10. Principal International Value I Instl	3.66
% of net assets in top ten holdings*	76.69

% of net assets

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	24
GeoAvgCap (mil)	\$17,044.17
Turnover Ratio	15%
P/C Ratio	5.42
P/E Ratio	10.63
P/B Ratio	1.49

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.39	Healthcare	12.26	Consumer Goods	8.64
Hardware	7.21	Consumer Services	7.31	Industrial Materials	11.28
Media	1.50	Business Services	5.54	Energy	10.10
Telecom	4.65	Financial Services	23.64	Utilities	4.49

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal LifeTime 2020 Separate Account-R6.

Principal LifeTime 2020 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2020 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2008 are 50.4% Russell 3000 Index, 19.1% MSCI EAFE Index, and 30.5% Barclays Capital Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

This Separate Account invests directly in the Institutional class shares of a Principal LifeTime Fund. The mutual fund operating expenses for each Principal LifeTime Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying funds in which the Principal LifeTime Fund invests. Based on the asset allocation of the Principal LifeTime Funds as in the prospectus dated February 29, 2008, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.55%; Principal LifeTime 2010, 0.65%; Principal LifeTime 2015, 0.70%; Principal LifeTime 2020, 0.70%; Principal LifeTime 2025, 0.74%; Principal LifeTime 2030, 0.73%; Principal LifeTime 2035, 0.75%; Principal LifeTime 2040, 0.77%; Principal LifeTime 2045, 0.77%; Principal LifeTime 2050, 0.76%; Principal LifeTime 2055, 0.77%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal LifeTime Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Principal LifeTime 2030 Separate Account-R6 as of 12/31/2008

Investment Strategy

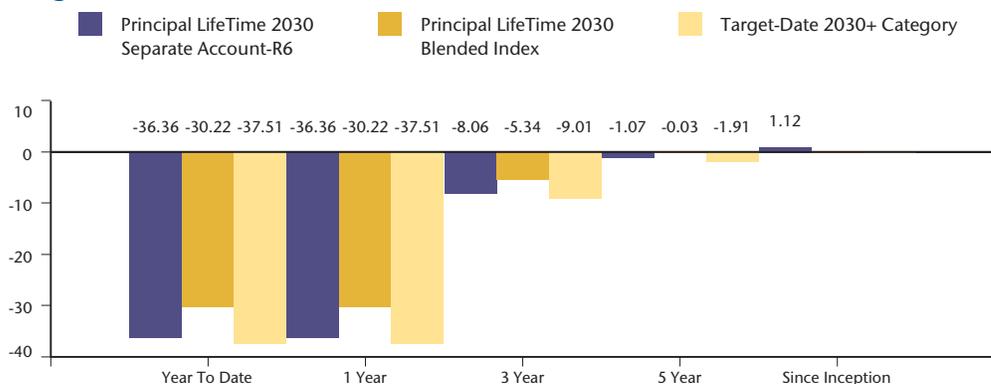
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. It allocates the assets more conservatively over time. The fund may invest in any of the Institutional Class shares of the equity funds or fixed-income funds of Principal Funds, at the sub-advisors discretion.



Portfolio managers

Dirk Laschanzky, CFA. Since 03/01/2001. M.B.A., U of Iowa
James Fennessey, CFA. Since 05/29/2007. B.S., Truman State U
Michael P. Finnegan, CFA. Since 05/29/2007. M.A., U of Iowa
Randy L. Welch Since 05/29/2007. M.B.A., Drake U
David Blake, CFA. Since 03/31/2008. M.B.A., Saint Louis U

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-36.36	-36.36	-8.06	-1.07	1.12
Principal LifeTime 2030 Blended Index %	-30.22	-30.22	-5.34	-0.03	-
Target-Date 2030+ Category %	-37.51	-37.51	-9.01	-1.91	-
Morningstar Percentile Rankings	-	39	20	15	-
# of Funds in Category	610	610	238	87	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-36.36	6.08	15.13	8.20	12.68
Principal LifeTime 2030 Blended Index %	-30.22	6.94	12.72	5.65	10.42
Target-Date 2030+ Category %	-37.51	6.54	14.43	7.28	11.31
Morningstar Percentile Rankings	39	59	40	13	26
# of Funds in Category	610	409	235	147	87

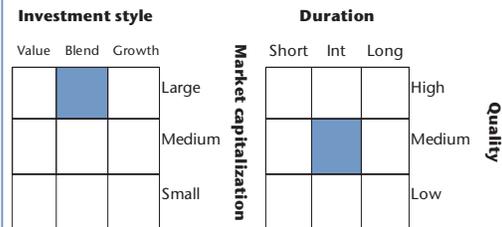
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2030+

Morningstar Style Box™

As of 11/30/2008



Risk and Return Statistics

as of 12/31/2008 Relative to Principal LifeTime 2030 Blended Index

	3Yr	5Yr
Alpha	-1.22	-0.34
Beta	1.16	1.15
R-Squared	98.28	97.93
Standard Deviation	15.26	12.75
Mean	-8.06	-1.07
Sharpe Ratio	-0.72	-0.27
Excess Return	-2.67	-0.97
Excess Risk	2.81	2.47
Information Ratio	-0.95	-0.39

Operations

Total Investment Expense Net	1.01%
Total Investment Expense Gross	1.01%
Inception Date	03/30/2001
Total Net Assets (mil)	\$2,538.29

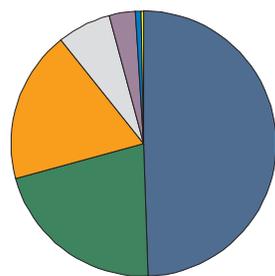


© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Principal LifeTime 2030 Separate Account-R6 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008



% of Assets

U.S. Stocks	49.45
U.S. Bonds	21.23
Non-U.S. Stocks	18.59
Cash	6.50
Preferred	3.17
Non-U.S. Bonds	0.72
Other	0.32
Convertibles	0.01

Top ten holdings

1. Principal Bond & Mtg Securities Inst	14.00
2. Principal Discp Large Cap Blend Inst	12.68
3. Principal International Growth Inst	9.07
4. Principal Large Cap Blend I Inst	6.41
5. Principal Large Cap Growth I Inst	5.95
6. Principal Large Cap Growth Inst	5.91
7. Principal High Yield I Inst	5.44
8. Principal Preferred Securities Inst	4.84
9. Principal International Value I Instl	4.42
10. Principal Large Cap Value Inst	4.05
% of net assets in top ten holdings*	72.76

% of net assets

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	24
GeoAvgCap (mil)	\$17,824.60
Turnover Ratio	16%
P/C Ratio	5.40
P/E Ratio	10.51
P/B Ratio	1.48

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.39	Healthcare	12.56	Consumer Goods	8.72
Hardware	7.31	Consumer Services	7.48	Industrial Materials	11.45
Media	1.55	Business Services	5.67	Energy	10.31
Telecom	4.77	Financial Services	22.19	Utilities	4.59

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal LifeTime 2030 Separate Account-R6.

Principal LifeTime 2030 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2030 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2008 are 56.7% Russell 3000 Index, 22.3% MSCI EAFE Index, and 21.0% Barclays Capital Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

This Separate Account invests directly in the Institutional class shares of a Principal LifeTime Fund. The mutual fund operating expenses for each Principal LifeTime Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying funds in which the Principal LifeTime Fund invests. Based on the asset allocation of the Principal LifeTime Funds as in the prospectus dated February 29, 2008, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.55%; Principal LifeTime 2010, 0.65%; Principal LifeTime 2015, 0.70%; Principal LifeTime 2020, 0.70%; Principal LifeTime 2025, 0.74%; Principal LifeTime 2030, 0.73%; Principal LifeTime 2035, 0.75%; Principal LifeTime 2040, 0.77%; Principal LifeTime 2045, 0.77%; Principal LifeTime 2050, 0.76%; Principal LifeTime 2055, 0.77%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal LifeTime Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Principal LifeTime 2040 Separate Account-R6 as of 12/31/2008

Investment Strategy

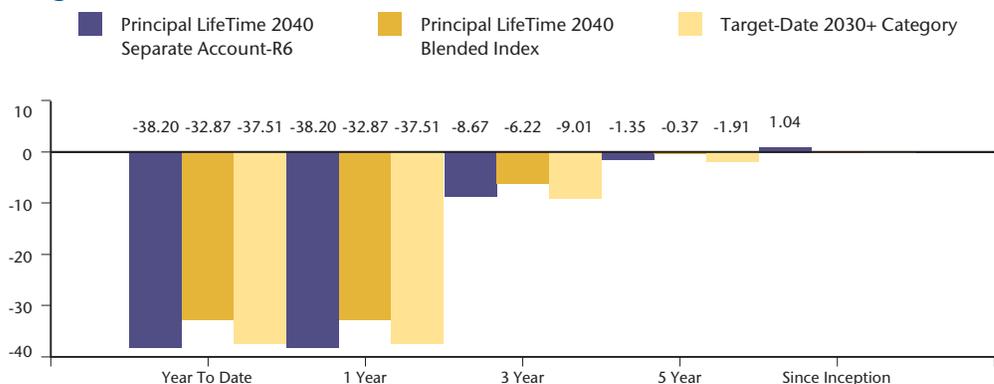
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. It allocates the assets more conservatively over time. The fund may invest in any of the Institutional Class shares of the equity funds or fixed-income funds of Principal Funds, at the sub-advisors discretion.



Portfolio managers

Dirk Laschanzky, CFA. Since 03/01/2001. M.B.A., U of Iowa
James Fennessey, CFA. Since 05/29/2007. B.S., Truman State U
Michael P. Finnegan, CFA. Since 05/29/2007. M.A., U of Iowa
Randy L. Welch Since 05/29/2007. M.B.A., Drake U
David Blake, CFA. Since 03/31/2008. M.B.A., Saint Louis U

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-38.20	-38.20	-8.67	-1.35	1.04
Principal LifeTime 2040 Blended Index %	-32.87	-32.87	-6.22	-0.37	-
Target-Date 2030+ Category %	-37.51	-37.51	-9.01	-1.91	-
Morningstar Percentile Rankings	-	55	32	26	-
# of Funds in Category	610	610	238	87	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-38.20	6.80	15.43	8.65	12.86
Principal LifeTime 2040 Blended Index %	-32.87	6.88	14.26	6.21	11.37
Target-Date 2030+ Category %	-37.51	6.54	14.43	7.28	11.31
Morningstar Percentile Rankings	55	46	32	7	21
# of Funds in Category	610	409	235	147	87

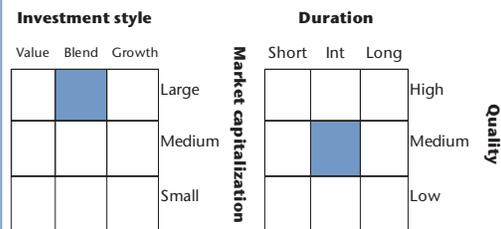
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2030+

Morningstar Style Box™

As of 11/30/2008



Risk and Return Statistics

as of 12/31/2008 Relative to Principal LifeTime 2040 Blended Index

	3Yr	5Yr
Alpha	-1.00	-0.32
Beta	1.13	1.13
R-Squared	98.76	98.59
Standard Deviation	16.17	13.49
Mean	-8.66	-1.34
Sharpe Ratio	-0.71	-0.27
Excess Return	-2.38	-0.91
Excess Risk	2.59	2.19
Information Ratio	-0.92	-0.41

Operations

Total Investment Expense Net	1.03%
Total Investment Expense Gross	1.03%
Inception Date	03/30/2001
Total Net Assets (mil)	\$1,351.44

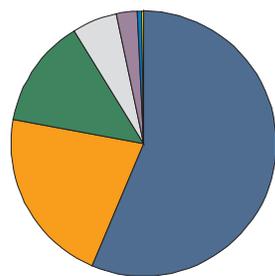


© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Principal LifeTime 2040 Separate Account-R6 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008



Asset Class	% of Assets
U.S. Stocks	56.36
Non-U.S. Stocks	21.55
U.S. Bonds	13.28
Cash	5.49
Preferred	2.51
Non-U.S. Bonds	0.54
Other	0.26

Top ten holdings

Rank	Top ten holdings	% of net assets
1.	Principal Discp Large Cap Blend Inst	13.28
2.	Principal International Growth Inst	9.55
3.	Principal Large Cap Growth I Inst	7.20
4.	Principal Large Cap Blend I Inst	6.99
5.	Principal Large Cap Growth Inst	6.66
6.	Principal Bond & Mtg Securities Inst	6.40
7.	Principal High Yield I Inst	5.89
8.	Principal International Value I Instl	5.09
9.	Principal Large Cap Value Inst	4.71
10.	Principal Large Cap Value I Inst	4.42
% of net assets in top ten holdings*		70.19

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	24
GeoAvgCap (mil)	\$17,715.39
Turnover Ratio	17%
P/C Ratio	5.30
P/E Ratio	10.41
P/B Ratio	1.46

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.42	Healthcare	12.65	Consumer Goods	8.71
Hardware	7.42	Consumer Services	7.54	Industrial Materials	11.59
Media	1.56	Business Services	5.74	Energy	10.51
Telecom	4.92	Financial Services	21.21	Utilities	4.74

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal LifeTime 2040 Separate Account-R6.

Principal LifeTime 2040 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2040 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2008 are 61.4% Russell 3000 Index, 24.6% MSCI EAFE Index, and 14.0% Barclays Capital Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

This Separate Account invests directly in the Institutional class shares of a Principal LifeTime Fund. The mutual fund operating expenses for each Principal LifeTime Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying funds in which the Principal LifeTime Fund invests. Based on the asset allocation of the Principal LifeTime Funds as in the prospectus dated February 29, 2008, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.55%; Principal LifeTime 2010, 0.65%; Principal LifeTime 2015, 0.70%; Principal LifeTime 2020, 0.70%; Principal LifeTime 2025, 0.74%; Principal LifeTime 2030, 0.73%; Principal LifeTime 2035, 0.75%; Principal LifeTime 2040, 0.77%; Principal LifeTime 2045, 0.77%; Principal LifeTime 2050, 0.76%; Principal LifeTime 2055, 0.77%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal LifeTime Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Principal LifeTime 2050 Separate Account-R6 as of 12/31/2008

Investment Strategy

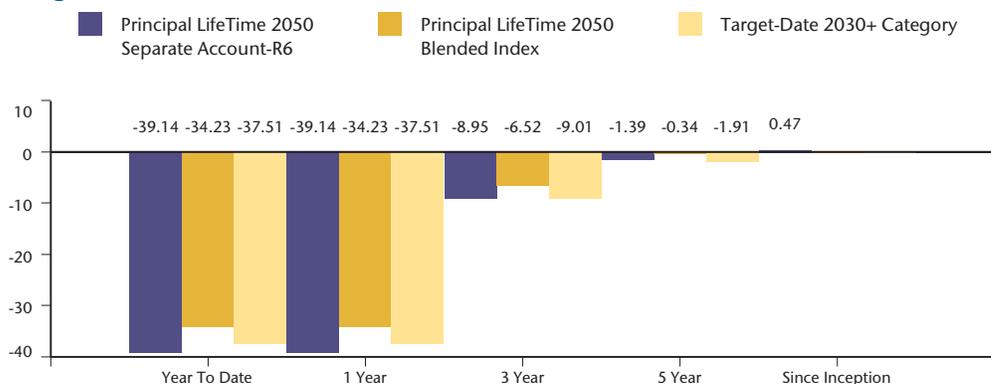
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. It allocates the assets more conservatively over time. The fund may invest in any of the Institutional Class shares of the equity funds or fixed-income funds of Principal Funds, at the sub-advisors discretion.



Portfolio managers

Dirk Laschanzky, CFA. Since 03/01/2001. M.B.A., U of Iowa
James Fennessey, CFA. Since 05/29/2007. B.S., Truman State U
Michael P. Finnegan, CFA. Since 05/29/2007. M.A., U of Iowa
Randy L. Welch Since 05/29/2007. M.B.A., Drake U
David Blake, CFA. Since 03/31/2008. M.B.A., Saint Louis U

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-39.14	-39.14	-8.95	-1.39	0.47
Principal LifeTime 2050 Blended Index %	-34.23	-34.23	-6.52	-0.34	-
Target-Date 2030+ Category %	-37.51	-37.51	-9.01	-1.91	-
Morningstar Percentile Rankings	-	68	41	27	-
# of Funds in Category	610	610	238	87	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-39.14	6.96	15.96	9.17	13.15
Principal LifeTime 2050 Blended Index %	-34.23	6.89	15.81	6.79	12.29
Target-Date 2030+ Category %	-37.51	6.54	14.43	7.28	11.31
Morningstar Percentile Rankings	68	44	24	1	15
# of Funds in Category	610	409	235	147	87

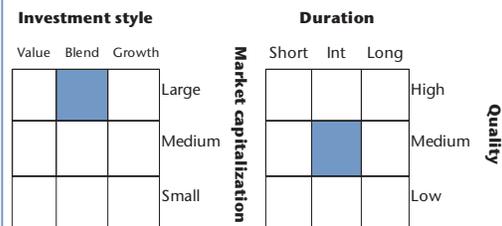
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2030+

Morningstar Style Box™

As of 11/30/2008



Risk and Return Statistics

as of 12/31/2008 Relative to Principal LifeTime 2050 Blended Index

	3Yr	5Yr
Alpha	-1.09	-0.45
Beta	1.12	1.11
R-Squared	98.78	98.66
Standard Deviation	16.68	13.99
Mean	-8.94	-1.38
Sharpe Ratio	-0.70	-0.25
Excess Return	-2.37	-0.98
Excess Risk	2.55	2.14
Information Ratio	-0.93	-0.46

Operations

Total Investment Expense Net	1.05%
Total Investment Expense Gross	1.05%
Inception Date	03/30/2001
Total Net Assets (mil)	\$547.23

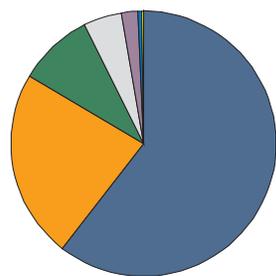


© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Principal LifeTime 2050 Separate Account-R6 as of 12/31/2008

Portfolio information†

Composition as of
11/30/2008



Asset Class	% of Assets
U.S. Stocks	60.50
Non-U.S. Stocks	23.01
U.S. Bonds	9.13
Cash	4.62
Preferred	2.05
Non-U.S. Bonds	0.45
Other	0.24

Top ten holdings

Rank	Top ten holdings	% of net assets
1.	Principal Discp Large Cap Blend Inst	13.35
2.	Principal International Growth Inst	10.22
3.	Principal Large Cap Growth I Inst	7.67
4.	Principal Large Cap Growth Inst	7.32
5.	Principal Large Cap Blend I Inst	7.02
6.	Principal High Yield I Inst	6.14
7.	Principal International Value I Instl	5.38
8.	Principal Large Cap Value Inst	5.06
9.	Principal Large Cap Value I Inst	4.88
10.	Principal Large Cap Value III Inst	4.55
% of net assets in top ten holdings*		71.61

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	24
GeoAvgCap (mil)	\$17,495.27
Turnover Ratio	21%
P/C Ratio	5.26
P/E Ratio	10.37
P/B Ratio	1.45

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.44	Healthcare	12.70	Consumer Goods	8.72
Hardware	7.41	Consumer Services	7.65	Industrial Materials	11.45
Media	1.56	Business Services	5.80	Energy	10.72
Telecom	5.05	Financial Services	20.64	Utilities	4.85

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal LifeTime 2050 Separate Account-R6.

Principal LifeTime 2050 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2050 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2008 are 64.2% Russell 3000 Index, 25.8% MSCI EAFE Index, and 10.0% Barclays Capital Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

This Separate Account invests directly in the Institutional class shares of a Principal LifeTime Fund. The mutual fund operating expenses for each Principal LifeTime Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying funds in which the Principal LifeTime Fund invests. Based on the asset allocation of the Principal LifeTime Funds as in the prospectus dated February 29, 2008, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.55%; Principal LifeTime 2010, 0.65%; Principal LifeTime 2015, 0.70%; Principal LifeTime 2020, 0.70%; Principal LifeTime 2025, 0.74%; Principal LifeTime 2030, 0.73%; Principal LifeTime 2035, 0.75%; Principal LifeTime 2040, 0.77%; Principal LifeTime 2045, 0.77%; Principal LifeTime 2050, 0.76%; Principal LifeTime 2055, 0.77%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal LifeTime Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Russell LifePoints® Conservative Strategy Sep Acct-R6

as of 12/31/2008

Investment Strategy

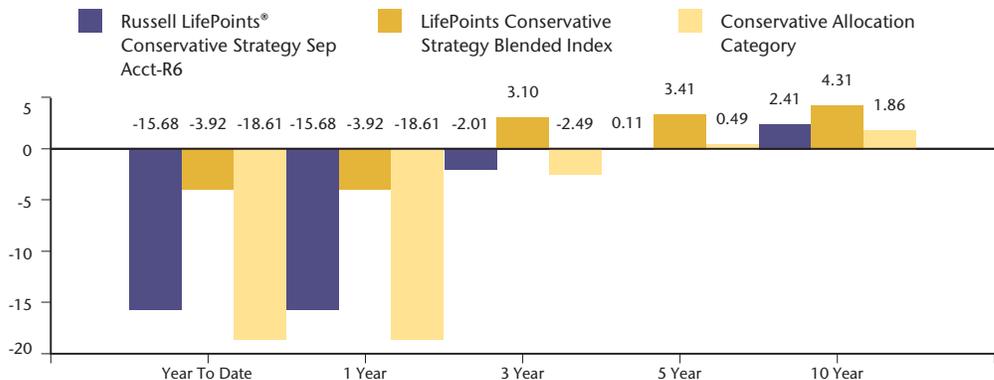
The investment seeks high levels of current income and low long-term capital appreciation. The fund is a fund of funds that diversifies assets by investing in class Y shares of several other Russell Investment Company funds. The management may modify the asset allocation and the selection of underlying funds from time to time. While the investment is nondiversified, it invests in diversified underlying holdings.



Portfolio managers

Jill F Johnson Since 05/31/2004.

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-15.68	-15.68	-2.01	0.11	2.41
LifePoints Conservative Strategy Blended Index %	-3.92	-3.92	3.10	3.41	4.31
Conservative Allocation Category %	-18.61	-18.61	-2.49	0.49	1.86
Morningstar Percentile Rankings	-	31	42	61	35
# of Funds in Category	679	679	484	290	140

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-15.68	5.10	6.17	2.56	4.18
LifePoints Conservative Strategy Blended Index %	-3.92	6.51	7.11	3.20	4.56
Conservative Allocation Category %	-18.61	4.53	8.16	2.97	5.46
Morningstar Percentile Rankings	31	44	79	65	74
# of Funds in Category	679	609	558	423	362

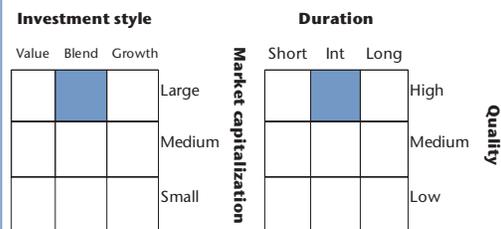
Morningstar percentile rankings are based on total returns.

Morningstar category

Conservative Allocation

Morningstar Style Box™

As of 10/31/2008



Risk and Return Statistics

as of 12/31/2008 Relative to LifePoints Conservative Strategy Blended Index

	3Yr	5Yr
Alpha	-4.52	-2.82
Beta	1.75	1.59
R-Squared	87.91	83.49
Standard Deviation	6.59	5.36
Mean	-2.01	0.11
Sharpe Ratio	-0.86	-0.56
Excess Return	-5.12	-3.00
Excess Risk	3.39	2.77
Information Ratio	-1.51	-1.08

Operations

Total Investment Expense Net	1.34%
Total Investment Expense Gross	1.64%
Contractual Cap Expiration Date	02/28/2009
Inception Date	03/24/1998
Total Net Assets (mil)	\$427.67



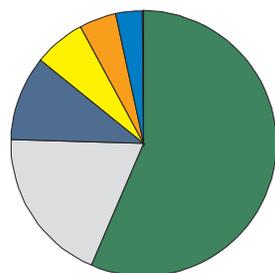
© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Russell LifePoints® Conservative Strategy Sep Acct-R6

as of 12/31/2008

Portfolio information†

Composition as of 10/31/2008



% of Assets

U.S. Bonds	56.49
Cash	18.98
U.S. Stocks	10.38
Other	6.26
Non-U.S. Stocks	4.43
Non-U.S. Bonds	3.27
Preferred	0.18

Top ten holdings

1. Russell Strategic Bond Y	60.17
2. Russell Short Duration Bond Y	20.20
3. Russell U.S. Core Equity Y	6.01
4. Russell U.S. Quantitative Equity Y	5.03
5. Russell International Developed Mrkts Y	3.84
6. Russell Real Estate Secs Y	2.77
7. Russell Global Equity Y	1.97
% of net assets in top ten holdings*	100.00

% of net assets

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	7
GeoAvgCap (mil)	\$24,449.48
Turnover Ratio	79%
P/C Ratio	7.96
P/E Ratio	13.93
P/B Ratio	1.88

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.39	Healthcare	9.93	Consumer Goods	8.52
Hardware	7.73	Consumer Services	7.40	Industrial Materials	12.30
Media	2.04	Business Services	5.00	Energy	9.81
Telecom	3.20	Financial Services	29.22	Utilities	2.46

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Russell LifePoints® Conservative Strategy Sep Acct-R6.

LifePoints Conservative Strategy Blended Index is composed of 14% Russell 1000 Index, 3% EAFE Index, 22% Barclays Capital Aggregate Index, 58% Merrill Lynch 1-3 Year Treasury Index, and 4% NAREIT Equity Index. The returns from these weightings were calculated by the Principal Financial Group®.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Formerly Russell LifePoints® Conservative Strategy (D) Separate Account.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

The Separate Account invests in a mutual fund only. Performance results and investment expenses shown prior to July 31, 2001, are of the mutual fund only because the Separate Account was not available. Any present or past investment expenses charged by The Principal would have reduced the illustrated performance results. The mutual fund operating expenses for each Russell LifePoints® Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying mutual funds in which each LifePoints® Fund invests. Based on the asset allocation of the LifePoints® Funds outlined in the prospectus dated February 29, 2008, the weighted average operating expenses of the underlying funds are: Conservative Strategy Fund, 0.84%; Moderate Strategy Fund, 0.95%; Balanced Strategy Fund, 1.02%; Growth Strategy Fund, 1.09%; Equity Growth Strategy Fund, 1.16%. The operating expenses of the underlying mutual funds are included in Total Investment Expense and performance results shown for the Separate Account reflect the application of these expenses. For further information on all mutual fund expenses, see the prospectus of the underlying LifePoints® Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Russell LifePoints® Moderate Strategy Separate

Account-R6 as of 12/31/2008

Investment Strategy

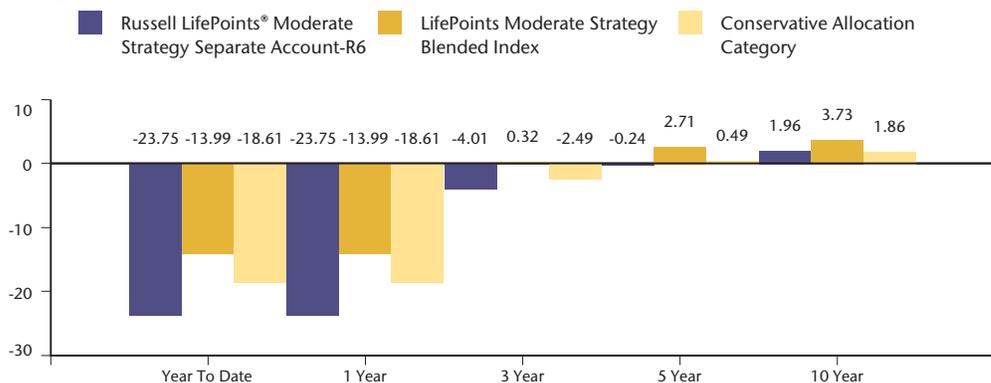
The investment seeks high current income and moderate long term capital appreciation. The fund is a fund of funds that diversifies assets by investing in class Y shares of several other Russell Investment Company funds. The management may modify the asset allocation and the selection of underlying funds from time to time. While the investment is nondiversified, it invests in diversified underlying holdings.



Portfolio managers

Jill F Johnson Since 05/31/2004.

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-23.75	-23.75	-4.01	-0.24	1.96
LifePoints Moderate Strategy Blended Index %	-13.99	-13.99	0.32	2.71	3.73
Conservative Allocation Category %	-18.61	-18.61	-2.49	0.49	1.86
Morningstar Percentile Rankings	-	78	73	72	49
# of Funds in Category	679	679	484	290	140

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-23.75	6.15	9.28	4.26	7.16
LifePoints Moderate Strategy Blended Index %	-13.99	6.30	10.44	4.89	7.92
Conservative Allocation Category %	-18.61	4.53	8.16	2.97	5.46
Morningstar Percentile Rankings	78	26	25	26	26
# of Funds in Category	679	609	558	423	362

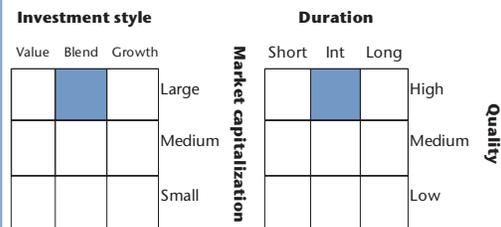
Morningstar percentile rankings are based on total returns.

Morningstar category

Conservative Allocation

Morningstar Style Box™

As of 10/31/2008



Risk and Return Statistics

as of 12/31/2008 Relative to LifePoints Moderate Strategy Blended Index

	3Yr	5Yr
Alpha	-3.16	-2.10
Beta	1.33	1.29
R-Squared	96.49	94.78
Standard Deviation	9.64	7.92
Mean	-4.01	-0.24
Sharpe Ratio	-0.78	-0.40
Excess Return	-4.33	-2.48
Excess Risk	2.90	2.46
Information Ratio	-1.50	-1.01

Operations

Total Investment Expense Net	1.45%
Total Investment Expense Gross	1.67%
Contractual Cap Expiration Date	02/28/2009
Inception Date	03/24/1998
Total Net Assets (mil)	\$858.93



© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

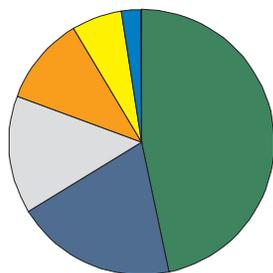
Russell LifePoints® Moderate Strategy Separate

Account-R6 as of 12/31/2008

Portfolio information†

Composition as of
10/31/2008

	% of Assets
U.S. Bonds	46.68
U.S. Stocks	19.56
Cash	14.42
Non-U.S. Stocks	10.71
Other	6.18
Non-U.S. Bonds	2.34
Preferred	0.11



Top ten holdings

	% of net assets
1. Russell Strategic Bond Y	60.32
2. Russell U.S. Quantitative Equity Y	10.19
3. Russell U.S. Core Equity Y	10.12
4. Russell International Developed Mrkts Y	8.82
5. Russell Global Equity Y	2.99
6. Russell U.S. Small & Mid Cap Y	2.98
7. Russell Real Estate Secs Y	2.73
8. Russell Emerging Markets Y	1.85
% of net assets in top ten holdings*	100.00

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	8
GeoAvgCap (mil)	\$21,158.77
Turnover Ratio	78%
P/C Ratio	7.29
P/E Ratio	13.21
P/B Ratio	1.82

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.67	Healthcare	10.44	Consumer Goods	9.11
Hardware	8.14	Consumer Services	7.74	Industrial Materials	13.91
Media	2.11	Business Services	5.93	Energy	10.59
Telecom	3.61	Financial Services	23.00	Utilities	2.76

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Russell LifePoints® Moderate Strategy Separate Account-R6.

LifePoints Moderate Strategy Blended Index is composed of 22% Russell 1000 Index, 3% Russell 2500 Index, 11% EAFE Index, 27% Barclays Capital Aggregate Index, 33% Merrill Lynch 1-3 Year Treasury Index, and 4% NAREIT Equity Index. The returns from these weightings were calculated by the Principal Financial Group®.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Formerly Russell LifePoints® Moderate Strategy (D) Separate Account.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

The Separate Account invests in a mutual fund only. Performance results and investment expenses shown prior to July 31, 2001, are of the mutual fund only because the Separate Account was not available. Any present or past investment expenses charged by The Principal would have reduced the illustrated performance results. The mutual fund operating expenses for each Russell LifePoints® Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying mutual funds in which each LifePoints® Fund invests. Based on the asset allocation of the LifePoints® Funds outlined in the prospectus dated February 29, 2008, the weighted average operating expenses of the underlying funds are: Conservative Strategy Fund, 0.84%; Moderate Strategy Fund, 0.95%; Balanced Strategy Fund, 1.02%; Growth Strategy Fund, 1.09%; Equity Growth Strategy Fund, 1.16%. The operating expenses of the underlying mutual funds are included in Total Investment Expense and performance results shown for the Separate Account reflect the application of these expenses. For further information on all mutual fund expenses, see the prospectus of the underlying LifePoints® Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Russell LifePoints® Balanced Strategy Separate Account-R6

as of 12/31/2008

Investment Strategy

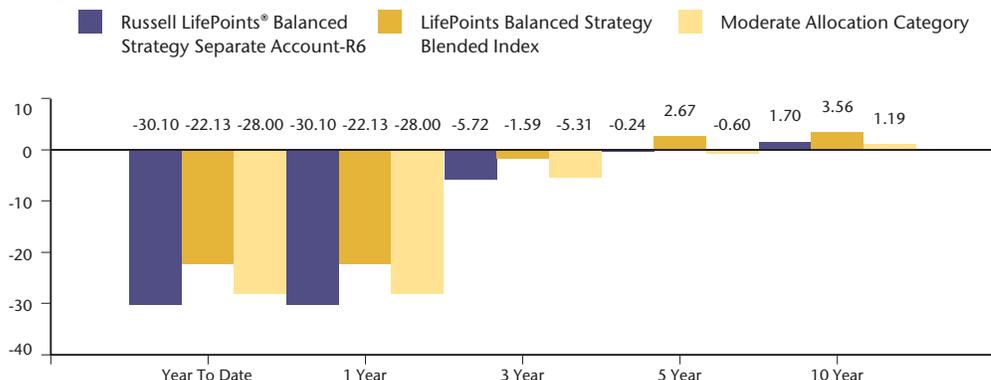
The investment seeks to provide above-average capital appreciation and a moderate level of current income. The fund is a fund of funds that diversifies assets by investing in class Y shares of several other Russell Investment Company funds. The management may modify the asset allocation and the selection of underlying funds from time to time. While the investment is nondiversified, it invests in diversified underlying holdings.



Portfolio managers

Jill F Johnson Since 05/31/2004.

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-30.10	-30.10	-5.72	-0.24	1.70
LifePoints Balanced Strategy Blended Index %	-22.13	-22.13	-1.59	2.67	3.56
Moderate Allocation Category %	-28.00	-28.00	-5.31	-0.60	1.19
Morningstar Percentile Rankings	-	65	59	46	37
# of Funds in Category	1206	1206	962	768	448

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-30.10	6.42	12.66	6.55	10.63
LifePoints Balanced Strategy Blended Index %	-22.13	6.88	14.05	7.17	11.67
Moderate Allocation Category %	-28.00	5.99	11.29	5.13	8.86
Morningstar Percentile Rankings	65	44	23	24	23
# of Funds in Category	1206	1103	1041	985	925

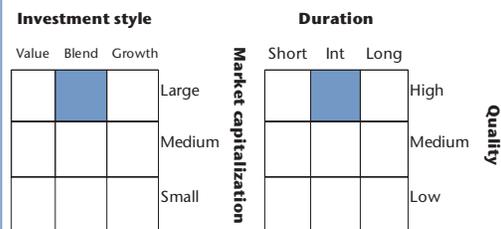
Morningstar percentile rankings are based on total returns.

Morningstar category

Moderate Allocation

Morningstar Style Box™

As of 10/31/2008



Risk and Return Statistics

as of 12/31/2008 Relative to LifePoints Balanced Strategy Blended Index

	3Yr	5Yr
Alpha	-3.33	-1.94
Beta	1.13	1.12
R-Squared	97.86	96.57
Standard Deviation	12.58	10.50
Mean	-5.72	-0.24
Sharpe Ratio	-0.71	-0.27
Excess Return	-4.00	-2.19
Excess Risk	2.28	2.20
Information Ratio	-1.75	-1.00

Operations

Total Investment Expense Net	1.52%
Total Investment Expense Gross	1.71%
Contractual Cap Expiration Date	02/28/2009
Inception Date	03/24/1998
Total Net Assets (mil)	\$3,767.00



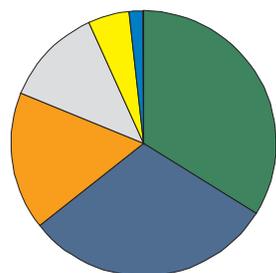
© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Russell LifePoints® Balanced Strategy Separate Account-R6

as of 12/31/2008

Portfolio information†

Composition as of 10/31/2008



Asset Class	% of Assets
U.S. Bonds	33.86
U.S. Stocks	30.49
Non-U.S. Stocks	16.90
Cash	11.97
Other	4.99
Non-U.S. Bonds	1.70
Preferred	0.10
Convertibles	0.01

Top ten holdings

Top ten holdings	% of net assets
1. Russell Strategic Bond Y	41.31
2. Russell U.S. Quantitative Equity Y	15.15
3. Russell U.S. Core Equity Y	15.05
4. Russell International Developed Mrkts Y	13.51
5. Russell Real Estate Secs Y	4.47
6. Russell Global Equity Y	3.93
7. Russell U.S. Small & Mid Cap Y	3.88
8. Russell Emerging Markets Y	2.70
% of net assets in top ten holdings*	100.00

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	8
GeoAvgCap (mil)	\$21,462.60
Turnover Ratio	34%
P/C Ratio	7.36
P/E Ratio	13.26
P/B Ratio	1.82

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.63	Healthcare	10.37	Consumer Goods	9.13
Hardware	8.04	Consumer Services	7.66	Industrial Materials	13.79
Media	2.12	Business Services	5.80	Energy	10.48
Telecom	3.58	Financial Services	23.66	Utilities	2.73

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Russell LifePoints® Balanced Strategy Separate Account-R6.

LifePoints Balanced Strategy Blended Index is composed of 32% Russell 1000 Index, 4% Russell 2500 Index, 16% EAFE Index, 3% MSCI Emerging Markets Free Index, 40% Barclays Capital Aggregate Index, and 5% NAREIT Equity Index. The returns from these weightings were calculated by the Principal Financial Group®.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Formerly Russell LifePoints® Balanced Strategy (D) Separate Account.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

The Separate Account invests in a mutual fund only. Performance results and investment expenses shown prior to July 31, 2001, are of the mutual fund only because the Separate Account was not available. Any present or past investment expenses charged by The Principal would have reduced the illustrated performance results. The mutual fund operating expenses for each Russell LifePoints® Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying mutual funds in which each LifePoints® Fund invests. Based on the asset allocation of the LifePoints® Funds outlined in the prospectus dated February 29, 2008, the weighted average operating expenses of the underlying funds are: Conservative Strategy Fund, 0.84%; Moderate Strategy Fund, 0.95%; Balanced Strategy Fund, 1.02%; Growth Strategy Fund, 1.09%; Equity Growth Strategy Fund, 1.16%. The operating expenses of the underlying mutual funds are included in Total Investment Expense and performance results shown for the Separate Account reflect the application of these expenses. For further information on all mutual fund expenses, see the prospectus of the underlying LifePoints® Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Russell LifePoints® Growth Strategy Separate Account-R6

as of 12/31/2008

Investment Strategy

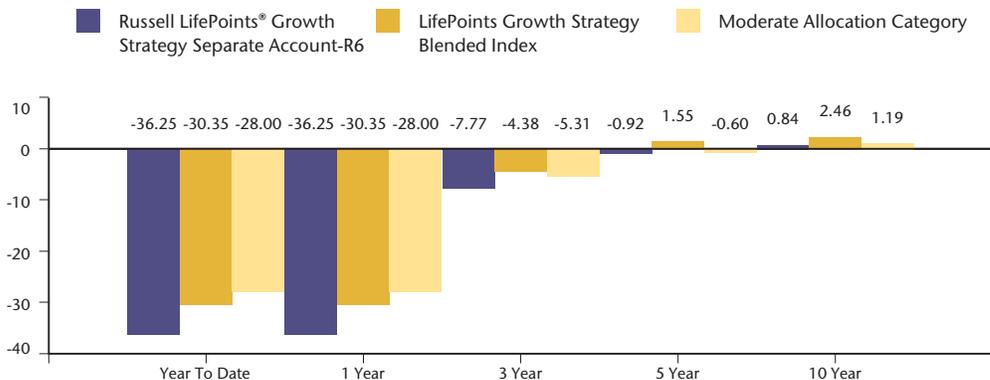
The investment seeks high long-term capital appreciation and low current income. The fund is a fund of funds that diversifies assets by investing in class Y shares of several other Russell Investment Company funds. The management may modify the asset allocation and the selection of underlying funds from time to time. While the investment is nondiversified, it invests in diversified underlying holdings.



Portfolio managers

Jill F Johnson Since 05/31/2004.

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-36.25	-36.25	-7.77	-0.92	0.84
LifePoints Growth Strategy Blended Index %	-30.35	-30.35	-4.38	1.55	2.46
Moderate Allocation Category %	-28.00	-28.00	-5.31	-0.60	1.19
Morningstar Percentile Rankings	-	93	84	60	56
# of Funds in Category	1206	1206	962	768	448

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-36.25	6.76	15.27	8.09	12.61
LifePoints Growth Strategy Blended Index %	-30.35	6.79	17.04	8.50	13.79
Moderate Allocation Category %	-28.00	5.99	11.29	5.13	8.86
Morningstar Percentile Rankings	93	38	6	7	9
# of Funds in Category	1206	1103	1041	985	925

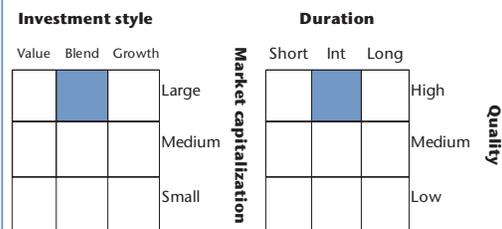
Morningstar percentile rankings are based on total returns.

Morningstar category

Moderate Allocation

Morningstar Style Box™

As of 10/31/2008



Risk and Return Statistics

as of 12/31/2008 Relative to LifePoints Growth Strategy Blended Index

	3Yr	5Yr
Alpha	-2.52	-1.33
Beta	1.10	1.09
R-Squared	99.14	98.01
Standard Deviation	15.54	13.02
Mean	-7.76	-0.91
Sharpe Ratio	-0.68	-0.25
Excess Return	-3.25	-1.64
Excess Risk	1.95	2.09
Information Ratio	-1.67	-0.78

Operations

Total Investment Expense Net	1.59%
Total Investment Expense Gross	1.75%
Contractual Cap Expiration Date	02/28/2009
Inception Date	03/24/1998
Total Net Assets (mil)	\$2,571.49



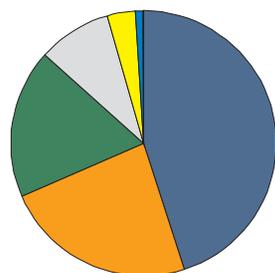
© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Russell LifePoints® Growth Strategy Separate Account-R6

as of 12/31/2008

Portfolio information†

Composition as of 10/31/2008



% of Assets

U.S. Stocks	44.98
Non-U.S. Stocks	23.51
U.S. Bonds	18.11
Cash	8.92
Other	3.46
Non-U.S. Bonds	0.91
Preferred	0.09
Convertibles	0.01

Top ten holdings

1. Russell U.S. Core Equity Y	21.30
2. Russell Strategic Bond Y	20.62
3. Russell U.S. Quantitative Equity Y	20.41
4. Russell International Developed Mrkts Y	16.65
5. Russell Global Equity Y	5.98
6. Russell U.S. Small & Mid Cap Y	5.92
7. Russell Real Estate Secs Y	5.45
8. Russell Emerging Markets Y	3.67
% of net assets in top ten holdings*	100.00

% of net assets

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	8
GeoAvgCap (mil)	\$21,245.40
Turnover Ratio	18%
P/C Ratio	7.31
P/E Ratio	13.24
P/B Ratio	1.82

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.67	Healthcare	10.47	Consumer Goods	9.00
Hardware	8.26	Consumer Services	7.79	Industrial Materials	13.87
Media	2.11	Business Services	5.94	Energy	10.62
Telecom	3.58	Financial Services	22.96	Utilities	2.73

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Russell LifePoints® Growth Strategy Separate Account-R6.

LifePoints Growth Strategy Blended Index is composed of 46% Russell 1000 Index, 5% Russell 2500 Index, 19% EAFE Index, 4% MSCI Emerging Markets Free Index, 20% Barclays Capital Aggregate Index, and 6% NAREIT Equity Index. The returns from these weightings were calculated by the Principal Financial Group®.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Formerly Russell LifePoints® Aggressive Strategy (D) Separate Account.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

The Separate Account invests in a mutual fund only. Performance results and investment expenses shown prior to July 31, 2001, are of the mutual fund only because the Separate Account was not available. Any present or past investment expenses charged by The Principal would have reduced the illustrated performance results. The mutual fund operating expenses for each Russell LifePoints® Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying mutual funds in which each LifePoints® Fund invests. Based on the asset allocation of the LifePoints® Funds outlined in the prospectus dated February 29, 2008, the weighted average operating expenses of the underlying funds are: Conservative Strategy Fund, 0.84%; Moderate Strategy Fund, 0.95%; Balanced Strategy Fund, 1.02%; Growth Strategy Fund, 1.09%; Equity Growth Strategy Fund, 1.16%. The operating expenses of the underlying mutual funds are included in Total Investment Expense and performance results shown for the Separate Account reflect the application of these expenses. For further information on all mutual fund expenses, see the prospectus of the underlying LifePoints® Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Russell LifePoints® Equity Growth Strategy Sep Acct-R6

as of 12/31/2008

Investment Strategy

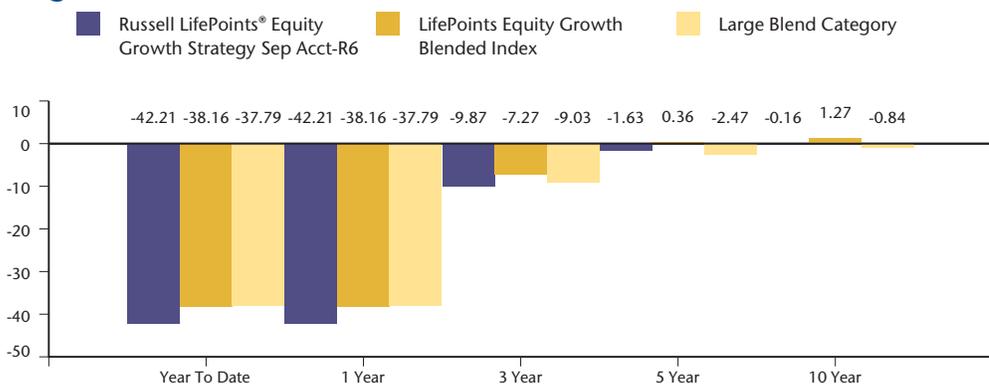
The investment seeks high long-term capital appreciation. The fund is a fund of funds that diversifies assets by investing in class Y shares of several other Russell Investment Company funds. It normally invests at least 80% of assets in shares of equity underlying funds. The management may modify the asset allocation and the selection of underlying funds from time to time. While the investment is nondiversified, it invests in diversified underlying holdings.



Portfolio managers

Jill F Johnson Since 05/31/2004.

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-42.21	-42.21	-9.87	-1.63	-0.16
LifePoints Equity Growth Blended Index %	-38.16	-38.16	-7.27	0.36	1.27
Large Blend Category %	-37.79	-37.79	-9.03	-2.47	-0.84
Morningstar Percentile Rankings	-	85	68	29	31
# of Funds in Category	2086	2086	1748	1365	683

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-42.21	7.11	18.27	9.77	14.63
LifePoints Equity Growth Blended Index %	-38.16	6.77	20.30	9.96	16.09
Large Blend Category %	-37.79	6.16	14.17	5.88	10.02
Morningstar Percentile Rankings	85	35	6	10	8
# of Funds in Category	2086	2090	1980	1743	1611

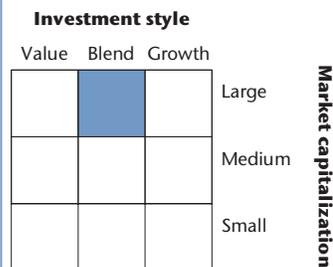
Morningstar percentile rankings are based on total returns.

Morningstar category

Large Blend

Morningstar Style Box™

As of 10/31/2008



Risk and Return Statistics

as of 12/31/2008 Relative to LifePoints Equity Growth Blended Index

	3Yr	5Yr
Alpha	-1.79	-0.77
Beta	1.07	1.06
R-Squared	99.53	98.55
Standard Deviation	18.59	15.63
Mean	-9.87	-1.63
Sharpe Ratio	-0.67	-0.23
Excess Return	-2.48	-1.09
Excess Risk	1.72	2.08
Information Ratio	-1.44	-0.53

Operations

Total Investment Expense Net	1.66%
Total Investment Expense Gross	1.80%
Contractual Cap Expiration Date	02/28/2009
Inception Date	03/24/1998
Total Net Assets (mil)	\$1,228.23



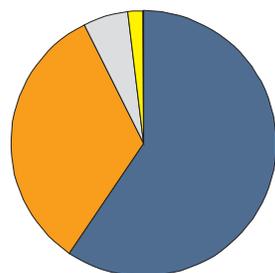
© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Russell LifePoints® Equity Growth Strategy Sep Acct-R6

as of 12/31/2008

Portfolio information†

Composition as of 10/31/2008



% of Assets

U.S. Stocks	59.47
Non-U.S. Stocks	33.11
Cash	5.50
Other	1.83
Preferred	0.08
Convertibles	0.01

Top ten holdings

1. Russell U.S. Core Equity Y	26.17
2. Russell U.S. Quantitative Equity Y	25.27
3. Russell International Developed Mrkts Y	22.50
4. Russell U.S. Small & Mid Cap Y	7.06
5. Russell Real Estate Secs Y	7.05
6. Russell Global Equity Y	6.99
7. Russell Emerging Markets Y	4.96
% of net assets in top ten holdings*	100.00

% of net assets

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	7
GeoAvgCap (mil)	\$21,361.51
Turnover Ratio	17%
P/C Ratio	7.31
P/E Ratio	13.22
P/B Ratio	1.82

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.64	Healthcare	10.40	Consumer Goods	9.13
Hardware	8.15	Consumer Services	7.71	Industrial Materials	13.89
Media	2.11	Business Services	5.88	Energy	10.56
Telecom	3.62	Financial Services	23.20	Utilities	2.74

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Russell LifePoints® Equity Growth Strategy Sep Acct-R6.

LifePoints Equity Growth Blended Index is composed of 58% Russell 1000 Index, 6% Russell 2500 Index, 24% EAFE Index, 5% MSCI Emerging Markets Free Index, and 7% NAREIT Equity Index. The returns from these weightings were calculated by the Principal Financial Group®.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Formerly Russell LifePoints® Equity Aggressive Strategy (D) Separate Account.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

The Separate Account invests in a mutual fund only. Performance results and investment expenses shown prior to July 31, 2001, are of the mutual fund only because the Separate Account was not available. Any present or past investment expenses charged by The Principal would have reduced the illustrated performance results. The mutual fund operating expenses for each Russell LifePoints® Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying mutual funds in which each LifePoints® Fund invests. Based on the asset allocation of the LifePoints® Funds outlined in the prospectus dated February 29, 2008, the weighted average operating expenses of the underlying funds are: Conservative Strategy Fund, 0.84%; Moderate Strategy Fund, 0.95%; Balanced Strategy Fund, 1.02%; Growth Strategy Fund, 1.09%; Equity Growth Strategy Fund, 1.16%. The operating expenses of the underlying mutual funds are included in Total Investment Expense and performance results shown for the Separate Account reflect the application of these expenses. For further information on all mutual fund expenses, see the prospectus of the underlying LifePoints® Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Stable Value Sig Fund as of 12/31/2008

Investment Strategy

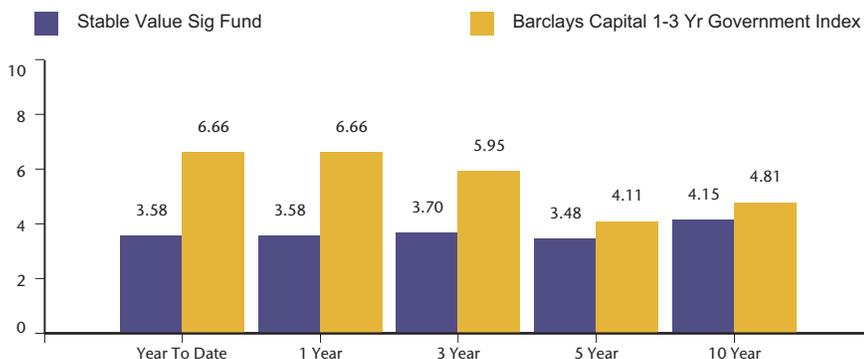
The investment seeks current income by investing primarily in insurance contracts issued by insurance companies, and investments from other financial institutions which offer stability of principal.

MORLEY FINANCIAL
SERVICES, INC.

Portfolio managers

--- **Management Team** Since 01/01/1997.

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	3.58	3.58	3.70	3.48	4.15
Barclays Capital 1-3 Yr Government Index %	6.66	6.66	5.95	4.11	4.81

Annual Returns	2008	2007	2006	2005	2004
Total Return %	3.58	3.92	3.62	3.27	3.01



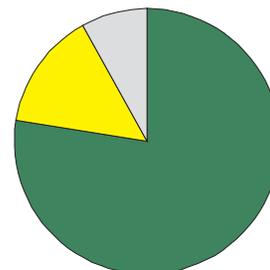
© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Operations

Total Investment Expense Net	0.85%
Total Investment Expense Gross	0.85%
Inception Date	01/09/1997
Total Net Assets (mil)	\$2,811.30

Portfolio information

Composition as of 09/30/2008



% of Assets

U.S. Bonds	77.60
Other	14.30
Cash	8.10

Portfolio composition

Top ten holdings

Top ten holdings	% of net assets
Bank of America Wrap	16.00
State Street	15.80
JP Morgan Chase Wrap	14.80
AIG Wrap	11.80
Rabobank Wrap	11.40
NATIXIS Wrap	9.60
UBS Wrap	7.80
AIG Wrap UBT Actively Managed Fund	3.60
New York Life Insurance Co	0.50
Hartford Life Insurance Co	0.50

% of net assets in top ten holdings* 91.80%

*Values may exceed 100% if both long and short positions are included in the portfolio.

Diversification

Maturity	% of assets
Less than 1 Yr	17.20
1-2 Yrs	19.30
2-3 Yrs	17.00
3-4 Yrs	13.70
Over 4 Yrs	32.80

Statistics

# of Issuers	9
Avg Eff Duration (Yrs)	2.95
Avg Eff Maturity (Yrs)	3.18
7-Day Yield %	2.91
Avg Credit Quality	AA+/Aa1

Stable Value Sig Fund as of 12/31/2008

Returns shown for periods of less than one year are not annualized. All returns displayed here are after Total Investment Expense of the investment option. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities are offered through Princor Financial Services Corporation, 800-547-7754, member SIPC, and/or independent broker/dealers. Securities sold by a Princor® Registered Representative are offered through Princor. Principal Funds Distributor, Princor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths.

Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Effective December 1, 2006, references to Gartmore Morley Capital Management as investment advisor was replaced with Morley Financial Services, Inc. This is a name change only and does not affect the management, objective, or strategy of this investment option.

Barclays Capital 1-3 Yr Government Index is comprised of both the Treasury Bond Index and the Agency Bond Index.

Bond and Mortgage Separate Account-R3 as of 12/31/2008

Investment Strategy

The investment option invests primarily in intermediate-term, fixed-income investments such as public and private corporate bonds, commercial and residential mortgages, asset-backed securities, and US government and agency-backed securities. Value is added primarily through sector allocation and security selection. The Separate Account may enter into reverse repurchase agreements to attempt to enhance portfolio return and income.



Portfolio managers

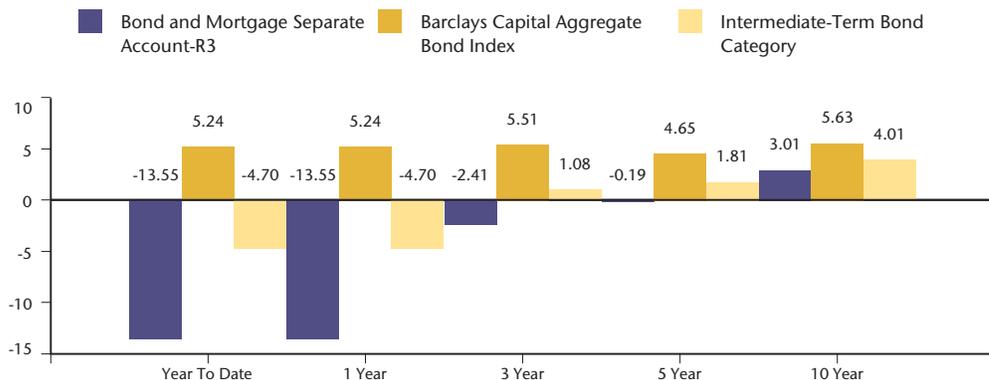
William C. Armstrong, CFA. Since 01/01/1997. Master, U of Iowa

Timothy R. Warrick, CFA. Since 06/01/2002. M.B.A., Drake U

L. Phillip Jacoby IV Since 11/07/2005. B.S., Boston U

Bernard M. Sussman Since 11/07/2005. M.B.A., Cornell U

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-13.55	-13.55	-2.41	-0.19	3.01
Barclays Capital Aggregate Bond Index %	5.24	5.24	5.51	4.65	5.63
Intermediate-Term Bond Category %	-4.70	-4.70	1.08	1.81	4.01
Morningstar Percentile Rankings	-	89	88	88	82
# of Funds in Category	1135	1135	991	857	458

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-13.55	3.24	4.13	2.06	4.41
Barclays Capital Aggregate Bond Index %	5.24	6.97	4.33	2.43	4.34
Intermediate-Term Bond Category %	-4.70	4.70	4.15	1.80	3.91
Morningstar Percentile Rankings	89	84	41	36	29
# of Funds in Category	1135	1097	1092	1043	1035

Morningstar percentile rankings are based on total returns.

Morningstar category
Intermediate-Term Bond

Morningstar Style Box™
As of 11/30/2008

Duration			Quality	
Short	Int	Long		
				High
				Medium
			Low	

Risk and Return Statistics

as of 12/31/2008 Relative to
Barclays Capital Aggregate Bond Index

	3Yr	5Yr
Alpha	-7.40	-4.47
Beta	0.81	0.84
R-Squared	37.30	46.47
Standard Deviation	5.65	4.88
Mean	-2.42	-0.20
Sharpe Ratio	-1.10	-0.68
Excess Risk	4.38	3.55
Information Ratio	-1.81	-1.37

Operations

Total Investment Expense Net	1.12%
Total Investment Expense Gross	1.12%
Inception Date	02/01/1983
Total Net Assets (mil)	\$4,517.86

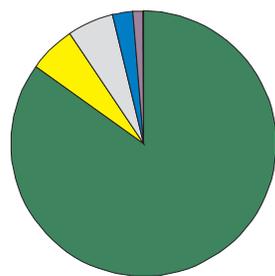


© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Bond and Mortgage Separate Account-R3 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008



Asset Class	% of Assets
U.S. Bonds	84.90
Other	5.73
Cash	5.58
Non-U.S. Bonds	2.47
Preferred	1.23
Non-U.S. Stocks	0.09

Top ten holdings

Rank	Security	% of net assets
1.	FGLMC 5.5%	4.19
2.	FNMA 5.5%	3.89
3.	FGLMC 5%	3.62
4.	FNMA 6%	3.15
5.	FGLMC 5%	2.82
6.	US Treasury Bond 6.25%	2.78
7.	US Treasury Note 4.25%	2.17
8.	FNMA 5%	1.38
9.	US Treasury Note 2%	1.31
10.	FNMA 5%	1.12
% of net assets in top ten holdings*		26.42

Analysis

# of Stock Hldgs	11
# of Bond Hldgs	1292
# of Other Hldgs	316
Turnover Ratio	29%

Credit Analysis

As of 11/30/2008

Rating	% Bonds
AAA	55.63
AA	2.85
A	9.84
BBB	15.34
BB	4.73
B	4.03
Below B	1.66
Not Rated	5.92

Statistics

Avg Eff Duration (Yrs)	4.16
Avg Eff Maturity (Yrs)	6.99
Avg Credit Quality	AA
Avg Weighted Coupon	5.58
Avg Weighted Price	89.39

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal Bond and Mortgage Separate Account-R3.

Barclays Capital Aggregate Bond Index represents securities that are domestic, taxable, and dollar denominated. The index covers the U. S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. government.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

* Values may exceed 100% if both long and short positions are included in the portfolio.

U.S. Property Separate Account-R2 as of 12/31/2008

Investment Strategy

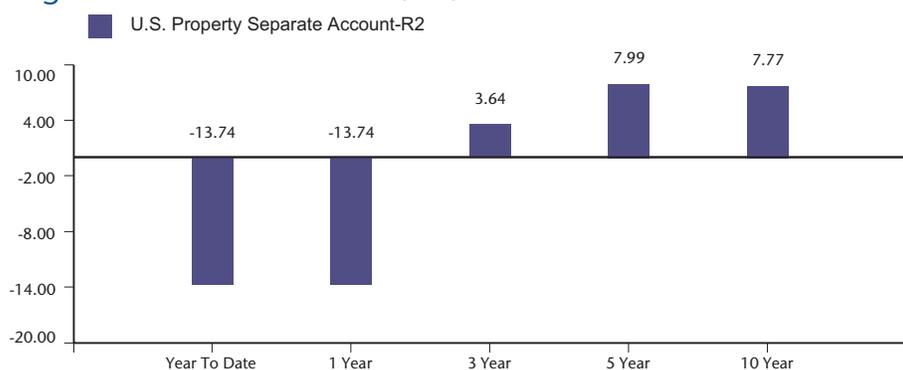
The investment invests the majority of assets on commercial real estate holdings. It focuses on properties that return both lease income and appreciation of the buildings' marketable value. The property holdings usually contain real estate from the multi-family, office, warehouse/manufacturing, and retail sectors.

Principal Real Estate Investors

Portfolio managers

John Berg Since 12/01/2003. MBA, University of Iowa

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-13.74	-13.74	3.64	7.99	7.77

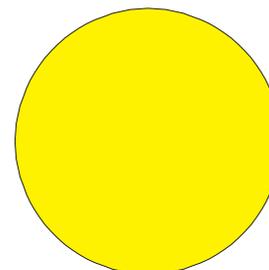
Annual Returns	2008	2007	2006	2005	2004
Total Return %	-13.74	12.75	14.47	17.91	11.87

Operations

Total Investment Expense Net	1.74%
Total Investment Expense Gross	1.74%
Inception Date	01/01/1982
Total Net Assets (mil)	\$5,300.44

Portfolio information

Composition as of 11/30/2008



% of Assets

Other	100.00
-------	--------

Analysis

Total Number of Hldgs	152
-----------------------	-----

Portfolio composition

Top ten holdings

	% of net assets
OFFICE SAN FRANCISCO, CA	5.33
OFFICE NEW YORK, NY	4.61
OFFICE BELLEVUE, WA	3.22
OFFICE NEW YORK, NY	2.84
RETAIL BURBANK, CA	2.46
OFFICE SCOTTSDALE, AZ	2.37
APARTMENT CAMBRIDGE, MA	2.05
APARTMENT MERCER ISLAND, VA	2.04
OFFICE CAMBRIDGE, MA	2.00
OFFICE SAN DIEGO, CA	1.94

% of net assets in top ten holdings* 28.86%

*Values may exceed 100% if both long and short positions are included in the portfolio.

Geographical diversity

	% of properties
West	47.35
East	23.63
South	18.20
Midwest	10.82

Property type

	% of account
Office	43.32
Apartments	22.46
Retail	18.83
Warehouse	14.22
Other	1.17

U.S. Property Separate Account-R2 as of 12/31/2008

Returns shown for periods of less than one year are not annualized. All returns displayed here are after Total Investment Expense of the investment option. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities are offered through Princor Financial Services Corporation, 800-547-7754, member SIPC, and/or independent broker/dealers. Securities sold by a Princor® Registered Representative are offered through Princor. Principal Funds Distributor, Princor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths.

Due to the unique composition of the portfolio, Morningstar does not track an index or peer group that provides an appropriate comparison for this Separate Account.

Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

This investment option is subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. Payment of principal and earnings may be delayed.

LargeCap S&P 500 Index Separate Account-R2 as of 12/31/2008

Investment Strategy

The investment option normally invests the majority of assets in common stocks of companies that compose the S&P 500 Index. Management attempts to mirror the investment performance of the index by allocating assets in approximately the same weightings as the S&P 500 Index. Over the long-term, management seeks a very close correlation between the performance of the Separate Account before expenses and that of the S&P 500 Index.

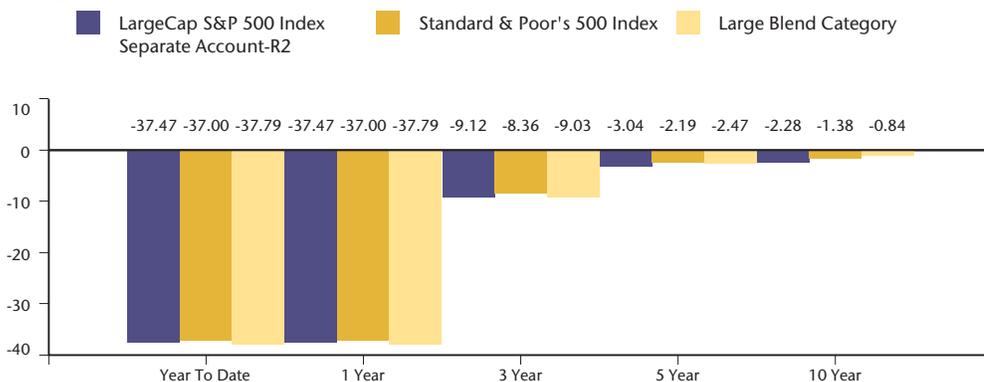


Portfolio managers

Dirk Laschanzky, CFA. Since 10/01/2003. M.B.A., U of Iowa

Scott Smith Since 12/31/2007. B.S., Iowa State University

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-37.47	-37.47	-9.12	-3.04	-2.28
Standard & Poor's 500 Index %	-37.00	-37.00	-8.36	-2.19	-1.38
Large Blend Category %	-37.79	-37.79	-9.03	-2.47	-0.84
Morningstar Percentile Rankings	-	50	55	67	76
# of Funds in Category	2086	2086	1748	1365	683

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-37.47	4.56	14.78	3.97	9.85
Standard & Poor's 500 Index %	-37.00	5.49	15.79	4.91	10.88
Large Blend Category %	-37.79	6.16	14.17	5.88	10.02
Morningstar Percentile Rankings	50	65	43	74	56
# of Funds in Category	2086	2090	1980	1743	1611

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Blend

Morningstar Style Box™

As of 11/30/2008

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

Risk and Return Statistics

as of 12/31/2008 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	-0.86	-0.88
Beta	1.00	1.00
R-Squared	100.00	100.00
Standard Deviation	15.26	12.83
Mean	-9.12	-3.04
Sharpe Ratio	-0.80	-0.42
Excess Return	-0.76	-0.85
Excess Risk	0.04	0.04
Information Ratio	-16.98	-19.70

Operations

Total Investment Expense Net	0.90%
Total Investment Expense Gross	0.90%
Inception Date	01/01/1990
Total Net Assets (mil)	\$3,963.22



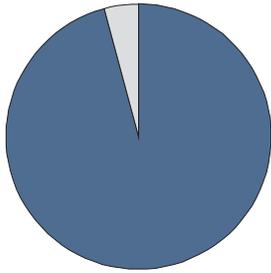
© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

LargeCap S&P 500 Index Separate Account-R2 as of 12/31/2008

Portfolio information[†]

Composition as of
11/30/2008

% of Assets	
U.S. Stocks	95.77
Cash	4.17
Non-U.S. Stocks	0.06



Top ten holdings

	% of net assets
1. ExxonMobil Corporation	5.10
2. Procter & Gamble Company	2.36
3. General Electric Company	2.21
4. AT&T, Inc.	2.06
5. Johnson & Johnson	2.00
6. Chevron Corporation	1.99
7. Microsoft Corporation	1.94
8. Wal-Mart Stores, Inc.	1.53
9. J.P. Morgan Chase & Co.	1.43
10. Pfizer Inc.	1.36
% of net assets in top ten holdings*	21.98

Analysis

# of Stock Hldgs	499
# of Bond Hldgs	0
# of Other Hldgs	2
GeoAvgCap (mil)	\$38,545.96
Turnover Ratio	4%
P/C Ratio	5.70
P/E Ratio	10.24
P/B Ratio	1.52

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.88	Healthcare	14.06	Consumer Goods	10.75
Hardware	8.96	Consumer Services	7.74	Industrial Materials	11.43
Media	2.58	Business Services	4.96	Energy	14.38
Telecom	3.82	Financial Services	13.27	Utilities	4.18

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal LargeCap S&P 500 Index Separate Account-R2.

Standard & Poor's 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

[†] Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Each index based investment option is invested in the stocks or bonds of the index it tracks. Performance of indexes reflects the unmanaged results for the market segment the selected stocks or bonds represent. There is no assurance an index based investment option will match the performance of the index tracked.

S&P 500 is a trademark of The McGraw-Hill Companies, Inc. and has been licensed for use by Principal Life Insurance Company and Principal Management Corporation. The product is not sponsored, endorsed, sold or promoted by Standard & Poor's and Standard & Poor's makes no representation regarding the advisability of investing in the product.

Formerly known as Large-Cap Stock Index Separate Account.

* Values may exceed 100% if both long and short positions are included in the portfolio.

LargeCap Blend II Separate Account-R3 as of 12/31/2008

Investment Strategy

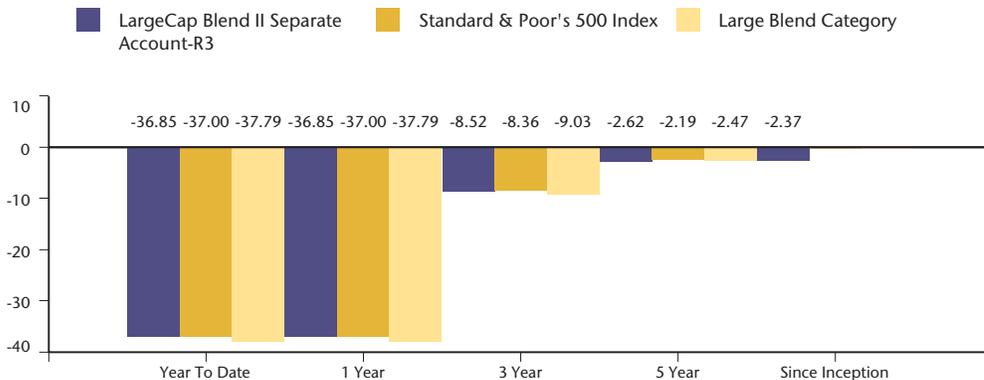
The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets in common stocks of companies with large market capitalizations (those with market capitalizations within the range of companies in the S&P 500 index) at the time of purchase. It will generally remain fully invested (less than 5% cash reserves) and will have approximately the same industry weightings as compared to the S&P 500 index.



Portfolio managers

Anna M. Dopkin, CFA. Since 04/01/2007. B.A., Wharton School, U. of Pennsylvania

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-36.85	-36.85	-8.52	-2.62	-2.37
Standard & Poor's 500 Index %	-37.00	-37.00	-8.36	-2.19	-
Large Blend Category %	-37.79	-37.79	-9.03	-2.47	-
Morningstar Percentile Rankings	-	35	39	56	-
# of Funds in Category	2086	2086	1748	1365	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-36.85	5.17	15.28	4.20	9.79
Standard & Poor's 500 Index %	-37.00	5.49	15.79	4.91	10.88
Large Blend Category %	-37.79	6.16	14.17	5.88	10.02
Morningstar Percentile Rankings	35	56	33	71	57
# of Funds in Category	2086	2090	1980	1743	1611

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Blend

Morningstar Style Box™

As of 11/30/2008

Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

Risk and Return Statistics

as of 12/31/2008 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	0.04	-0.36
Beta	1.02	1.01
R-Squared	99.62	99.48
Standard Deviation	15.56	13.04
Mean	-8.52	-2.62
Sharpe Ratio	-0.74	-0.38
Excess Return	-0.16	-0.43
Excess Risk	0.97	0.95
Information Ratio	-0.17	-0.45

Operations

Total Investment Expense Net	1.32%
Total Investment Expense Gross	1.32%
Inception Date	12/29/2000
Total Net Assets (mil)	\$604.80

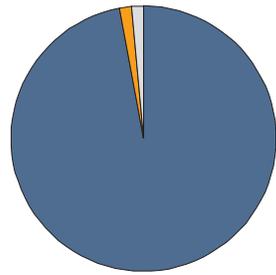


© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

LargeCap Blend II Separate Account-R3 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008



% of Assets	
U.S. Stocks	97.09
Non-U.S. Stocks	1.45
Cash	1.44
Other	0.03

Top ten holdings

Top ten holdings	% of net assets
1. ExxonMobil Corporation	5.56
2. AT&T, Inc.	2.69
3. Chevron Corporation	2.34
4. Procter & Gamble Company	2.30
5. Microsoft Corporation	2.17
6. Johnson & Johnson	2.06
7. General Electric Company	1.85
8. Wal-Mart Stores, Inc.	1.66
9. J.P. Morgan Chase & Co.	1.66
10. Wells Fargo Company	1.60
% of net assets in top ten holdings*	23.90

Analysis

# of Stock Hldgs	298
# of Bond Hldgs	0
# of Other Hldgs	6
GeoAvgCap (mil)	\$37,281.08
Turnover Ratio	53%
P/C Ratio	6.12
P/E Ratio	10.68
P/B Ratio	1.59

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	4.25	Healthcare	13.97	Consumer Goods	10.48
Hardware	9.56	Consumer Services	8.54	Industrial Materials	10.65
Media	1.87	Business Services	4.94	Energy	14.29
Telecom	3.92	Financial Services	13.11	Utilities	4.42

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal LargeCap Blend II Separate Account-R3.

Standard & Poor's 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

Effective March 8, 2004, this portfolio is sub-advised by T. Rowe Price Associates, Inc. Prior to March 8, 2004, the portfolio was sub-advised by Federated Investment Management.

Formerly known as Large-Cap Blend Separate Account.

* Values may exceed 100% if both long and short positions are included in the portfolio.

LargeCap Value III Separate Account-R3 as of 12/31/2008

Investment Strategy

The investment seeks long-term growth of capital. The fund generally invests at least 80% of assets in companies with large market capitalizations at the time of purchase. The fund may invest up to 25% of assets in securities of foreign companies. AllianceBernstein invests primarily in undervalued equity securities of companies that it believes offer above average potential for growth in future earnings. Westwood generally invests in equity securities of domestic companies, but may also invest in equity securities of foreign companies and American Depositary Receipts.



Portfolio managers

Marilyn G. Fedak, CFA. Since 12/06/2000. M.B.A., Harvard Business School

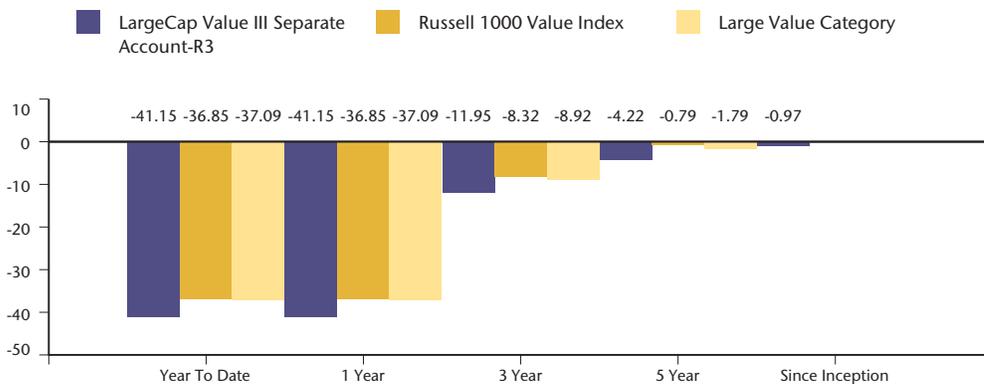
John D. Phillips Jr., CFA. Since 11/01/2002. M.B.A., Harvard U

Susan M. Byrne Since 07/15/2008. , U of CA, Berkeley

Mark R. Freeman, CFA. Since 07/15/2008. M.S., Louisiana State U

Scott Lawson, CFA. Since 07/15/2008. M.B.A., St. Louis U

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-41.15	-41.15	-11.95	-4.22	-0.97
Russell 1000 Value Index %	-36.85	-36.85	-8.32	-0.79	-
Large Value Category %	-37.09	-37.09	-8.92	-1.79	-
Morningstar Percentile Rankings	-	81	84	87	-
# of Funds in Category	1433	1433	1185	963	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-41.15	-4.31	21.22	4.75	12.71
Russell 1000 Value Index %	-36.85	-0.17	22.25	7.05	16.49
Large Value Category %	-37.09	1.42	18.15	5.95	12.97
Morningstar Percentile Rankings	81	86	13	62	52
# of Funds in Category	1433	1432	1371	1296	1220

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Value

Morningstar Style Box™

As of 11/30/2008

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

Risk and Return Statistics

as of 12/31/2008 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	-3.59	-3.35
Beta	1.03	1.03
R-Squared	98.80	98.58
Standard Deviation	16.15	13.62
Mean	-11.96	-4.24
Sharpe Ratio	-0.94	-0.48
Excess Return	-3.65	-3.45
Excess Risk	1.81	1.66
Information Ratio	-2.02	-2.07

Operations

Total Investment Expense Net	1.33%
Total Investment Expense Gross	1.33%
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,751.54

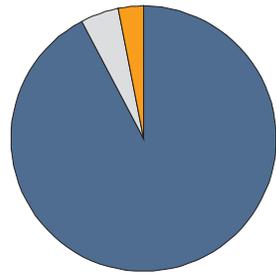


© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

LargeCap Value III Separate Account-R3 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008



% of Assets	
U.S. Stocks	92.26
Cash	4.64
Non-U.S. Stocks	3.10

Top ten holdings

Top ten holdings	% of net assets
1. ExxonMobil Corporation	5.42
2. AT&T, Inc.	4.00
3. Chevron Corporation	3.73
4. S & P 500 FUTURE DEC08	3.48
5. J.P. Morgan Chase & Co.	3.09
6. ConocoPhillips	2.64
7. Bank of America Corporation	2.50
8. Johnson & Johnson	2.38
9. Wells Fargo Company	2.16
10. Pfizer Inc.	2.10
% of net assets in top ten holdings*	31.51

Analysis

# of Stock Hldgs	141
# of Bond Hldgs	0
# of Other Hldgs	4
GeoAvgCap (mil)	\$44,253.06
Turnover Ratio	29%
P/C Ratio	4.88
P/E Ratio	9.07
P/B Ratio	1.17

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.26	Healthcare	9.40	Consumer Goods	11.06
Hardware	4.57	Consumer Services	7.45	Industrial Materials	7.97
Media	2.69	Business Services	2.13	Energy	20.31
Telecom	6.56	Financial Services	20.80	Utilities	3.80

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal LargeCap Value III Separate Account-R3.

Russell 1000 Value Index is a market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

From March 1, 2006 to December 31, 2007, Bank of New York served as a sub-advisor for managing the cash portion of this investment option.

Formerly known as Large-Cap Value Separate Account.

Effective July 15, 2008, Westwood Management Corp. was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

* Values may exceed 100% if both long and short positions are included in the portfolio.

LargeCap Growth I Separate Account-R3 as of 12/31/2008

Investment Strategy

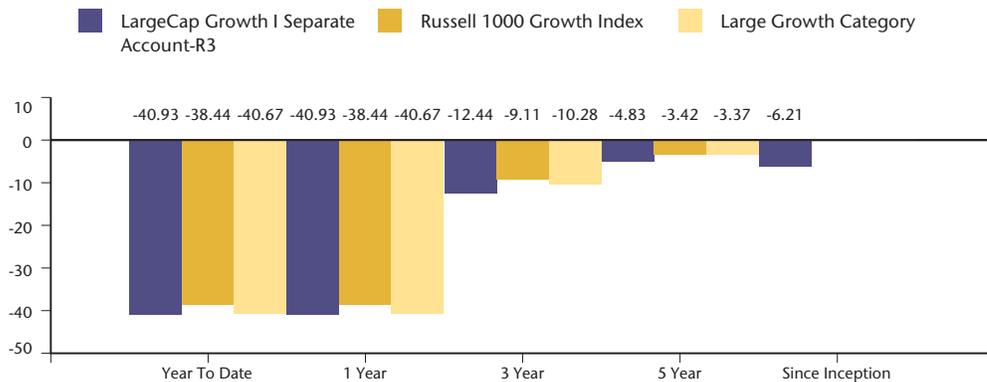
The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets in equity securities of companies with market capitalizations within the range of companies in the Russell 1000 Growth Index at the time of purchase. It invests less than 25% of total assets in foreign companies. The fund may also purchase futures and options. It generally looks for companies with an above-average rate of earnings and cash flow growth and a lucrative niche in the economy that gives them the ability to sustain earnings momentum even during times of slow economic growth.



Portfolio managers

Robert W. Sharps, CPA, CFA. Since 08/19/2004. M.B.A., U of Pennsylvania

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-40.93	-40.93	-12.44	-4.83	-6.21
Russell 1000 Growth Index %	-38.44	-38.44	-9.11	-3.42	-
Large Growth Category %	-40.67	-40.67	-10.28	-3.37	-
Morningstar Percentile Rankings	-	54	79	74	-
# of Funds in Category	1809	1809	1507	1243	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-40.93	7.74	5.49	7.00	8.66
Russell 1000 Growth Index %	-38.44	11.81	9.07	5.26	6.30
Large Growth Category %	-40.67	13.35	7.05	6.71	7.81
Morningstar Percentile Rankings	54	78	67	43	42
# of Funds in Category	1809	1748	1642	1495	1400

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Growth

Morningstar Style Box™

As of 11/30/2008

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

Risk and Return Statistics

as of 12/31/2008 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	-2.32	-0.69
Beta	1.09	1.09
R-Squared	95.70	93.81
Standard Deviation	18.47	15.91
Mean	-12.45	-4.84
Sharpe Ratio	-0.83	-0.43
Excess Return	-3.34	-1.42
Excess Risk	4.06	4.13
Information Ratio	-0.82	-0.34

Operations

Total Investment Expense Net	1.30%
Total Investment Expense Gross	1.30%
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,163.73

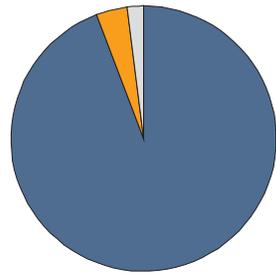


© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

LargeCap Growth I Separate Account-R3 as of 12/31/2008

Portfolio information[†]

Composition as of 11/30/2008



% of Assets	
U.S. Stocks	94.23
Non-U.S. Stocks	3.78
Cash	1.99

Top ten holdings

Rank	Company	% of net assets
1.	Danaher Corporation	4.53
2.	Gilead Sciences, Inc.	4.45
3.	Amazon.com, Inc.	4.15
4.	Juniper Networks, Inc.	4.12
5.	Apple, Inc.	3.93
6.	American Tower Corporation A	3.70
7.	Qualcomm, Inc.	3.40
8.	Schlumberger, Ltd.	3.32
9.	Google, Inc.	3.06
10.	Medco Health Solutions, Inc.	2.99
% of net assets in top ten holdings*		37.67

% of net assets

Analysis

# of Stock Hldgs	60
# of Bond Hldgs	0
# of Other Hldgs	2
GeoAvgCap (mil)	\$20,210.32
Turnover Ratio	48%
P/C Ratio	8.85
P/E Ratio	13.44
P/B Ratio	2.29

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	8.92	Healthcare	22.10	Consumer Goods	0.67
Hardware	19.54	Consumer Services	14.15	Industrial Materials	8.48
Media	0.00	Business Services	5.53	Energy	5.77
Telecom	6.42	Financial Services	6.87	Utilities	1.55

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal LargeCap Growth I Separate Account-R3.

Russell 1000 Growth Index is a market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

[†] Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

Effective August 24, 2004, this portfolio is sub-advised by T. Rowe Price Associates, Inc. Prior to August 24, 2004, the portfolio was sub-advised by Morgan Stanley Investment Management Inc.

* Values may exceed 100% if both long and short positions are included in the portfolio.

American Century Equity Income A Fund as of 12/31/2008

Investment Strategy

The investment seeks current income; capital appreciation is a secondary consideration. The fund invests in equity securities of companies with a favorable income-paying history and with the potential for an increase in share price.



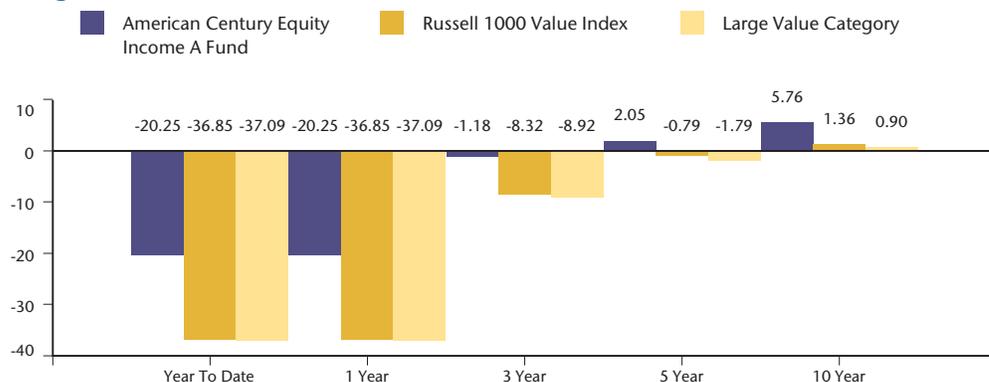
Portfolio managers

Phillip N. Davidson, CFA. Since 08/01/1994. M.B.A., Illinois State U

Kevin Toney, CFA. Since 08/30/2003. M.B.A., U of Pennsylvania

Michael Liss, CFA. Since 09/02/2008. M.B.A., Indiana U

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-20.25	-20.25	-1.18	2.05	5.76
Russell 1000 Value Index %	-36.85	-36.85	-8.32	-0.79	1.36
Large Value Category %	-37.09	-37.09	-8.92	-1.79	0.90
Morningstar Percentile Rankings	-	1	1	4	1
# of Funds in Category	1433	1433	1185	963	451

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-20.25	1.43	19.30	2.20	12.26
Russell 1000 Value Index %	-36.85	-0.17	22.25	7.05	16.49
Large Value Category %	-37.09	1.42	18.15	5.95	12.97
Morningstar Percentile Rankings	1	53	35	89	59
# of Funds in Category	1433	1432	1371	1296	1220

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Value

Morningstar Style Box™

As of 09/30/2008

Investment style

Value	Blend	Growth	Market capitalization	
■				Large
				Medium
			Small	

Risk and Return Statistics

as of 12/31/2008 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	3.48	1.44
Beta	0.70	0.69
R-Squared	93.39	91.27
Standard Deviation	11.24	9.44
Mean	-1.18	2.05
Sharpe Ratio	-0.38	-0.07
Excess Return	7.13	2.84
Excess Risk	5.45	4.89
Information Ratio	1.31	0.58

Operations

Total Investment Expense Net	1.22%
Total Investment Expense Gross	1.22%
Inception Date	03/07/1997
Total Net Assets (mil)	\$4,482.39
12b-1 Fees	0.25%
Ticker	TWEAX

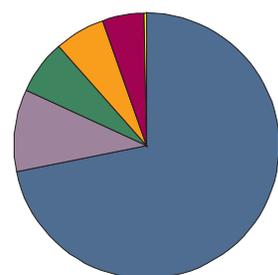


© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

American Century Equity Income A Fund as of 12/31/2008

Portfolio information

Composition as of
09/30/2008



Asset Class	% of Assets
U.S. Stocks	71.84
Preferred	10.00
U.S. Bonds	6.63
Non-U.S. Stocks	6.10
Convertibles	5.07
Other	0.35

Top ten holdings

Rank	Company	% of net assets
1.	ExxonMobil Corporation	6.29
2.	Bk Amer Pfd	5.29
3.	General Electric Company	4.94
4.	AT&T, Inc.	4.29
5.	Intel Cv 2.95%	3.87
6.	Procter & Gamble Company	2.91
7.	Beckman Coulter	2.82
8.	Chevron Corporation	2.79
9.	TOTAL	2.70
10.	Pfizer Inc.	2.56
% of net assets in top ten holdings*		38.46

% of net
assets

Analysis

# of Stock Hldgs	66
# of Bond Hldgs	8
# of Other Hldgs	13
GeoAvgCap (mil)	\$46,285.75
Turnover Ratio	165%
P/C Ratio	6.35
P/E Ratio	10.93
P/B Ratio	1.73

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	0.33	Healthcare	12.38	Consumer Goods	13.02
Hardware	1.30	Consumer Services	1.76	Industrial Materials	11.24
Media	0.00	Business Services	2.53	Energy	18.50
Telecom	5.95	Financial Services	22.15	Utilities	10.84

Returns shown for periods of less than one year are not annualized. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Securities are offered through Princor Financial Services Corporation, 800-547-7754, member SIPC, and/or independent broker dealers. Securities sold by a Princor Registered Representative are offered through Princor®. Princor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths.

Before investing in mutual funds, investors should carefully consider the investment objectives, risks, charges and expenses of the funds. This and other information is contained in the free prospectus, which can be obtained from your local representative, by visiting www.principal.com, or by contacting us at 1-800-547-7754. Please read the prospectus carefully before investing.

Russell 1000 Value Index is a market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

* Values may exceed 100% if both long and short positions are included in the portfolio.

American Funds Growth Fund of America R3 Fund

as of 12/31/2008

Investment Strategy

The investment seeks capital growth by investing in common stocks. The fund primarily invests in high potential growth companies. It may also invest up to 15% of assets in securities of issuers domiciled outside the United States and Canada and not included in Standard & Poor's 500 Composite index. It may invest up to 10% of assets in lower quality nonconvertible debt securities.



Portfolio managers

James E. Drasdo Since 11/01/1985.

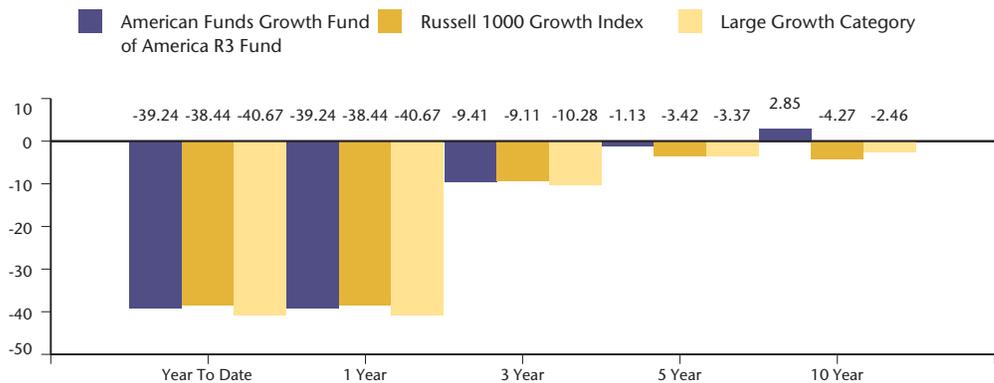
James F. Rothenberg, CFA. Since 11/01/1988. M.B.A., Harvard U

Gordon Crawford, CFA. Since 11/01/1991. M.B.A., Darlen School

Don D. O'Neal Since 11/01/1993.

Gregg E. Ireland Since 11/01/2004.

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-39.24	-39.24	-9.41	-1.13	2.85
Russell 1000 Growth Index %	-38.44	-38.44	-9.11	-3.42	-4.27
Large Growth Category %	-40.67	-40.67	-10.28	-3.37	-2.46
Morningstar Percentile Rankings	-	40	37	15	4
# of Funds in Category	1809	1809	1507	1243	608

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-39.24	10.59	10.62	13.87	11.60
Russell 1000 Growth Index %	-38.44	11.81	9.07	5.26	6.30
Large Growth Category %	-40.67	13.35	7.05	6.71	7.81
Morningstar Percentile Rankings	40	66	19	9	18
# of Funds in Category	1809	1748	1642	1495	1400

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Growth

Morningstar Style Box™

As of 09/30/2008

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

Risk and Return Statistics

as of 12/31/2008 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	-0.75	2.13
Beta	0.97	0.96
R-Squared	94.23	92.76
Standard Deviation	16.55	14.16
Mean	-9.41	-1.13
Sharpe Ratio	-0.74	-0.23
Excess Return	-0.30	2.29
Excess Risk	3.96	3.81
Information Ratio	-0.08	0.60

Operations

Total Investment Expense Net	0.91%
Total Investment Expense Gross	0.94%
Inception Date	05/21/2002
Extended Performance Inception Date#	01/01/1959
Total Net Assets (mil)	\$116,502.15
12b-1 Fees	0.50%
Ticker	RGACX



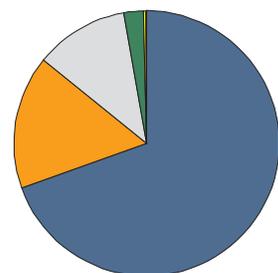
© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

American Funds Growth Fund of America R3 Fund

as of 12/31/2008

Portfolio information

Composition as of
09/30/2008



Category	% of Assets
U.S. Stocks	69.52
Non-U.S. Stocks	16.28
Cash	11.40
U.S. Bonds	2.40
Other	0.26
Non-U.S. Bonds	0.13

Top ten holdings

Rank	Company	% of net assets
1.	Oracle Corporation	2.78
2.	Google, Inc.	2.62
3.	Cisco Systems, Inc.	2.58
4.	Schlumberger, Ltd.	2.32
5.	Microsoft Corporation	2.25
6.	Suncor Energy, Inc.	1.48
7.	Lowe's Companies Inc.	1.42
8.	Roche Holding Ltd	1.40
9.	Target Corporation	1.33
10.	Medtronic, Inc.	1.24
% of net assets in top ten holdings*		19.43

Analysis

# of Stock Hldgs	291
# of Bond Hldgs	36
# of Other Hldgs	163
GeoAvgCap (mil)	\$37,047.82
Turnover Ratio	32%
P/C Ratio	7.48
P/E Ratio	12.78
P/B Ratio	2.01

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	7.92	Healthcare	12.78	Consumer Goods	5.14
Hardware	14.10	Consumer Services	8.43	Industrial Materials	14.31
Media	4.23	Business Services	8.35	Energy	15.24
Telecom	1.07	Financial Services	7.71	Utilities	0.72
	27.32		37.27		35.41

Returns shown for periods of less than one year are not annualized. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Securities are offered through Princor Financial Services Corporation, 800-547-7754, member SIPC, and/or independent broker dealers. Securities sold by a Princor Registered Representative are offered through Princor®. Princor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths.

Before investing in mutual funds, investors should carefully consider the investment objectives, risks, charges and expenses of the funds. This and other information is contained in the free prospectus, which can be obtained from your local representative, by visiting www.principal.com, or by contacting us at 1-800-547-7754. Please read the prospectus carefully before investing.

Russell 1000 Growth Index is a market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

#These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect a portion of the fees and expenses of this share class. Please see the fund's prospectus for more information on specific expenses, and the fund's most recent shareholder report for actual date of first sale. Expenses are deducted from income earned by the fund. As a result, dividends and investment results will differ for each share class.

* Values may exceed 100% if both long and short positions are included in the portfolio.

MidCap Growth III Separate Account-R3 as of 12/31/2008

Investment Strategy

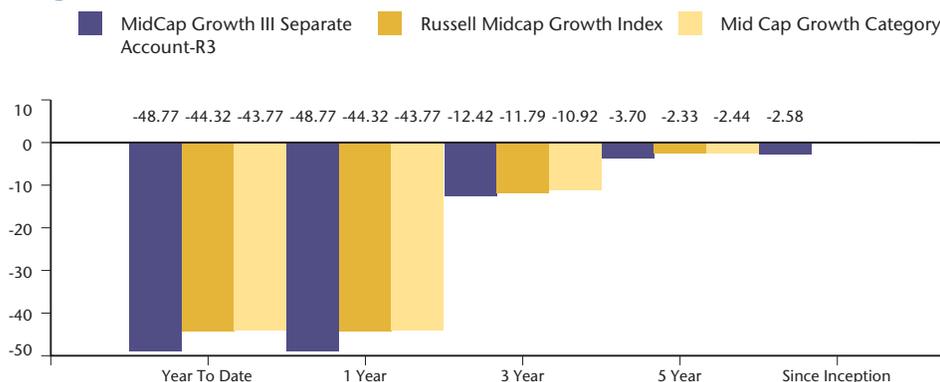
The investment seeks long-term growth of capital. The fund invests primarily in common stocks and other equity securities of U.S. companies with strong earnings growth potential. It normally invests at least 80% of assets in companies with market capitalizations similar to those of companies in the Russell Midcap Growth index. It may invest in securities of companies that are diversified across economic sectors. The fund may invest up to 25% of assets in foreign securities.



Portfolio managers

Christopher K. McHugh Since 12/06/2000. M.B.A., St. Joseph's U
Tara Hedlund, CPA, CFA. Since 10/01/2006. B.A., Villanova U
Jason Schrotberger, CFA. Since 10/01/2006. M.B.A., U of Illinois
Adam T. Logan, CFA. Since 11/21/2008. M.B.A., U of Pittsburgh
John R. O'Toole, CFA. Since 11/21/2008. M.B.A., U of Chicago

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-48.77	-48.77	-12.42	-3.70	-2.58
Russell Midcap Growth Index %	-44.32	-44.32	-11.79	-2.33	-
Mid Cap Growth Category %	-43.77	-43.77	-10.92	-2.44	-
Morningstar Percentile Rankings	-	82	69	68	-
# of Funds in Category	934	934	821	674	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-48.77	23.89	5.83	11.13	10.95
Russell Midcap Growth Index %	-44.32	11.43	10.66	12.10	15.48
Mid Cap Growth Category %	-43.77	15.09	9.00	9.84	13.23
Morningstar Percentile Rankings	82	13	73	42	67
# of Funds in Category	934	967	994	936	903

Morningstar percentile rankings are based on total returns.

Morningstar category

Mid Cap Growth

Morningstar Style Box™

As of 11/30/2008

Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Market capitalization

Risk and Return Statistics

as of 12/31/2008 Relative to Russell Midcap Growth Index

	3Yr	5Yr
Alpha	-0.09	-0.96
Beta	1.03	1.05
R-Squared	94.37	94.44
Standard Deviation	21.88	19.28
Mean	-12.43	-3.70
Sharpe Ratio	-0.66	-0.26
Excess Return	-0.64	-1.37
Excess Risk	5.17	4.60
Information Ratio	-0.12	-0.30

Operations

Total Investment Expense Net	1.57%
Total Investment Expense Gross	1.57%
Inception Date	10/28/1999
Total Net Assets (mil)	\$690.24



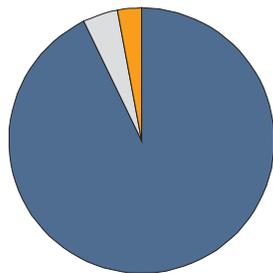
© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

MidCap Growth III Separate Account-R3 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008

% of Assets	
U.S. Stocks	92.83
Cash	4.24
Non-U.S. Stocks	2.93



Top ten holdings	% of net assets
1. S&P Mini Index (Fut)	2.57
2. Apollo Group, Inc. A	2.13
3. Express Scripts	1.84
4. McAfee, Inc.	1.69
5. F5 Networks, Inc.	1.64
6. Kohl's Corporation	1.42
7. Hudson City Bancorp, Inc.	1.39
8. T Rowe Price Group	1.38
9. Broadcom Corporation	1.38
10. Juniper Networks, Inc.	1.36
% of net assets in top ten holdings*	16.81

Analysis	
# of Stock Hldgs	240
# of Bond Hldgs	0
# of Other Hldgs	3
GeoAvgCap (mil)	\$4,172.90
Turnover Ratio	145%
P/C Ratio	4.66
P/E Ratio	12.55
P/B Ratio	1.85

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	5.25	Healthcare	11.96	Consumer Goods	8.15
Hardware	14.68	Consumer Services	15.64	Industrial Materials	9.63
Media	0.61	Business Services	11.60	Energy	9.93
Telecom	2.16	Financial Services	8.55	Utilities	1.85

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal MidCap Growth III Separate Account-R3.

Russell Midcap Growth Index is a market-weighted total return index that measures the performance of companies within the Russell Midcap Index having higher price-to-book ratios and higher forecasted growth values.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holder investing in the Separate Account. For further information on the underlying mutual fund see the prospectus of the fund.

Formerly known as Mid-Cap Growth Separate Account.

Effective November 21, 2008, Mellon Capital Management was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

* Values may exceed 100% if both long and short positions are included in the portfolio.

MidCap Value I Separate Account-R2 as of 12/31/2008

Investment Strategy

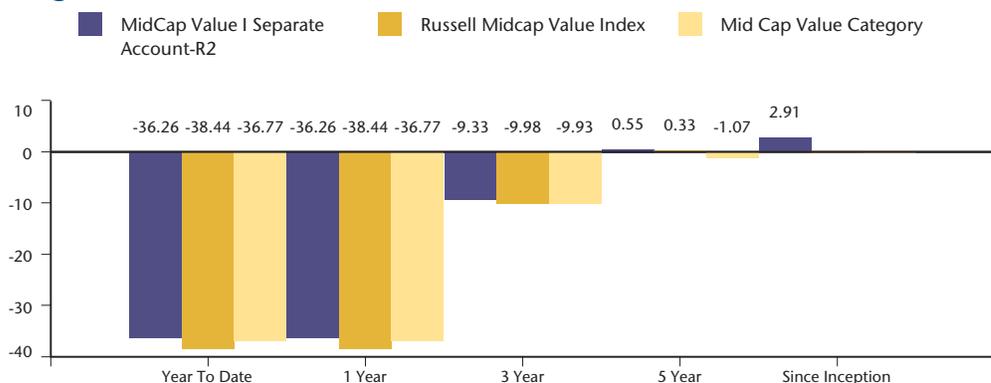
The investment seeks long term growth of capital. The fund invests at least 80% of assets in a diversified portfolio of equity investments in mid cap issuers with a medium market capitalization (those with market capitalizations similar to companies in the Russell MidCap Value index) at the time of purchase. It may invest up to 25% of net assets in securities of foreign companies, including securities of issuers in emerging countries and securities quoted in foreign currencies.



Portfolio managers

David R. Borger, CFA. Since 10/03/2005. M.A., U of Michigan
Christine M. Kugler Since 10/03/2005. B.A., U of California
Stuart K. Matsuda Since 10/03/2005. M.B.A., California State U Northridge
Hal W. Reynolds, CFA. Since 10/03/2005. M.B.A., U of Pittsburgh
Thomas D. Stevens, CFA. Since 10/03/2005. M.B.A., U of Wisconsin

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-36.26	-36.26	-9.33	0.55	2.91
Russell Midcap Value Index %	-38.44	-38.44	-9.98	0.33	-
Mid Cap Value Category %	-36.77	-36.77	-9.93	-1.07	-
Morningstar Percentile Rankings	-	45	45	26	-
# of Funds in Category	442	442	338	234	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-36.26	1.72	14.95	11.65	23.52
Russell Midcap Value Index %	-38.44	-1.42	20.22	12.65	23.71
Mid Cap Value Category %	-36.77	0.83	15.87	8.82	17.85
Morningstar Percentile Rankings	45	46	61	24	11
# of Funds in Category	442	405	375	310	320

Morningstar percentile rankings are based on total returns.

Morningstar category

Mid Cap Value

Morningstar Style Box™

As of 11/30/2008

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

Risk and Return Statistics

as of 12/31/2008 Relative to Russell Midcap Value Index

	3Yr	5Yr
Alpha	-0.76	-2.12
Beta	0.91	0.92
R-Squared	95.84	88.03
Standard Deviation	17.60	12.40
Mean	-9.34	13.01
Sharpe Ratio	-0.68	0.86
Excess Return	0.64	-3.62
Excess Risk	3.97	4.42
Information Ratio	0.16	-0.82

Operations

Total Investment Expense Net	1.75%
Total Investment Expense Gross	1.75%
Inception Date	07/01/1999
Total Net Assets (mil)	\$673.96

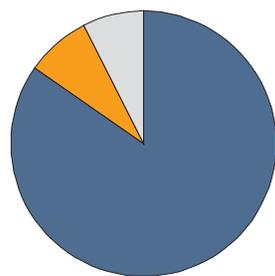


© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

MidCap Value I Separate Account-R2 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008



% of Assets	
U.S. Stocks	84.68
Non-U.S. Stocks	7.85
Cash	7.47

Top ten holdings

Top ten holdings	% of net assets
1. S&P Mini Index (Fut)	7.00
2. Entergy Corporation	1.91
3. PPL Corporation	1.74
4. American Electric Power	1.52
5. W.R. Berkley Corporation	1.41
6. Laboratory Corporation of America Holdings	1.34
7. DPL Incorporated	1.25
8. Range Resources Corporation	1.22
9. EOG Resources	1.19
10. H & R Block, Inc.	1.16
% of net assets in top ten holdings*	19.74

Analysis

# of Stock Hldgs	451
# of Bond Hldgs	0
# of Other Hldgs	5
GeoAvgCap (mil)	\$5,115.26
Turnover Ratio	82%
P/C Ratio	4.56
P/E Ratio	10.16
P/B Ratio	1.10

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	1.47	Healthcare	7.61	Consumer Goods	9.16
Hardware	2.86	Consumer Services	8.07	Industrial Materials	7.35
Media	1.83	Business Services	6.49	Energy	9.35
Telecom	1.07	Financial Services	28.77	Utilities	15.98

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal MidCap Value I Separate Account-R2.

Russell Midcap Value Index is a market-weighted total return index that measures the performance of companies within the Russell Midcap index having lower price-to-book ratios and lower forecasted growth values.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

Effective October 3, 2005, LA Capital was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

* Values may exceed 100% if both long and short positions are included in the portfolio.

SmallCap Growth II Separate Account-R3 as of 12/31/2008

Investment Strategy

The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets in common stocks of companies with small market capitalizations (those with market capitalizations equal to or smaller than the greater of \$2.5 billion or the highest market capitalization of the companies in the Russell 2000 Growth Index) at the time of purchase. It may invest up to 25% of assets in securities of foreign companies. It may, but is not required to, use derivative instruments for risk management purposes or as part of the fund's investment strategies.



Portfolio managers

Paul A. Graham, Jr., CFA. Since 04/22/2002. B.A., Dartmouth C
David N Wabnik Since 04/22/2002. M.B.A., Columbia Business School
Kenneth G. Mertz II, CFA. Since 09/01/2004. B.A., Millersville U
Stacey Sears Since 09/01/2004. M.B.A., Villanova U
Joseph W. Garner Since 03/01/2006. M.B.A., U of Pittsburgh

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-42.55	-42.55	-13.16	-5.08	-5.00
Russell 2000 Growth Index %	-38.54	-38.54	-9.32	-2.35	-
Small Growth Category %	-41.55	-41.55	-11.35	-3.52	-
Morningstar Percentile Rankings	-	60	73	72	-
# of Funds in Category	834	834	704	574	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-42.55	5.21	8.35	6.45	10.55
Russell 2000 Growth Index %	-38.54	7.05	13.35	4.15	14.31
Small Growth Category %	-41.55	7.59	10.81	6.02	12.41
Morningstar Percentile Rankings	60	59	68	44	64
# of Funds in Category	834	829	763	723	711

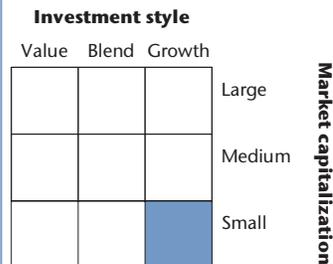
Morningstar percentile rankings are based on total returns.

Morningstar category

Small Growth

Morningstar Style Box™

As of 11/30/2008



Risk and Return Statistics

as of 12/31/2008 Relative to Russell 2000 Growth Index

	3Yr	5Yr
Alpha	-4.54	-3.11
Beta	0.98	0.95
R-Squared	97.46	96.02
Standard Deviation	21.36	18.88
Mean	-13.17	-5.08
Sharpe Ratio	-0.72	-0.35
Excess Return	-3.85	-2.73
Excess Risk	3.41	3.89
Information Ratio	-1.13	-0.70

Operations

Total Investment Expense Net	1.57%
Total Investment Expense Gross	1.57%
Inception Date	12/29/2000
Total Net Assets (mil)	\$323.00



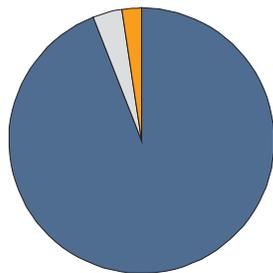
© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

SmallCap Growth II Separate Account-R3 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008

% of Assets	
U.S. Stocks	94.01
Cash	3.60
Non-U.S. Stocks	2.38



Top ten holdings	% of net assets
1. Russell 2000 Mini (Fut)	2.91
2. Microsemi Corporation	1.86
3. Hub Group, Inc. A	1.51
4. Psychiatric Solutions, Inc.	1.41
5. Thoratec Laboratories Corporation	1.31
6. Haemonetics Corporation	1.27
7. Phase Forward, Inc.	1.25
8. NICE-Systems, Ltd. ADR	1.23
9. Whiting Petroleum Corporation	1.21
10. Nuance Communications, Inc.	1.10
% of net assets in top ten holdings*	15.07

Analysis	
# of Stock Hldgs	260
# of Bond Hldgs	0
# of Other Hldgs	6
GeoAvgCap (mil)	\$836.83
Turnover Ratio	63%
P/C Ratio	5.98
P/E Ratio	12.63
P/B Ratio	1.55

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	7.81	Healthcare	25.98	Consumer Goods	4.73
Hardware	13.19	Consumer Services	7.87	Industrial Materials	12.67
Media	0.02	Business Services	14.30	Energy	5.69
Telecom	2.55	Financial Services	5.06	Utilities	0.14

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal SmallCap Growth II Separate Account-R3.

Russell 2000 Growth Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratio and higher forecasted growth values.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

Effective May 1, 2002, this portfolio was sub-advised solely by UBS Global Asset Management. Effective September 1, 2004, Emerald Advisers was added as an additional sub-advisor. Effective June 30, 2006, Essex was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

* Values may exceed 100% if both long and short positions are included in the portfolio.

SmallCap Value I Separate Account-R3 as of 12/31/2008

Investment Strategy

The investment seeks long-term growth of capital. The fund invests primarily in a diversified group of equity securities of U.S. companies with small market capitalizations (those with market capitalizations similar to companies in the Russell 2000 Value index) at the time of purchase. It normally invests at least 80% of the assets in equity securities of such companies. The fund may invest up to 25% of assets in foreign securities.



Portfolio managers

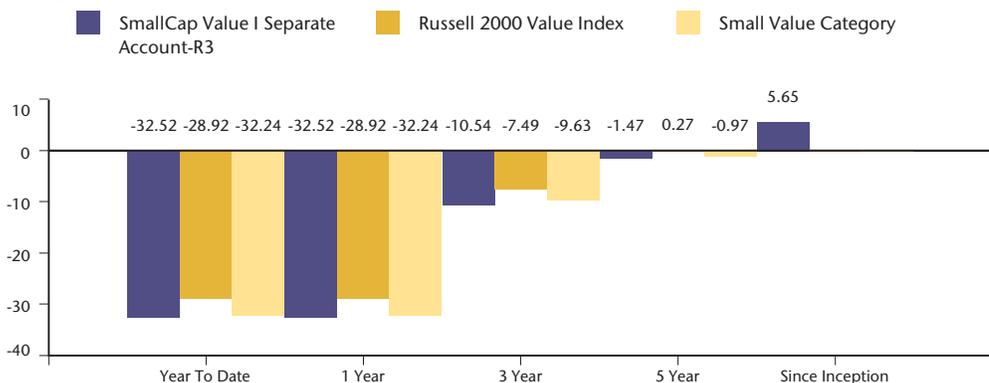
Christopher T. Blum, CFA. Since 12/30/2002. B.B.A., Bernard M. Baruch School for Business

Dennis S. Ruhl, CFA. Since 03/01/2005. M.S., MIT

Ronald P. Gala, CFA. Since 08/08/2005. M.B.A., U of Pittsburgh

Peter D. Goslin, CFA. Since 08/08/2005. M.B.A., U of Notre Dame

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-32.52	-32.52	-10.54	-1.47	5.65
Russell 2000 Value Index %	-28.92	-28.92	-7.49	0.27	-
Small Value Category %	-32.24	-32.24	-9.63	-0.97	-
Morningstar Percentile Rankings	-	58	62	60	-
# of Funds in Category	438	438	341	269	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-32.52	-9.87	17.71	5.88	22.52
Russell 2000 Value Index %	-28.92	-9.78	23.48	4.71	22.25
Small Value Category %	-32.24	-6.08	16.27	6.40	21.14
Morningstar Percentile Rankings	58	78	45	61	40
# of Funds in Category	438	438	389	348	307

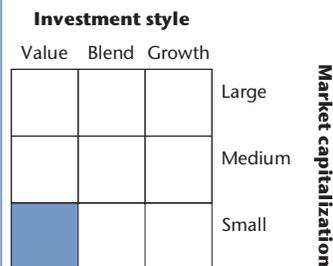
Morningstar percentile rankings are based on total returns.

Morningstar category

Small Value

Morningstar Style Box™

As of 11/30/2008



Risk and Return Statistics

as of 12/31/2008 Relative to Russell 2000 Value Index

	3Yr	5Yr
Alpha	-3.43	-1.74
Beta	0.99	0.99
R-Squared	98.76	98.81
Standard Deviation	19.34	17.29
Mean	-10.53	-1.46
Sharpe Ratio	-0.67	-0.18
Excess Return	-3.05	-1.73
Excess Risk	2.14	1.89
Information Ratio	-1.42	-0.92

Operations

Total Investment Expense Net	1.58%
Total Investment Expense Gross	1.58%
Inception Date	12/31/2002
Total Net Assets (mil)	\$303.79



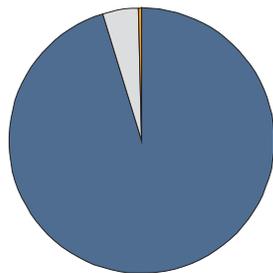
© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

SmallCap Value I Separate Account-R3 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008

% of Assets	
U.S. Stocks	95.28
Cash	4.31
Non-U.S. Stocks	0.42



Top ten holdings

	% of net assets
1. Russell 2000 Mini (Fut)	2.75
2. Portland General Electric Company	1.04
3. New Jersey Resources Corporation	0.99
4. Rent-A-Center, Inc.	0.99
5. CVB Financial Corporation	0.95
6. First Niagara Financial Group, Inc.	0.86
7. Applied Industrial Technologies, Inc.	0.82
8. Platinum Underwriters Holdings, Ltd.	0.81
9. WGL Holdings, Inc.	0.76
10. Aspen Insurance Holdings, Ltd.	0.75
% of net assets in top ten holdings*	10.71

Analysis

# of Stock Hldgs	564
# of Bond Hldgs	0
# of Other Hldgs	6
GeoAvgCap (mil)	\$705.93
Turnover Ratio	63%
P/C Ratio	2.97
P/E Ratio	9.09
P/B Ratio	0.95

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.99	Healthcare	5.96	Consumer Goods	6.44
Hardware	6.85	Consumer Services	6.37	Industrial Materials	13.93
Media	0.72	Business Services	7.37	Energy	3.06
Telecom	2.12	Financial Services	36.22	Utilities	7.97

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal SmallCap Value I Separate Account-R3.

Russell 2000 Value Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

Effective August 8, 2005, Mellon Capital Management was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

* Values may exceed 100% if both long and short positions are included in the portfolio.

International Growth Separate Account-R2 as of 12/31/2008

Investment Strategy

The investment seeks long-term growth of capital. The fund invests in common stocks and other securities of companies domiciled in any of the nations of the world. It invests in securities listed on foreign or domestic securities exchanges, securities traded in foreign or domestic over-the-counter markets and depositary receipts.

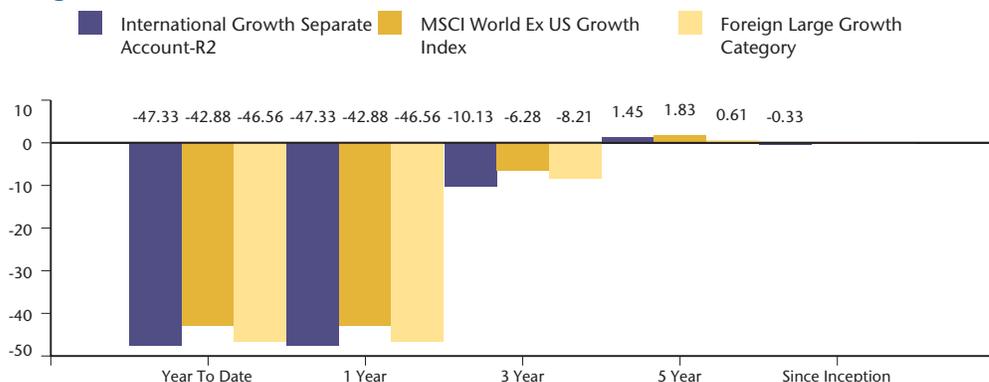


Portfolio managers

Steve Larson, CFA. Since 03/01/2004. B.A., Drake U

John Pihlblad, CFA. Since 03/01/2005. B.A., C of Westminster

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-47.33	-47.33	-10.13	1.45	-0.33
MSCI World Ex US Growth Index %	-42.88	-42.88	-6.28	1.83	-
Foreign Large Growth Category %	-46.56	-46.56	-8.21	0.61	-
Morningstar Percentile Rankings	-	53	76	40	-
# of Funds in Category	251	251	209	164	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-47.33	11.66	23.43	21.42	21.92
MSCI World Ex US Growth Index %	-42.88	18.03	22.12	14.41	16.27
Foreign Large Growth Category %	-46.56	16.26	23.95	15.23	16.23
Morningstar Percentile Rankings	53	85	51	12	15
# of Funds in Category	251	220	243	213	221

Morningstar percentile rankings are based on total returns.

Morningstar category

Foreign Large Growth

Morningstar Style Box™

As of 11/30/2008

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

Risk and Return Statistics

as of 12/31/2008 Relative to MSCI World Ex US Growth Index

	3Yr	5Yr
Alpha	-3.25	-0.13
Beta	1.07	1.07
R-Squared	98.23	97.33
Standard Deviation	21.77	18.37
Mean	-10.13	1.45
Sharpe Ratio	-0.55	0.00
Excess Return	-3.86	-0.39
Excess Risk	3.18	3.19
Information Ratio	-1.21	-0.12

Operations

Total Investment Expense Net	1.75%
Total Investment Expense Gross	1.75%
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,319.02



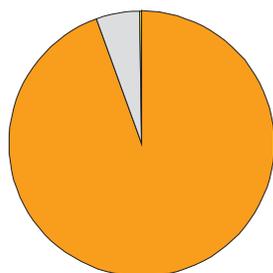
© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

International Growth Separate Account-R2 as of 12/31/2008

Portfolio information†

Composition as of
11/30/2008

% of Assets	
Non-U.S. Stocks	94.48
Cash	5.29
Other	0.23



Top ten holdings

	% of net assets
1. Nestle	3.88
2. Novartis	2.98
3. GlaxoSmithKline PLC	2.45
4. E.ON	2.03
5. BHP Billiton Ltd	1.85
6. Roche Holding Ltd	1.74
7. British American Tobacco PLC	1.51
8. BG Group PLC	1.45
9. Encana	1.38
10. Anglo American	1.31
% of net assets in top ten holdings*	20.59

Analysis

# of Stock Hldgs	183
# of Bond Hldgs	0
# of Other Hldgs	5
GeoAvgCap (mil)	\$16,595.75
Turnover Ratio	129%
P/C Ratio	4.62
P/E Ratio	9.28
P/B Ratio	1.42

Top 5 Countries

	% of net assets
Japan	24.22
United Kingdom	23.84
Switzerland	11.10
Germany	6.33
France	5.36

Regional exposure

	% of net assets
Europe	64.50
Japan	24.22
Pacific Rim	6.32
Other	4.96

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal International Growth Separate Account-R2.

The MSCI World Ex US Growth Index measures global developed market equity performance of growth securities outside of the United States. It is comprised of half the securities in the MSCI World Ex US Index, with half of the market capitalization of each country index in the Growth Index (the other half is in the Value Index).

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

* Values may exceed 100% if both long and short positions are included in the portfolio.

American Funds EuroPacific Growth R3 Fund as of 12/31/2008

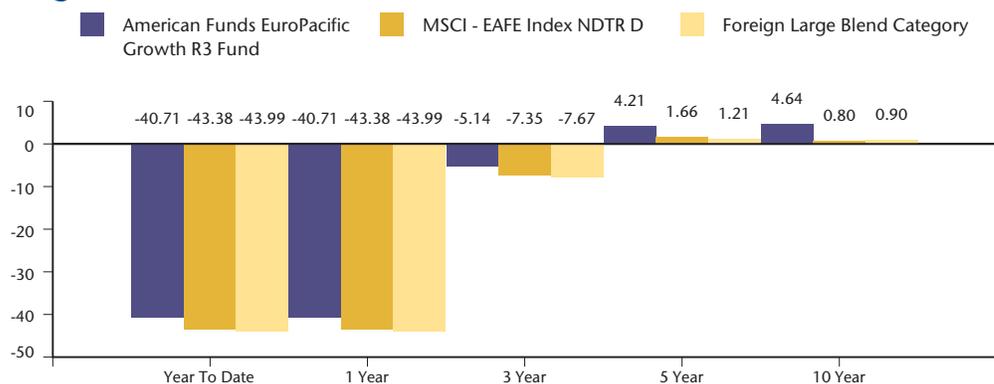
Investment Strategy

The investment seeks long-term growth of capital. The fund primarily invests in securities of issuers located in Europe and the Pacific Basin. It is designed for investors seeking capital appreciation and diversification through investments in stocks of issuers based outside the United States.



Portfolio managers

Long-term returns % as of 12/31/2008



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-40.71	-40.71	-5.14	4.21	4.64
MSCI - EAFE Index NDTR D %	-43.38	-43.38	-7.35	1.66	0.80
Foreign Large Blend Category %	-43.99	-43.99	-7.67	1.21	0.90
Morningstar Percentile Rankings	-	15	15	8	7
# of Funds in Category	778	778	570	452	238

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-40.71	18.58	21.43	20.73	19.23
MSCI - EAFE Index NDTR D %	-43.38	11.17	26.34	13.54	20.25
Foreign Large Blend Category %	-43.99	12.71	24.77	14.72	17.39
Morningstar Percentile Rankings	15	11	86	8	26
# of Funds in Category	778	743	657	608	551

Morningstar percentile rankings are based on total returns.

Morningstar category

Foreign Large Blend

Morningstar Style Box™

As of 09/30/2008

Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

Risk and Return Statistics

as of 12/31/2008 Relative to MSCI - EAFE Index NDTR D

	3Yr	5Yr
Alpha	1.88	2.43
Beta	0.96	0.96
R-Squared	96.33	95.70
Standard Deviation	19.09	16.22
Mean	-5.14	4.21
Sharpe Ratio	-0.37	0.15
Excess Return	2.21	2.55
Excess Risk	3.70	3.39
Information Ratio	0.60	0.75

Operations

Total Investment Expense Net	1.07%
Total Investment Expense Gross	1.11%
Inception Date	05/21/2002
Extended Performance	
Inception Date#	04/16/1984
Total Net Assets (mil)	\$66,361.73
12b-1 Fees	0.50%
Ticker	RERCX



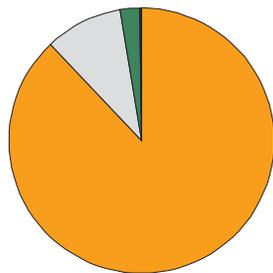
© 2009 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

American Funds EuroPacific Growth R3 Fund as of 12/31/2008

Portfolio information

Composition as of
09/30/2008

% of Assets	
Non-U.S. Stocks	87.96
Cash	9.38
U.S. Bonds	2.38
U.S. Stocks	0.17
Preferred	0.06
Non-U.S. Bonds	0.06



Top ten holdings

% of net assets in top ten holdings*

% of net
assets

19.17

Analysis

# of Stock Hldgs	305
# of Bond Hldgs	34
# of Other Hldgs	134
GeoAvgCap (mil)	\$30,504.69
Turnover Ratio	38%
P/C Ratio	5.93
P/E Ratio	10.46
P/B Ratio	1.52

Top 5 Countries

% of net assets

Regional exposure

% of net assets

Returns shown for periods of less than one year are not annualized. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Securities are offered through Princor Financial Services Corporation, 800-547-7754, member SIPC, and/or independent broker dealers. Securities sold by a Princor Registered Representative are offered through Princor[®]. Princor and Principal Life are members of the Principal Financial Group[®], Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths.

Before investing in mutual funds, investors should carefully consider the investment objectives, risks, charges and expenses of the funds. This and other information is contained in the free prospectus, which can be obtained from your local representative, by visiting www.principal.com, or by contacting us at 1-800-547-7754. Please read the prospectus carefully before investing.

MSCI - EAFE Index NDTR D is listed for foreign stock funds (EAFE refers to Europe, Australia, and Far East). Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

#These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect a portion of the fees and expenses of this share class. Please see the fund's prospectus for more information on specific expenses, and the fund's most recent shareholder report for actual date of first sale. Expenses are deducted from income earned by the fund. As a result, dividends and investment results will differ for each share class.

* Values may exceed 100% if both long and short positions are included in the portfolio.

STATISTICAL SECTION
(UNAUDITED)

LOUISIANA LOTTERY CORPORATION
 BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS
 STATE OF LOUISIANA

Historical Statements of Changes in Net Assets Available for Benefits and
 Plan Investment Returns
 Plan Years Ended December 31 for the Years Shown
 (Unaudited)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	10-YEAR TOTALS
ADDITIONS											
Investment Income	\$86,306	(\$45,877)	(\$78,369)	(\$298,339)	\$643,368	\$460,486	\$339,933	\$715,655	\$397,280	(\$2,236,217)	(\$15,774)
Less investment management fees	(11,541)	(9,739)	(13,437)	(14,162)	(16,394)	(16,597)	(19,262)	(10,660)	(11,577)	(10,218)	(133,587)
Net investment income	74,765	(55,616)	(91,806)	(312,501)	626,974	443,889	320,671	704,995	385,703	(2,246,435)	(149,361)
Contributions:											
Participant	257,004	265,884	285,856	295,051	303,707	314,814	313,385	309,674	321,024	323,826	2,990,225
Employer	203,143	218,748	230,495	237,946	244,926	255,937	252,012	250,170	257,292	260,984	2,411,653
Total additions	534,912	429,016	424,545	220,496	1,175,607	1,014,640	886,068	1,264,839	964,019	(1,661,625)	5,252,517
DEDUCTIONS											
Benefits paid to participants	(184,582)	(237,865)	(119,282)	(237,346)	(162,764)	(121,847)	(530,300)	(272,881)	(400,802)	(451,899)	(2,719,568)
CHANGES IN NET ASSETS											
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	350,330	191,151	305,263	(16,850)	1,012,843	892,793	355,768	991,958	563,217	(2,113,524)	
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	2,067,140	2,417,470	2,608,621	2,913,884	2,897,034	3,909,877	4,802,670	5,158,438	6,150,396	6,713,613	
AVERAGE INVESTMENT RETURNS *	\$2,417,470	\$2,608,621	\$2,913,884	\$2,897,034	\$3,909,877	\$4,802,670	\$5,158,438	\$6,150,396	\$6,713,613	\$4,600,089	
	3.33%	-2.21%	-3.32%	-10.76%	18.42%	10.19%	6.44%	12.47%	6.00%	-39.71%	

* Calculated as net investment income divided by the average net asset balance for the year.

LOUISIANA LOTTERY CORPORATION
 BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS
 STATE OF LOUISIANA

Historical Statements of Changes in Net Assets Available for Benefits and
 Plan Investment Returns
 Plan Years Ended December 31 for the Years Shown
 (Unaudited)

401(a)
 Supplemental Plan

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	10-YEAR TOTALS
ADDITIONS											
Investment Income	\$381,876	(\$231,083)	(\$236,182)	(\$373,152)	\$420,643	\$250,442	\$183,925	\$382,901	\$237,927	(\$1,329,029)	(\$311,732)
Less investment management fees	(9,894)	(8,272)	(6,505)	(5,450)	(5,034)						(35,155)
Net investment income	371,982	(239,355)	(242,687)	(378,602)	415,609	250,442	183,925	382,901	237,927	(1,329,029)	(346,887)
Contributions:											
Participant		748			11,120			11,928	3,698	953	28,447
Employer	175,392	170,623	190,953	200,259	207,411	315,609	310,377	295,718	301,853	314,337	2,482,532
Total additions	547,374	(67,984)	(51,734)	(178,343)	634,140	566,051	494,302	690,547	543,478	(1,013,739)	2,164,092
DEDUCTIONS											
Benefits paid to participants	(165,402)	(301,853)	(59,702)	(117,359)	(87,395)	(57,837)	(254,924)	(128,503)	(193,500)	(144,922)	(1,511,397)
CHANGES IN NET ASSETS	381,972	(369,837)	(111,436)	(295,702)	546,745	508,214	239,378	562,044	349,978	(1,158,661)	
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	2,026,386	2,408,358	2,038,521	1,927,085	1,631,383	2,178,128	2,686,342	2,925,720	3,487,764	3,837,742	
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	\$2,408,358	\$2,038,521	\$1,927,085	\$1,631,383	\$2,178,128	\$2,686,342	\$2,925,720	\$3,487,764	\$3,837,742	\$2,679,081	
AVERAGE INVESTMENT RETURNS *	16.78%	-10.77%	-12.24%	-21.28%	21.82%	10.30%	6.55%	11.94%	6.50%	-40.79%	

* Calculated as net investment income divided by the average net asset balance for the year.

LOUISIANA LOTTERY CORPORATION
 BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS
 STATE OF LOUISIANA

Historical Statements of Changes in Net Assets Available for Benefits and
 Plan Investment Returns
 Plan Years Ended December 31 for the Years Shown
 (Unaudited)

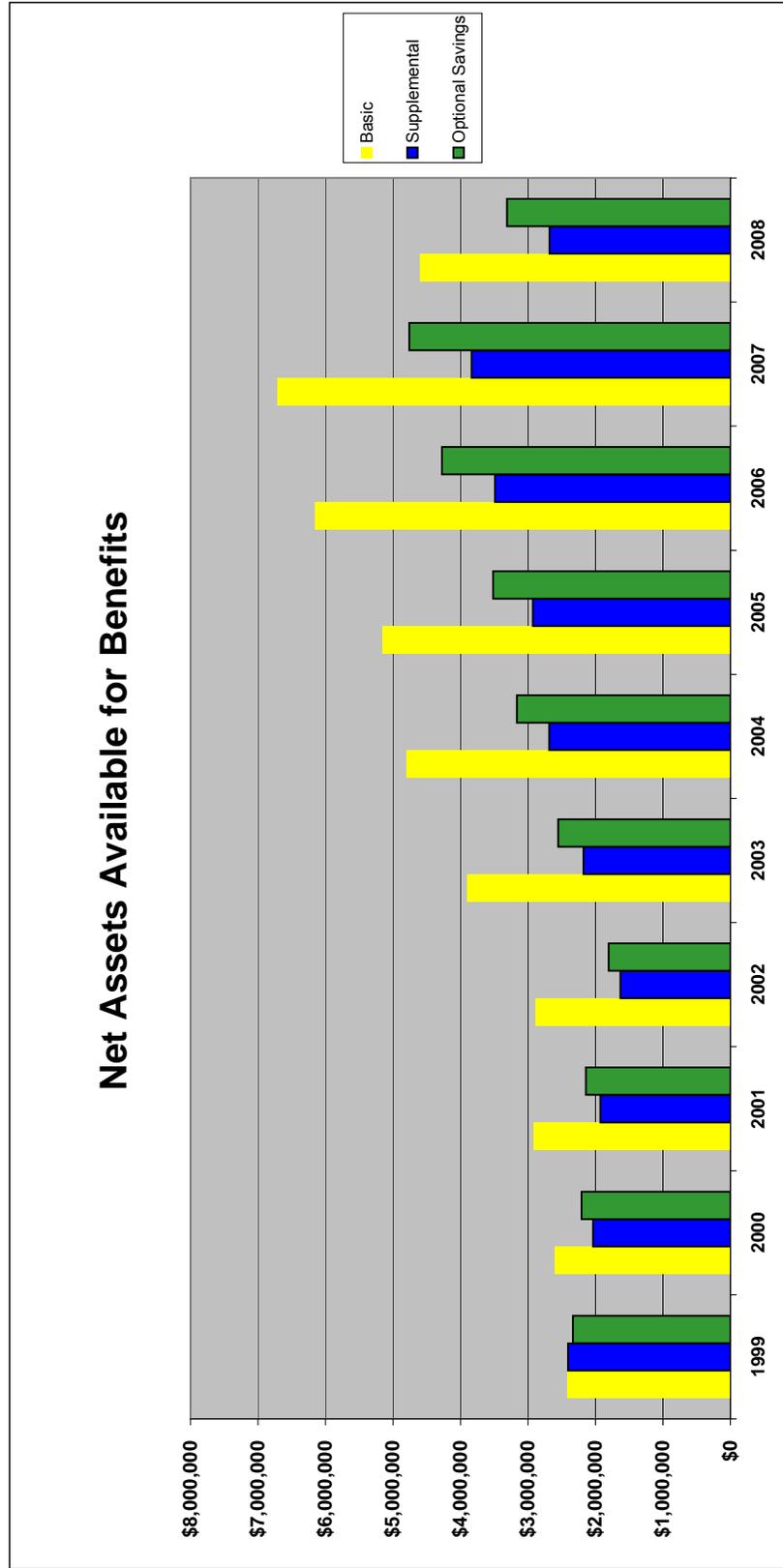
457(b)
 Optional Savings Plan

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	10-YEAR TOTALS
ADDITIONS											
Investment Income	\$404,354	(\$242,077)	(\$266,380)	(\$422,305)	\$498,346	\$302,284	\$229,580	\$463,995	\$300,559	(\$1,642,628)	(\$374,272)
Less investment management fees	(8,432)	(8,088)	(6,584)	(5,501)	(5,268)						(33,873)
Net investment income	395,922	(250,165)	(272,964)	(427,806)	493,078	302,284	229,580	463,995	300,559	(1,642,628)	(408,145)
Contributions:											
Participant	187,063	189,353	203,833	224,369	218,754	257,406	286,868	313,367	336,897	367,608	2,585,518
Employer	90,308	88,547	96,415	100,862	103,966	111,488	113,261	111,085	117,225	122,485	1,055,642
Total additions	673,293	27,735	27,284	(102,575)	815,798	671,178	629,709	888,447	754,681	(1,152,535)	3,233,015
DEDUCTIONS											
Benefits paid to participants	(71,699)	(155,857)	(90,173)	(237,397)	(65,202)	(59,465)	(278,548)	(131,561)	(268,516)	(296,816)	(1,655,234)
CHANGES IN NET ASSETS	601,594	(128,122)	(62,889)	(339,972)	750,596	611,713	351,161	756,886	486,165	(1,449,351)	
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	1,731,407	2,333,001	2,204,879	2,141,990	1,802,018	2,552,614	3,164,327	3,515,488	4,272,374	4,758,539	
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	\$2,333,001	\$2,204,879	\$2,141,990	\$1,802,018	\$2,552,614	\$3,164,327	\$3,515,488	\$4,272,374	\$4,758,539	\$3,309,188	
AVERAGE INVESTMENT RETURNS *	19.48%	-11.03%	-12.56%	-21.69%	22.65%	10.58%	6.87%	11.92%	6.66%	-40.72%	

* Calculated as net investment income divided by the average net asset balance for the year.

LOUISIANA LOTTERY CORPORATION
 BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS
 STATE OF LOUISIANA

Financial Trend Information
 Plan Years Ended December 31 for the Years Shown
 (Unaudited)



LOUISIANA LOTTERY CORPORATION
 BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS
 STATE OF LOUISIANA

Demographic Information- Participation and Deferral Trends
 Plan Years Ended December 31 for the Years Shown
 (Unaudited)

401(a) Basic Plan

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of Participants	133	170	175	172	167	179	153	140	138	135
Total Annual Participant Deferrals	\$257,004	\$265,884	\$285,856	\$295,051	\$303,707	\$314,814	\$313,385	\$309,674	\$321,024	\$323,826
Net Assets Available for Benefits	\$2,417,470	\$2,608,621	\$2,913,884	\$2,897,034	\$3,909,877	\$4,802,670	\$5,158,438	\$6,150,396	\$6,713,613	\$4,600,089

401(a) Supplemental Plan

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of Participants	121	133	143	141	141	149	120	107	113	107
Total Annual Employer Contributions	\$175,392	\$170,623	\$190,953	\$200,259	\$207,411	\$315,609	\$310,377	\$295,718	\$301,853	\$314,337
Net Assets Available for Benefits	\$2,408,358	\$2,038,521	\$1,927,085	\$1,631,383	\$2,178,128	\$2,686,342	\$2,925,720	\$3,487,764	\$3,837,742	\$2,679,081

457(b) Optional Savings Plan

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of Participants	110	128	141	128	132	141	114	106	112	106
Total Annual Participant Deferrals	\$187,063	\$189,353	\$203,833	\$224,369	\$218,754	\$257,406	\$286,868	\$313,367	\$336,897	\$367,608
Annual Compensation Corporation Total	\$4,148,391	\$4,370,325	\$4,706,094	\$4,851,067	\$4,997,706	\$5,190,889	\$5,195,158	\$5,081,568	\$5,269,727	\$5,456,872
Average Deferral Percentage	4.51%	4.33%	4.33%	4.63%	4.38%	4.96%	5.52%	6.17%	6.39%	6.74%
Net Assets Available for Benefits	\$2,333,001	\$2,204,879	\$2,141,990	\$1,802,018	\$2,552,614	\$3,164,327	\$3,515,488	\$4,272,374	\$4,758,539	\$3,309,188

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain a report on internal control over financial reporting and on compliance with laws and regulations and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.



LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

June 4, 2009

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of the Basic Financial Statements
Performed in Accordance With *Government Auditing Standards*

**BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
BASIC, SUPPLEMENTAL, AND OPTIONAL
SAVINGS RETIREMENT PLANS
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the basic financial statements of the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans as of and for the year ended December 31, 2008, and have issued our report thereon dated June 4, 2009. Our report was modified to include an emphasis of a matter regarding the presentation in non-comparative format and separation of amounts for the Basic and Supplemental Plans. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's

LOUISIANA LOTTERY CORPORATION

BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS _____

financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans' financial statements are free of material misstatement, we performed tests of the Plans' compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Plans' management, the Lottery Corporation's board of directors, others within the entity, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

BF:WDD:EFS:PEP:dl

LLCRP08