



**LOUISIANA LOTTERY CORPORATION**  
**BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS**  
**STATE OF LOUISIANA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE PLAN YEARS ENDED DECEMBER 31, 2007 AND 2006**

**LOUISIANA LOTTERY CORPORATION**  
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**STATE OF LOUISIANA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE PLAN YEARS ENDED DECEMBER 31, 2007 AND 2006**

**PREPARED BY ACCOUNTING DEPARTMENT**

**KAREN B. FOURNET**

**SENIOR VICE PRESIDENT**

**SECRETARY TREASURER**

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**LOUISIANA LOTTERY CORPORATION  
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**TABLE OF CONTENTS**

	<b>PAGE</b>
<b>INTRODUCTORY SECTION</b>	
LETTER OF TRANSMITTAL .....	1
ORGANIZATIONAL CHART .....	5
<b>FINANCIAL SECTION</b>	
INDEPENDENT AUDITOR'S REPORT .....	6
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	8
<b>BASIC FINANCIAL STATEMENTS</b>	
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS .....	14
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS .....	15
NOTES TO THE FINANCIAL STATEMENTS.....	16
<b>SUPPLEMENTAL INFORMATION SCHEDULES</b>	
<b>SCHEDULES OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS, BY INVESTMENT OPTION</b>	
SCHEDULE 1 - 401(A) BASIC AND SUPPLEMENTAL PLANS FOR THE YEAR ENDED DECEMBER 31, 2007 .....	25
SCHEDULE 2 - 401(A) BASIC AND SUPPLEMENTAL PLANS FOR THE YEAR ENDED DECEMBER 31, 2006 .....	26
SCHEDULE 3 - 457(B) OPTIONAL SAVINGS PLAN FOR THE YEAR ENDED DECEMBER 31, 2007 .....	27
SCHEDULE 4 - 457(B) OPTIONAL SAVINGS PLAN FOR THE YEAR ENDED DECEMBER 31, 2006 .....	28
<b>INVESTMENT SECTION</b>	
INTRODUCTION.....	29
INVESTMENT POLICY APPROVED INVESTMENT OPTIONS .....	30
INVESTMENT STYLES.....	31
ASSET ALLOCATION .....	32
FAIR VALUE AND PERCENT OF TOTAL FAIR VALUE FOR EACH INVESTMENT.....	33

INVESTMENT PERFORMANCE .....	34
FUND FACT SHEETS .....	35

**STATISTICAL SECTION**

HISTORICAL STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS AND PLANS INVESTMENT RETURNS- BASIC AND SUPPLEMENTAL PLANS.....	88
HISTORICAL STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS AND PLANS INVESTMENT RETURNS- OPTIONAL SAVINGS PLAN .....	89
FINANCIAL TREND INFORMATION.....	90
DEMOGRAPHIC INFORMATION- PARTICIPATION AND DEFERRAL TRENDS .....	91

<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....</b>	<b>92</b>
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June 27, 2008

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 years ended December 31, 2007 and 2006. 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.

## **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 and are reported on a combined basis throughout this report. 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.

Detail provisions of each plan are included in the notes to the financial statements beginning on page 17. Financial results for the plans are discussed in management's discussion and analysis beginning on page 8 and the remainder of the financial section. Historical financial results and demographic information is presented in the statistical section beginning on page 88.

### **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 29.

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 years ended December 31, 2007, and December 31, 2006, is included in the financial section of this report.

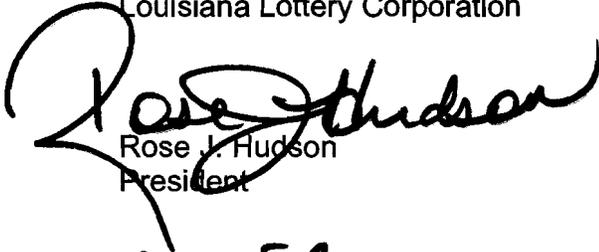
### **Acknowledgements**

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

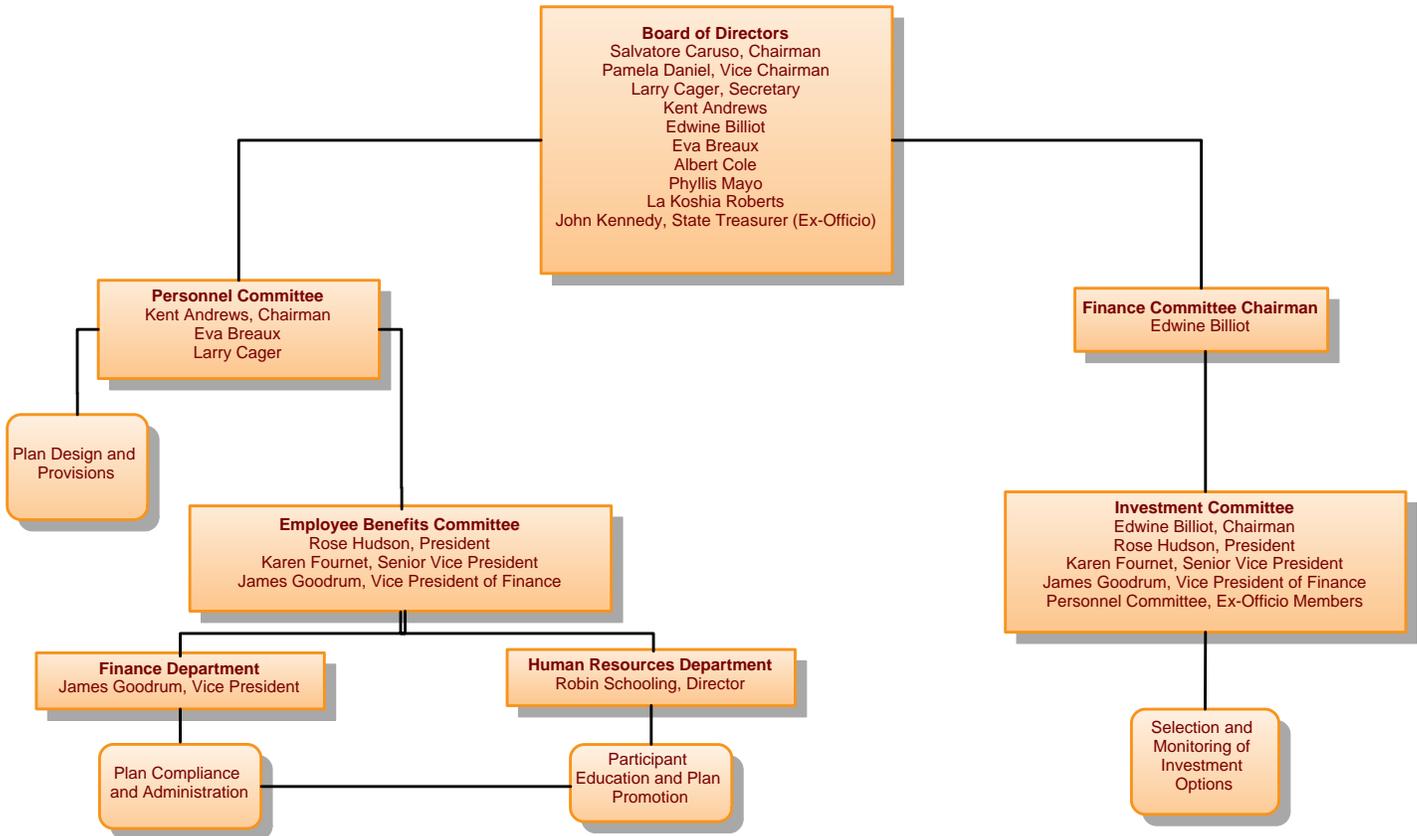


Karen B. Fournet  
Senior Vice President and  
Secretary Treasurer



James F. Goodrum  
Vice President of Finance and Controller

# Organizational Chart



**FINANCIAL SECTION**



LOUISIANA LEGISLATIVE AUDITOR  
STEVE J. THERIOT, CPA

June 12, 2008

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 statements of net assets available for benefits of the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans as of December 31, 2007, and December 31, 2006, and the related statements of changes in net assets available for benefits for the years 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 opinions on these financial statements based on our audits.

We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinions.

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, 2007, and December 31, 2006, and the respective changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements of the three plans referred to above are presented in a Comprehensive Annual Financial Report. For the years ending December 31, 2006 and prior, the financial statements for the Basic and Supplemental Retirement Plans were presented in one report and the Optional Savings Retirement Plan was presented in a separate report.

## LOUISIANA LOTTERY CORPORATION

### BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS \_\_\_\_\_

As discussed in note 3 to the basic financial statements, the method of disclosing interest rate risk for investments was changed from the weighted average maturity method to the duration method.

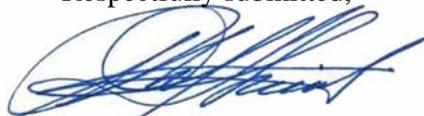
During August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans did not directly suffer any major effects of these two hurricanes, the long-term effects of these events directly on the plans cannot be determined at this time.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2008, 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 audits.

Management's discussion and analysis on pages 8 through 13 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 audits were conducted for the purpose of forming opinions 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 audits 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



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

**Management's Discussion and Analysis**  
**For the Years Ended December 31, 2007 and December 31, 2006**

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 years ended December 31, 2007 and December 31, 2006. 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 14 includes all assets and liabilities of the plans. The balances reported are as of the years ended December 31, 2007 and December 31, 2006. 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, 2007 and December 31, 2006, is presented in the statement of changes in net assets available for benefits on page 15. 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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' category. A description of contribution and distribution requirements can be found in note 2 to the financial statements beginning on page 17.

The supplementary information schedules beginning on page 25 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 16 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, 2007, and the prior years ended December 31, 2006 and December 31, 2005, is presented below.

<b>401(a)</b>			
<b>Basic and Supplemental Plans</b>			
<b>Plan Years Ended December 31 for the Years Shown</b>			
	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Assets</b>	\$10,551,355	\$9,638,160	\$8,084,158
<b>Liabilities</b>	NONE	NONE	NONE
<b>Net assets available for benefits</b>	<u>\$10,551,355</u>	<u>\$9,638,160</u>	<u>\$8,084,158</u>
<b>Additions to assets:</b>			
Net investment income	\$623,630	\$1,087,896	\$504,596
Contributions:			
Participant	324,722	321,602	313,385
Employer	559,145	545,888	562,389
<b>Total additions</b>	1,507,497	1,955,386	1,380,370
<b>Deductions from assets:</b>			
Benefits paid to participants	<u>(594,302)</u>	<u>(401,384)</u>	<u>(785,224)</u>
<b>Increase in net assets</b>	<u>\$913,195</u>	<u>\$1,554,002</u>	<u>\$595,146</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Assets</b>	\$4,758,539	\$4,272,374	\$3,515,488
<b>Liabilities</b>	NONE	NONE	NONE
<b>Net assets available for benefits</b>	<u>\$4,758,539</u>	<u>\$4,272,374</u>	<u>\$3,515,488</u>
<b>Additions to assets:</b>			
Net investment income	\$300,559	\$463,995	\$229,580
Contributions:			
Participant	336,897	313,367	286,868
Employer	<u>117,225</u>	<u>111,085</u>	<u>113,261</u>
<b>Total additions</b>	754,681	888,447	629,709
<b>Deductions from assets:</b>			
Benefits paid to participants	<u>(268,516)</u>	<u>(131,561)</u>	<u>(278,548)</u>
<b>Increase in net assets</b>	<u>\$486,165</u>	<u>\$756,886</u>	<u>\$351,161</u>

The assets of the plans increased each year because the combination of investment income and contributions were greater than benefits paid to participants. 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>2007</u>	<u>2006</u>	<u>2005</u>
<i>Basic and Supplemental Plans</i>	6.18%	12.28%	6.48%
<i>Optional Savings Plan</i>	6.66%	11.92%	6.87%

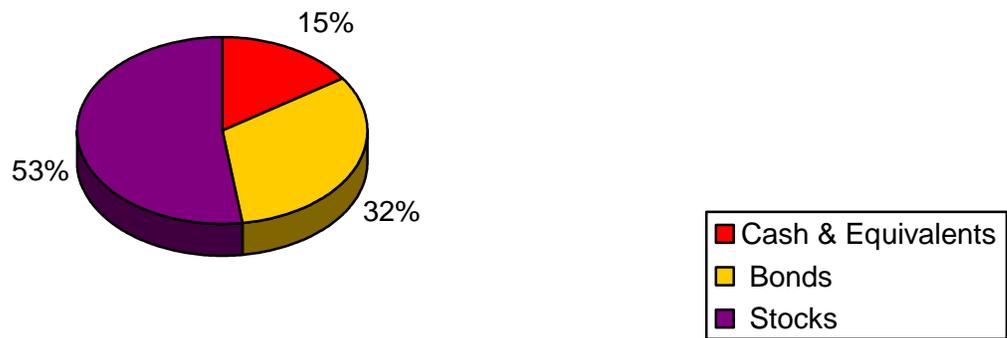
The reasons for this investment performance include the asset allocation of the plans' investment portfolio, economic conditions, and the gains of the individual investment funds offered through the plans.

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

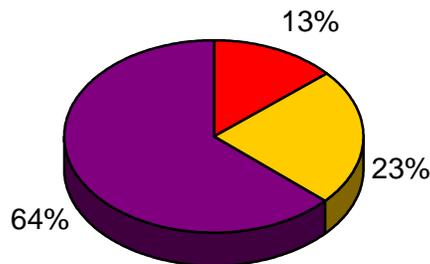
performance potential. Stocks tend to be more volatile and risky investments that perform according to economic and corporate growth and profitability cycles. Bonds are usually more conservative investments that provide a fixed stream of income and fluctuations in values dependent upon changes in market 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 below.

**401(a) Basic and Supplemental Plans**



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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b><u>Economic Indicators:</u></b>			
<i>Gross Domestic Product (GDP)</i>	2.20%	2.90%	3.10%
<i>Federal Funds Rate</i>	4.25%	5.25%	4.25%
<i>Unemployment Rate</i>	5.00%	4.50%	4.90%
<i>Consumer Price Index (CPI)</i>	2.80%	3.20%	3.40%
<b><u>Financial Markets:</u></b>			
<i>Dow Jones Industrial Average (DJIA)</i>	6.43%	16.29%	-0.61%
<i>NASDAQ Composite Index</i>	9.81%	9.52%	1.38%
<i>Standard and Poor's 500 Index (S&amp;P500)</i>	3.53%	13.62%	3.00%
<i>10-Year Treasury Note Yield</i>	4.03%	4.71%	4.39%

These economic and financial market factors had an impact on the performance of investments. Most domestic and international stock funds had moderate gains in 2005 and 2007 and strong growth during 2006. Short-term money market fund returns fluctuated with changes in the Federal Funds Rate. The values of fixed-income funds containing mostly intermediate to long-term bonds were fairly stable during the 3-year period.

The investment performance of the individual funds offered through the plans was affected by the financial market environment and enhanced by the diversification of portfolio holdings across asset classes, styles, and management. Investment income generated by each fund is listed on the supplementary schedules beginning on page 25. In addition, investment performance and benchmark comparisons are included in the investment section of this report beginning on page 29.

### **Contributions**

The level of contributions to the plans is affected by annual compensation for all 3 plans and elective participant deferrals in the Optional Savings Plan. Total compensation was \$5.27 million in 2007, \$5.08 million in 2006, and \$5.20 million in 2005. Contributions are calculated as a percentage of wages. In addition, the average deferral percentages for the Optional Savings Plan for plan years 2007, 2006, and 2005 were 6.39%, 6.17%, and 5.52%, respectively. The contribution provisions for both plans are outlined in note 2 to the financial statements beginning on page 17. Historical compensation and deferral information is provided in the demographic information in the statistical section of this report on page 91.

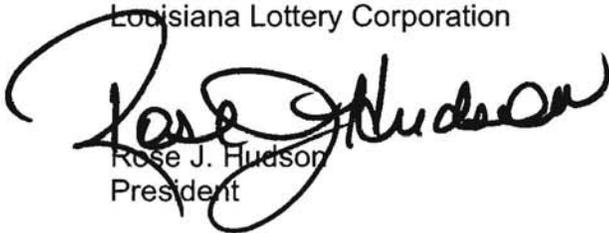
**Benefits paid to participants**

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 17.

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 years ended December 31, 2007 and December 31, 2006. 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,

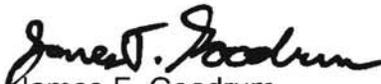
Employee Benefits Committee  
Louisiana Lottery Corporation



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, 2007 and 2006**

	<b>401(a) Basic and Supplemental</b>		<b>457(b) Optional Savings Plan</b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
<b>ASSETS</b>				
Investments (note 3)	\$10,551,355	\$9,638,160	\$4,758,539	\$4,272,374
<b>LIABILITIES</b>				
	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<b><u>\$10,551,355</u></b>	<b><u>\$9,638,160</u></b>	<b><u>\$4,758,539</u></b>	<b><u>\$4,272,374</u></b>

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 Years Ended December 31, 2007 and 2006**

	<b>401(a) Basic and Supplemental</b>		<b>457(b) Optional Savings Plan</b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
<b>ADDITIONS</b>				
Investment income	\$635,207	\$1,098,556	\$300,559	\$463,995
Less investment management fees (note 4)	(11,577)	(10,660)	NONE	NONE
Net investment income	<u>623,630</u>	<u>1,087,896</u>	<u>300,559</u>	<u>463,995</u>
Contributions:				
Participant	324,722	321,602	336,897	313,367
Employer	<u>559,145</u>	<u>545,888</u>	<u>117,225</u>	<u>111,085</u>
Total additions	<u>1,507,497</u>	<u>1,955,386</u>	<u>754,681</u>	<u>888,447</u>
<b>DEDUCTIONS</b>				
Benefits paid to participants	<u>(594,302)</u>	<u>(401,384)</u>	<u>(268,516)</u>	<u>(131,561)</u>
Net increase	913,195	1,554,002	486,165	756,886
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	<u>9,638,160</u>	<u>8,084,158</u>	<u>4,272,374</u>	<u>3,515,488</u>
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	<u><u>\$10,551,355</u></u>	<u><u>\$9,638,160</u></u>	<u><u>\$4,758,539</u></u>	<u><u>\$4,272,374</u></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 Plan 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 revenues and expenses 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, revenue is recognized when earned and expenses are recognized when incurred. The Plans use the following practices in recognizing revenues and expenses:

**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, 2007 and December 31, 2006.

**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, 2007, there were 138 participants in the Basic Plan, 113 participants in the Supplemental Plan, and 112 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, 2007 and December 31, 2006, 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.

At its July 11, 2007 annual investment review meeting, the Committee elected to add the following options to the investment menu:

<b><u>Funds</u></b>	<b><u>Available in Plans</u></b>
U.S. Property Separate Account	Supplemental, Savings
Principal LifeTime Separate Accounts (Date based lifecycle funds)	Basic, Supplemental, Savings
Mid-Cap Value Separate Account	Supplemental, Savings
International Growth Separate Account	Supplemental, Savings

These funds were available for investment by participants effective October 1, 2007.

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.

At December 31, 2007 and December 31, 2006, investments are composed of the following:

## NOTES TO THE FINANCIAL STATEMENTS

	<i>401(a) Basic and Supplemental Plans</i>		<i>457(b) Optional Savings Plan</i>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Principal Stable Value Signature Fund</b> (Union Bond & Trust Company - Trustee)	\$25,072	\$65,049	\$57,373	\$42,547
<b>PLIC Flexible Investment Annuity Group Contract</b> <b>Separate Accounts:</b>				
<b>Principal Proprietary Funds Adv Sel Rate Level:</b>				
Bond & Mortgage	57,300	81,482	48,832	107,494
U.S. Property	10,526		20,054	
Large Cap Stock Index	239,854	350,109	283,844	400,407
Large-Cap Blend	73,599	81,147	97,944	97,501
Large-Cap Value	54,158	25,735	58,647	26,273
Large-Cap Growth I	55,000	58,569	104,953	99,231
Mid-Cap Growth	169,973	176,408	249,498	270,296
Mid-Cap Value I	9,910		17,333	
Small-Cap Growth II	63,198	62,913	109,145	93,809
Small-Cap Value I	87,312	105,261	100,076	103,518
International Growth (1)	7,447		17,176	
<b>Principal Proprietary Funds Standard Rate Level:</b>				
<b>Principal LifeTime:</b>				
LifeTime Strategic Income (1)	645			
LifeTime 2010 (1)	8,015		233	
LifeTime 2020 (1)	13,209		676	
LifeTime 2030 (1)	17,356			
LifeTime 2040 (1)	8,103		216	
LifeTime 2050 (1)	181			
<b>Nonproprietary Funds Standard Rate Level:</b>				
<b>Russell LifePoints:</b>				
Conservative Strategy (1)	113,743	97,102	56,780	41,952
Moderate Strategy (1)	477,752	405,002	256,917	233,351
Balanced Strategy (1)	5,234,153	4,974,489	1,222,687	1,153,257
Growth Strategy (1)	2,743,540	2,410,287	1,647,618	1,332,091
Equity Growth Strategy (1)	837,198	563,640	157,752	101,576
<b>Mutual Fund Investments</b> (Principal Trust Company - Trustee):				
American Century Equity Income Adv Fund	49,848	37,050	45,118	27,367
American Funds Growth Fund of America R3 Fund (1)	34,843	29,098	41,494	29,706
American Funds Europacific Growth R3 Fund (1)	<u>159,420</u>	<u>114,819</u>	<u>164,173</u>	<u>111,998</u>
<b>Total</b>	<u>\$10,551,355</u>	<u>\$9,638,160</u>	<u>\$4,758,539</u>	<u>\$4,272,374</u>

(1) At December 31, 2007, funds contain investments in international securities. In the Principal LifeTime funds, approximately 8% of Strategic Income, 16% of LifeTime

## NOTES TO THE FINANCIAL STATEMENTS

2010, 20% of LifeTime 2020, 24% of LifeTime 2030, 26% of LifeTime 2040 and 27% of LifeTime 2050 are invested in international securities. In the Russell Lifepoints funds, approximately 7% of Conservative, 13% of Moderate, 19% of Balanced, 25% of Growth, and 34% of Equity Growth are invested in international securities. The American Funds Growth Fund of America R3 Fund contains approximately 19% 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. For this reason, we have changed the method used from the weighted average maturity method to the duration method. 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, 2007, 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.

	<b>Bond %</b>	<b>Average Credit Quality</b>	<b>Average Effective Duration (Years)</b>	<b>Mortgage- Backed Securities Exposure %</b>
Principal Stable Value Signature Fund	85	AAA	3.09	-
Principal Bond & Mortgage	92	AA	4.71	44.80
<b>Principal LifeTime:</b>				
LifeTime Strategic Income	66	AA	4.80	35.70
LifeTime 2010	40	AA	4.75	35.70
LifeTime 2020	28	AA	4.69	35.60
LifeTime 2030	18	A	4.62	31.30
LifeTime 2040	11	A	4.47	23.80
<b>Russell LifePoints:</b>				
Conservative Strategy	56	AA	4.12	38.20
Moderate Strategy	47	AA	4.49	42.20
Balanced Strategy	33	AA	4.49	42.20
Growth Strategy	18	AA	4.49	42.20

#### **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 years ended December 31, 2007 and December 31, 2006, investment management fees were \$11,577 and \$10,660, respectively.

#### **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.

At December 31, 2007, forfeiture account balances of \$15,248 and \$4,353 remain in the Supplemental Plan and Optional Savings Plan, respectively. These funds represent forfeited nonvested accounts for the 2006 and 2007 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 were 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 and 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. 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, 2007 or December 31, 2006.

## 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 years ended December 31, 2007 and 2006.

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 and Supplemental Plans  
For the Year Ended December 31, 2007

	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
<b>Principal Stable Value Signature Fund</b> (Union Bond & Trust Company - Trustee)	\$65,049	\$1,034			\$2,549		(\$43,560)	\$25,072
<b>PLIC Flexible Investment Annuity Group Contract</b> <b>Separate Accounts:</b>								
<b>Principal Proprietary Funds Adv Sel Rate Level:</b>								
Bond & Mortgage	81,482	1,922			3,141	(\$45,961)	16,716	57,300
U.S. Property		115			232		10,179	10,526
Large Cap Stock Index	350,109	15,505			4,355	(10,653)	(119,462)	239,854
Large-Cap Blend	81,147	4,559			4,428	(10,886)	(5,649)	73,599
Large-Cap Value	25,735	(4,265)			2,814	(1,407)	31,281	54,158
Large-Cap Growth I	58,569	5,129			3,194	(1,949)	(9,943)	55,000
Mid-Cap Growth	176,408	39,372			6,442	(7,841)	(44,408)	169,973
Mid-Cap Value I		(481)			212		10,179	9,910
Small-Cap Growth II	62,913	2,769			5,152	(1,257)	(6,379)	63,198
Small-Cap Value I	105,261	(9,680)			7,795	(3,077)	(12,987)	87,312
International Growth		(318)			130		7,635	7,447
<b>Principal Proprietary Funds Standard Rate Level:</b>								
<b>Principal LifeTime:</b>								
LifeTime Strategic Income		(6)		\$349	302			645
LifeTime 2010		(122)	(\$2)	4,388	3,751			8,015
LifeTime 2020		(215)	(3)	7,121	6,306			13,209
LifeTime 2030		(294)	(4)	9,835	7,819			17,356
LifeTime 2040		(144)	(1)	4,346	3,902			8,103
LifeTime 2050		(3)		102	82			181
<b>Nonproprietary Funds Standard Rate Level:</b>								
<b>Russell LifePoints:</b>								
Conservative Strategy	97,102	5,621	(113)	2,248	11,834	(689)	(2,260)	113,743
Moderate Strategy	405,002	36,374	(357)	12,437	26,948	(22,049)	19,397	477,752
Balanced Strategy	4,974,489	303,275	(6,701)	158,810	217,237	(389,901)	(23,056)	5,234,153
Growth Strategy	2,410,287	167,985	(3,216)	94,193	178,220	(44,268)	(59,661)	2,743,540
Equity Growth Strategy	563,640	39,563	(1,180)	27,195	36,713	(36,119)	207,386	837,198
<b>Mutual Fund Investments</b> (Principal Trust Company - Trustee):								
American Century Equity Income Adv Fund	37,050	318		3,698	4,600	(1,424)	5,606	49,848
American Funds Growth Fund of America R3 Fund	29,098	3,418			4,084	(11,153)	9,396	34,843
American Funds Europacific Growth R3 Fund	114,819	23,776			16,903	(5,668)	9,590	159,420
<b>Total</b>	<b>\$9,638,160</b>	<b>\$635,207</b>	<b>(\$11,577)</b>	<b>\$324,722</b>	<b>\$559,145</b>	<b>(\$594,302)</b>	<b>NONE</b>	<b>\$10,551,355</b>

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 and Supplemental Plans

For the Year Ended December 31, 2006

	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
<b>Principal Stable Value Signature Fund</b> (Union Bond & Trust Company - Trustee)	\$70,840	\$2,443			\$766	(\$3,097)	(\$5,903)	\$65,049
<b>PLIC Flexible Investment Annuity Group Contract</b> <b>Separate Accounts:</b>								
<b>Principal Proprietary Funds Adv Sel Rate Level:</b>								
Bond & Mortgage	99,987	3,772			622	(844)	(22,055)	81,482
Large Cap Stock Index	442,014	52,885			6,327	(20,895)	(130,222)	350,109
Large-Cap Blend	98,079	12,334			2,390	(17,075)	(14,581)	81,147
Large-Cap Value	25,550	5,155			3,204		(8,174)	25,735
Large-Cap Growth I	117,456	2,942			5,823	(11,391)	(56,261)	58,569
Mid-Cap Growth	234,765	10,924			10,945	(6,368)	(73,858)	176,408
Small-Cap Growth II	50,058	5,181			7,466		208	62,913
Small-Cap Value I	86,772	15,832			9,707	(5,091)	(1,959)	105,261
<b>Nonproprietary Funds Standard Rate Level:</b>								
<b>Russell LifePoints:</b>								
Conservative Strategy	14,427	2,921	(\$33)	\$1,086	9,226		69,475	97,102
Moderate Strategy	43,870	11,617	(107)	3,694	17,564	(9,076)	337,440	405,002
Balanced Strategy	4,843,787	581,371	(7,647)	222,664	264,441	(301,825)	(628,302)	4,974,489
Growth Strategy	1,403,662	281,451	(1,971)	73,987	153,691	(16,563)	516,030	2,410,287
Equity Growth Strategy	434,197	84,141	(902)	20,171	27,715	(4,305)	2,623	563,640
<b>Mutual Fund Investments</b> (Principal Trust Company - Trustee):								
American Century Equity Income Adv Fund	21,757	4,658			3,699	(1,730)	8,666	37,050
American Funds Growth Fund of America R3 Fund	28,229	2,960			8,460	(462)	(10,089)	29,098
American Funds Europacific Growth R3 Fund	68,708	17,969			13,842	(2,662)	16,962	114,819
<b>Total</b>	<b>\$8,084,158</b>	<b>\$1,098,556</b>	<b>(\$10,660)</b>	<b>\$321,602</b>	<b>\$545,888</b>	<b>(\$401,384)</b>	<b>NONE</b>	<b>\$9,638,160</b>

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, 2007

	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
<b>Principal Stable Value Signature Fund</b> (Union Bond & Trust Company - Trustee)	\$42,547	\$1,909	\$8,032	\$1,658		\$3,227	\$57,373
<b>PLIC Flexible Investment Annuity Group Contract</b> <b>Separate Accounts:</b>							
<b>Principal Proprietary Funds Adv Sel Rate Level:</b>							
Bond & Mortgage	107,494	2,043	3,069	1,280	(\$77,857)	12,803	48,832
U.S. Property		203	309	222		19,320	20,054
Large Cap Stock Index	400,407	18,216	4,010	1,384	(21,659)	(118,514)	283,844
Large-Cap Blend	97,501	5,271	3,050	1,361	(4,383)	(4,856)	97,944
Large-Cap Value	26,273	(4,601)	1,223	641		35,111	58,647
Large-Cap Growth I	99,231	8,460	1,849	1,032	(1,489)	(4,130)	104,953
Mid-Cap Growth	270,296	59,092	12,293	2,409	(3,999)	(90,593)	249,498
Mid-Cap Value I		(842)	214	133		17,828	17,333
Small-Cap Growth II	93,809	4,556	2,903	1,100	(889)	7,666	109,145
Small-Cap Value I	103,518	(11,313)	5,523	2,798	(5,476)	5,026	100,076
International Growth		(710)	151	92		17,643	17,176
<b>Principal Proprietary Funds Standard Rate Level:</b>							
<b>Principal LifeTime:</b>							
LifeTime 2010		(3)	118	118			233
LifeTime 2020		(11)	375	312			676
LifeTime 2040		(4)	110	110			216
<b>Nonproprietary Funds Standard Rate Level:</b>							
<b>Russell LifePoints:</b>							
Conservative Strategy	41,952	2,450	9,065	3,661	(348)		56,780
Moderate Strategy	233,351	17,214	28,266	6,614	(621)	(27,907)	256,917
Balanced Strategy	1,153,257	71,405	75,985	30,923	(89,544)	(19,339)	1,222,687
Growth Strategy	1,332,091	91,911	144,659	46,245	(39,685)	72,397	1,647,618
Equity Growth Strategy	101,576	7,171	21,312	8,005	(3,982)	23,670	157,752
<b>Mutual Fund Investments</b> (Principal Trust Company - Trustee):							
American Century Equity Income Adv Fund	27,367	5	3,452	1,473	(429)	13,250	45,118
American Funds Growth Fund of America R3 Fund	29,706	3,860	5,181	2,369	(14,150)	14,528	41,494
American Funds Europacific Growth R3 Fund	111,998	24,277	5,748	3,285	(4,005)	22,870	164,173
<b>Total</b>	<b>\$4,272,374</b>	<b>\$300,559</b>	<b>\$336,897</b>	<b>\$117,225</b>	<b>(\$268,516)</b>	<b>NONE</b>	<b>\$4,758,539</b>

**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, 2006**

	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
<b>Principal Stable Value Signature Fund (Union Bond &amp; Trust Company - Trustee)</b>	\$52,484	\$1,782	\$2,321	\$2,000	(\$3,309)	(\$12,731)	\$42,547
<b>PLIC Flexible Investment Annuity Group Contract Separate Accounts:</b>							
<b>Principal Proprietary Funds Adv Sel Rate Level:</b>							
Bond & Mortgage	108,825	4,435	803	402	(903)	(6,068)	107,494
Large Cap Stock Index	482,452	59,118	3,549	1,457	(24,738)	(121,431)	400,407
Large-Cap Blend	102,227	14,406	1,343	902	(4,144)	(17,233)	97,501
Large-Cap Value	22,715	3,759	1,290	719		(2,210)	26,273
Large-Cap Growth I	151,397	4,320	9,039	2,205	(5,553)	(62,177)	99,231
Mid-Cap Growth	302,698	15,569	10,702	3,387	(12,397)	(49,663)	270,296
Small-Cap Growth II	83,965	7,389	6,738	1,786	(9,436)	3,367	93,809
Small-Cap Value I	76,068	15,207	5,175	3,114	(4,970)	8,924	103,518
<b>Nonproprietary Funds Standard Rate Level:</b>							
<b>Russell LifePoints:</b>							
Conservative Strategy	16,736	1,619	6,976	3,288	(6,843)	20,176	41,952
Moderate Strategy	29,605	9,179	11,827	4,759	(971)	178,952	233,351
Balanced Strategy	883,349	118,528	71,702	28,198	(31,036)	82,516	1,153,257
Growth Strategy	986,590	168,087	157,823	45,886	(15,685)	(10,610)	1,332,091
Equity Growth Strategy	80,341	15,005	10,547	5,078	(6,930)	(2,465)	101,576
<b>Mutual Fund Investments (Principal Trust Company - Trustee):</b>							
American Century Equity Income Adv Fund	12,903	3,140	1,206	959	(232)	9,391	27,367
American Funds Growth Fund of America R3 Fund	21,500	2,690	7,796	3,840	(1,718)	(4,402)	29,706
American Funds Europacific Growth R3 Fund	101,633	19,762	4,530	3,105	(2,696)	(14,336)	111,998
<b>Total</b>	<b>\$3,515,488</b>	<b>\$463,995</b>	<b>\$313,367</b>	<b>\$111,085</b>	<b>(\$131,561)</b>	<b>NONE</b>	<b>\$4,272,374</b>

**INVESTMENT SECTION  
(UNAUDITED)**

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 desire to be 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**
  - Contains a listing of funds available for investment by participants in each plan grouped into categories of investor sophistication (i.e. completely do-it-for-me, almost do-it-for-me, do-it-myself)
- **Investment Styles**
  - Reflects the diversification of the investment offerings by asset classes, styles, and investment managers
- **Asset Allocation**
  - Provides an overview of the allocation of plan assets by asset class at December 31, 2007
- **Fair Value and Percent of Total Fair Value for Each Investment**
  - Presents the fair value of each investment and percent to total plan assets fair value
- **Investment Performance**
  - 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**
  - Contains detailed information about each investment option including investment strategy, returns compared to market categories and benchmarks, statistics, and holdings

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

Investment Fund	Investment Style	Basic Plan	Supplemental Plan	Optional Savings Plan
<b><u>Lifecycle (Age-Based) Funds:</u></b>				
<b>Completely "Do-it-for-me" Investors</b>				
<b>Principal Lifetime Portfolios: (1)</b>				
<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	√	√	√
<b><u>Lifestyle (Risk-Based) Funds:</u></b>				
<b>Almost "Do-it-for-me" Investors</b>				
<b>Russell Lifepoints Class R3 Shares:</b>				
<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	√	√	√
<b><u>Individual Separate Accounts and Funds:</u></b>				
<b>"Do-it-myself" Investors</b>				
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 Large Cap Stock Index	Domestic Stock/Large Blend Index		√	√
Large-Cap Blend Separate Account	Domestic Stock/Large Blend		√	√
Large-Cap Value Separate Account	Domestic Stock/Large Value		√	√
Large-Cap Growth I Separate Account	Domestic Stock/Large Growth		√	√
American Century Equity Income Adv Fund	Domestic Stock/Large Value		√	√
American Funds Growth Fund of America R3 Fund	Domestic Stock/Large Growth		√	√
Mid-Cap Growth Separate Account	Domestic Stock/Mid Growth		√	√
Mid-Cap Value I Separate Account	Domestic Stock/Mid Value		√	√
Small-Cap Growth II Separate Account	Domestic Stock/Small Growth		√	√
Small-Cap 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

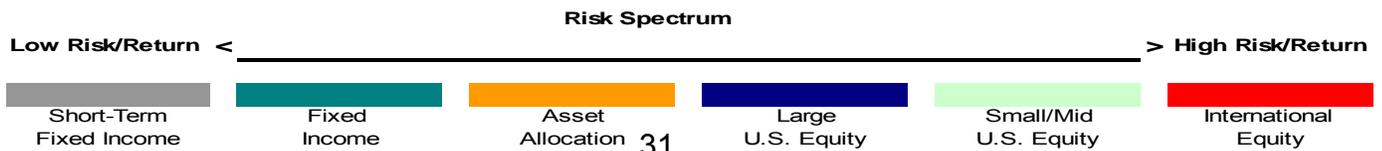
## Domestic Funds Investment Style Box

	Value	Blend	Growth
Large Cap	<p>Large-Cap Value Separate Account</p>  <p>American Century Equity Income Adv Fund</p> 	<p>Large U.S. Equity</p> <p>Large Cap Stock Index Separate Account</p>  <p>Large-Cap Blend Separate Account</p> 	<p>Large-Cap Growth I Separate Account</p>  <p>American Funds Growth Fund of America R3 Fund</p> 
	Small/Mid U.S. Equity		
Mid Cap	<p>Mid-Cap Value I Separate Account</p> 		<p>Mid-Cap Growth Separate Account</p> 
Small Cap	<p>Small-Cap Value I Separate Account</p> 		<p>Small-Cap Growth II Separate Account</p> 

## Other Investment Styles

Short-Term Fixed Income	Fixed Income	Asset Allocation
<p>Principal Stable Value Signature Fund</p> 	<p>Bond &amp; 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> 

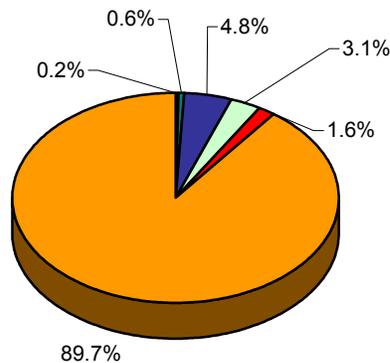


## Asset Allocation

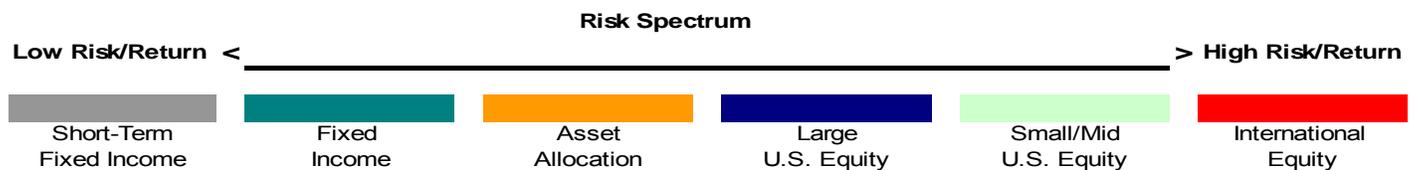
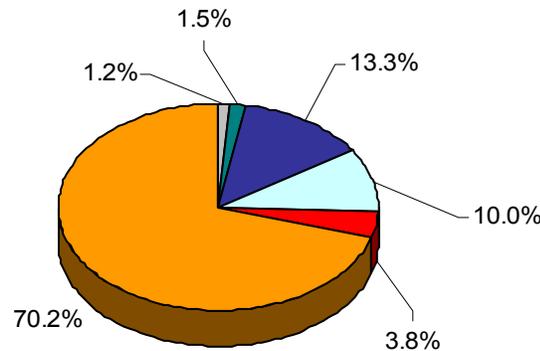
Source: Investment Committee

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 and Supplemental Plans have a higher percentage of plan assets in these funds because the Basic Plan only allows investments into lifestyle and lifecycle funds.

**401(a) Basic and Supplemental Plans**

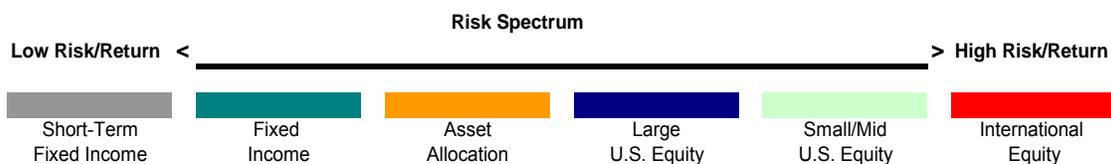


**457(b) Optional Savings Plan**



## Fair Value and Percent of Total Fair Value for Each Investment

	401(a) Basic and Supplemental Plans				457(b) Optional Savings Plan			
	2007	%	2006	%	2007	%	2006	%
<b><u>Lifecycle (Age-Based) Funds:</u></b>								
<b>Principal Lifetime Portfolios:</b>								
<i>Target Date Portfolios</i>								
Principal Lifetime Strategic Income	\$645	0.01%						
Principal Lifetime 2010	8,015	0.08%			\$233	0.00%		
Principal Lifetime 2020	13,209	0.13%			676	0.01%		
Principal Lifetime 2030	17,356	0.16%						
Principal Lifetime 2040	8,103	0.08%			216	0.00%		
Principal Lifetime 2050	181	0.00%						
<b><u>Lifestyle (Risk-Based) Funds:</u></b>								
<b>Russell Lifepoints Class R3 Shares:</b>								
<i>Target Risk Portfolio Series</i>								
Conservative Strategy	113,743	1.08%	\$97,102	1.01%	56,780	1.19%	\$41,952	0.98%
Moderate Strategy	477,752	4.53%	405,002	4.20%	256,917	5.40%	233,351	5.46%
Balanced Strategy	5,234,153	49.61%	4,974,489	51.61%	1,222,687	25.69%	1,153,257	26.99%
Growth Strategy	2,743,540	26.00%	2,410,287	25.01%	1,647,618	34.62%	1,332,091	31.18%
Equity Growth Strategy	837,198	7.93%	563,640	5.85%	157,752	3.32%	101,576	2.38%
<b><u>Individual Separate Accounts and Funds:</u></b>								
Principal Stable Value Signature Fund	25,072	0.24%	65,049	0.67%	57,373	1.21%	42,547	1.00%
Principal Bond & Mortgage	57,300	0.54%	81,482	0.85%	48,832	1.03%	107,494	2.52%
U.S. Property Separate Account	10,526	0.10%		0.00%	20,054	0.42%		0.00%
Principal Large Cap Stock Index	239,854	2.27%	350,109	3.63%	283,844	5.96%	400,407	9.37%
Large-Cap Blend Separate Account	73,599	0.70%	81,147	0.84%	97,944	2.06%	97,501	2.28%
Large-Cap Value Separate Account	54,158	0.51%	25,735	0.27%	58,647	1.23%	26,273	0.61%
Large-Cap Growth I Separate Account	55,000	0.52%	58,569	0.61%	104,953	2.21%	99,231	2.32%
American Century Equity Income Adv Fund	49,848	0.47%	37,050	0.38%	45,118	0.95%	27,367	0.64%
American Funds Growth Fund of America R3 Fund	34,843	0.33%	29,098	0.30%	41,494	0.87%	29,706	0.70%
Mid-Cap Growth Separate Account	169,973	1.61%	176,408	1.83%	249,498	5.24%	270,296	6.33%
Mid-Cap Value I Separate Account	9,910	0.09%		0.00%	17,333	0.36%		0.00%
Small-Cap Growth II Separate Account	63,198	0.60%	62,913	0.65%	109,145	2.29%	93,809	2.20%
Small-Cap Value I Separate Account	87,312	0.83%	105,261	1.09%	100,076	2.11%	103,518	2.42%
International Growth Separate Account	7,447	0.07%		0.00%	17,176	0.37%		0.00%
American Funds Europacific Growth R3 Fund	159,420	1.51%	114,819	1.20%	164,173	3.46%	111,998	2.62%
	<u>\$1,551,355</u>	<u>100.00%</u>	<u>\$9,638,160</u>	<u>100.00%</u>	<u>\$4,758,539</u>	<u>100.00%</u>	<u>\$4,272,374</u>	<u>100.00%</u>



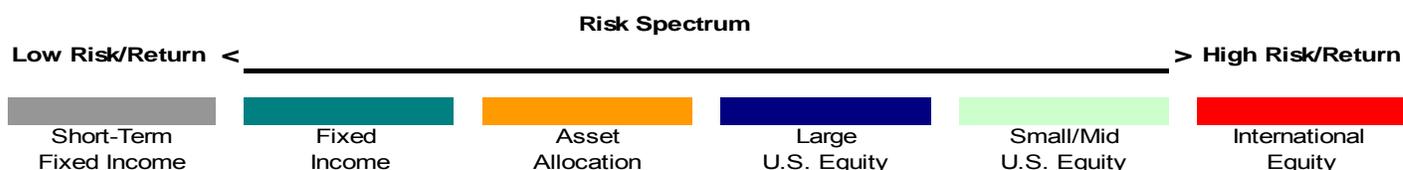
## Investment Performance

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, 2007

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>Net Expense Ratio</u>
<b><u>Lifecycle (Age-Based) Funds:</u></b>				
<b>Principal Lifetime Portfolios:</b>				
<i>Target Date Portfolios</i>				
Principal Lifetime Strategic Income	1.57	4.78	8.03	0.84
Principal Lifetime 2010	3.44	6.83	10.09	0.88
Principal Lifetime 2020	5.08	8.80	11.93	0.96
Principal Lifetime 2030	6.08	9.73	12.92	0.97
Principal Lifetime 2040	6.80	10.23	13.48	0.97
Principal Lifetime 2050	6.96	10.63	14.14	0.99
<b><u>Lifestyle (Risk-Based) Funds:</u></b>				
<b>Russell Lifepoints Class R3 Shares:</b>				
<i>Target Risk Portfolio Series</i>				
Conservative Strategy	5.10	4.60	5.13	1.35
Moderate Strategy	6.15	6.54	8.15	1.45
Balanced Strategy	6.42	8.50	11.43	1.51
Growth Strategy	6.76	9.98	13.94	1.56
Equity Growth Strategy	7.11	11.62	16.35	1.63
<b><u>Individual Separate Accounts and Funds:</u></b>				
Principal Stable Value Signature Fund	3.92	3.60	3.43	0.85
Principal Bond & Mortgage Separate Account	3.25	3.15	3.66	1.11
U.S. Property Separate Account	12.75	15.02	12.88	1.74
Principal Large Cap Stock Index Separate Account	4.55	7.65	11.80	0.91
Large-Cap Blend Separate Account	5.18	8.11	11.32	1.30
Large-Cap Value Separate Account	-4.30	6.72	11.67	1.33
Large-Cap Growth I Separate Account	7.75	6.75	10.26	1.30
American Century Equity Income Adv Fund	1.43	7.34	11.46	1.22
American Funds Growth Fund of America R3 Fund	10.59	11.68	15.52	0.93
Mid-Cap Growth Separate Account	23.90	13.38	19.16	1.56
Mid-Cap Value I Separate Account	1.72	9.29	15.61	1.75
Small-Cap Growth II Separate Account	5.22	6.67	14.12	1.56
Small-Cap Value I Separate Account	-9.86	3.97	15.52	1.56
International Growth Separate Account	11.66	18.72	23.04	1.74
American Funds Europacific Growth R3 Fund	18.58	20.24	22.37	1.11



## **Fund Fact Sheets**

*Source: Reprinted with permission from Principal Financial Group*

# Principal LifeTime Strategic Income Sep Acct-Standard

as of 12/31/2007

## Investment Strategy

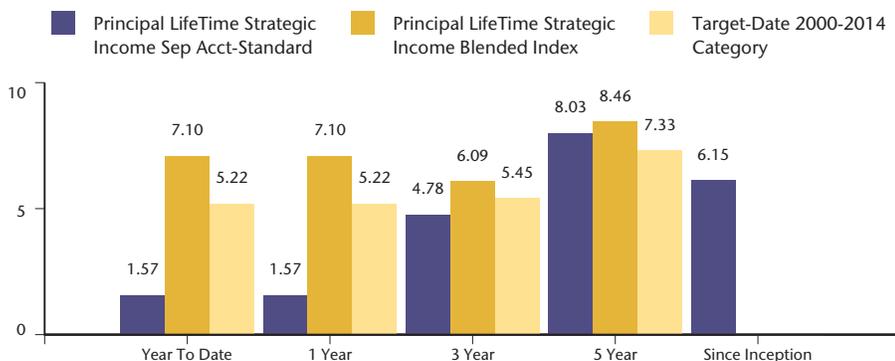
The investment seeks a total return consisting of long-term growth of capital and current income. The fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. The Sub-Advisor intends to allocate assets so that within approximately ten to fifteen years after the year 2010, the fund's assets invested in the underlying funds match the asset allocation of the Principal LifeTime Strategic Income Fund.



## 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 Finnegan**, CFA. Since 05/29/2007. M.A., U of Iowa  
**Randy Welch** Since 05/29/2007. M.B.A., Drake U

## Long-term returns % as of 12/31/2007



## 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 the Principal Sponsor Service Center<sup>SM</sup> or The Principal Retirement Service Center<sup>®</sup> at [www.principal.com](http://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 %	1.57	1.57	4.78	8.03	6.15
Principal LifeTime Strategic Income Blended Index %	7.10	7.10	6.09	8.46	-
Target-Date 2000-2014 Category %	5.22	5.22	5.45	7.33	-
Morningstar Percentile Rankings	-	96	67	29	-
# of funds in category	266	266	131	48	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	1.57	8.95	3.96	10.92	15.29
Principal LifeTime Strategic Income Blended Index %	7.10	6.90	3.48	6.15	10.74
Target-Date 2000-2014 Category %	5.22	8.58	3.68	6.82	13.67
Morningstar Percentile Rankings	96	39	45	11	37
# of Funds in Category	266	188	126	88	43

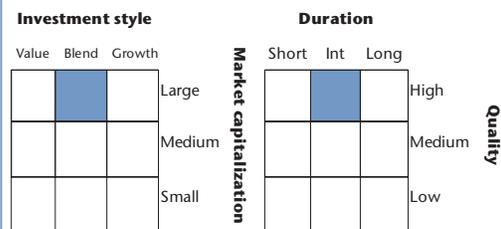
Morningstar percentile rankings are based on total returns.

## Morningstar category

Target-Date 2000-2014

## Morningstar Style Box™

As of 11/30/2007



## Risk and Return Statistics

as of 12/31/2007 Relative to Principal LifeTime Strategic Income Blended Index

	3Yr	5Yr
Alpha	-1.17	0.13
Beta	0.99	0.91
R-Squared	68.49	80.25
Standard Deviation	3.23	4.01
Mean	4.78	8.02
Sharpe Ratio	0.14	1.15
Excess Return	-1.26	-0.34
Excess Risk	1.79	1.86
Information Ratio	-0.71	-0.18

## Operations

Total Investment Expense Net	0.84%
Total Investment Expense Gross	0.85%
Waiver Expiration Date	02/28/2008
Inception Date	03/30/2001
Total Net Assets (mil)	\$548.88



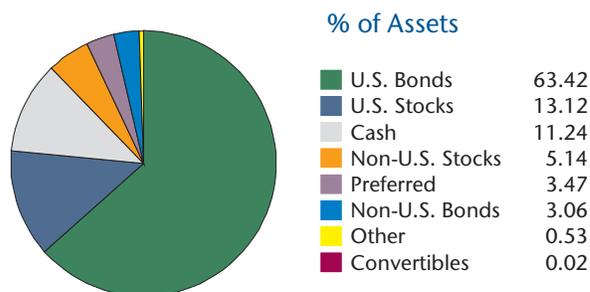
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# Principal LifeTime Strategic Income Sep Acct-Standard

as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



Top ten holdings	% of net assets
1. Principal Inv Bond & Mtg Secs Instl	43.46
2. Principal Inv Inflation Protection Instl	13.44
3. Principal Inv Ultra Short Bond Instl	11.96
4. Principal Inv Preferred Secs Instl	6.35
5. Principal Inv Real Estate Sec Instl	4.04
6. Principal Inv Intl Growth Instl	3.92
7. Principal Inv Disc LargeCap Blend Instl	3.68
8. Principal Inv Ptr International Instl	2.41
9. Principal Inv Ptr LargeCp BI I Instl	2.23
10. Principal Inv LargeCap Growth Instl	1.97
% of net assets in top ten holdings*	93.46

Analysis	
# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	15
GeoAvgCap (mil)	\$23,894.43
Turnover Ratio	25%
P/C Ratio	10.12
P/E Ratio	17.25
P/B Ratio	2.53

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.71	Healthcare	9.27	Consumer Goods	8.32
Hardware	7.77	Consumer Services	6.23	Industrial Materials	13.28
Media	1.36	Business Services	4.53	Energy	7.90
Telecom	3.62	Financial Services	32.27	Utilities	2.75



This retirement focused investment option was selected through the Principal Due Diligence Program<sup>SM</sup>, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

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 Separate Accounts may not be available in all states.

The full name of this investment option is Principal LifeTime Strategic Income Sep Acct-Standard.

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, 2007 are 19.0% Russell 3000 Index, 6.0% EAFE Index, and 75.0% Lehman 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.

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.

This Separate Account invests directly in the Institutional class shares of a Principal Investors LifeTime Fund. The mutual fund operating expenses for each Principal Investors 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 Investors LifeTime Fund invests. Based on the asset allocation of the Principal Investors LifeTime Funds as in the prospectus dated May 29, 2007, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.56%; Principal LifeTime 2010, 0.60%; Principal LifeTime 2020, 0.68%; Principal LifeTime 2030, 0.69%; Principal LifeTime 2040, 0.69%; Principal LifeTime 2050, 0.71%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal Investors 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.

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.

# Principal LifeTime 2010 Separate Account-Standard

as of 12/31/2007

## Investment Strategy

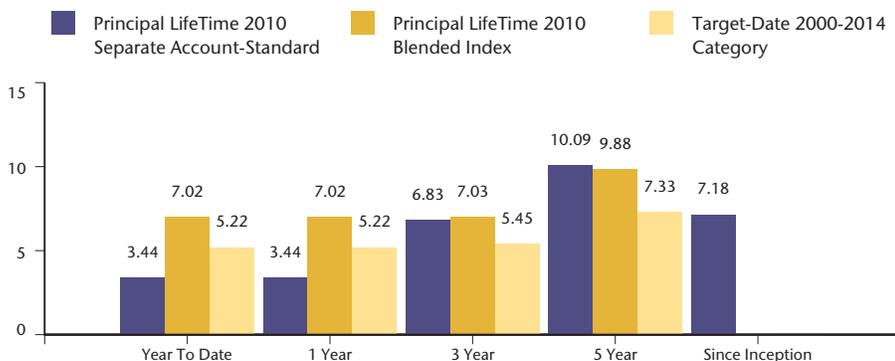
The investment seeks a total return consisting of long-term growth of capital and current income. The fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. The Sub-Advisor intends to allocate assets so that within approximately ten to fifteen years after the year 2010, the fund's assets invested in the underlying funds match the asset allocation of the Principal LifeTime Strategic Income Fund.



## 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 Finnegan**, CFA. Since 05/29/2007. M.A., U of Iowa  
**Randy Welch** Since 05/29/2007. M.B.A., Drake U

## Long-term returns % as of 12/31/2007



## 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 the Principal Sponsor Service Center SM or The Principal Retirement Service Center® at 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 %	3.44	3.44	6.83	10.09	7.18
Principal LifeTime 2010 Blended Index %	7.02	7.02	7.03	9.88	-
Target-Date 2000-2014 Category %	5.22	5.22	5.45	7.33	-
Morningstar Percentile Rankings	-	84	14	5	-
# of funds in category	266	266	131	48	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	3.44	11.84	5.40	11.62	18.79
Principal LifeTime 2010 Blended Index %	7.02	8.73	4.11	7.92	14.89
Target-Date 2000-2014 Category %	5.22	8.58	3.68	6.82	13.67
Morningstar Percentile Rankings	84	18	7	2	6
# of Funds in Category	266	188	126	88	43

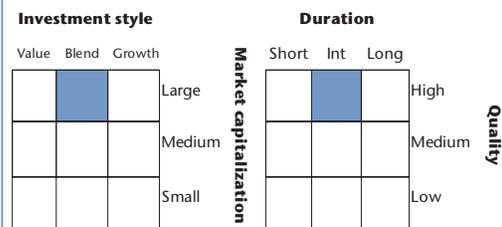
Morningstar percentile rankings are based on total returns.

## Morningstar category

Target-Date 2000-2014

## Morningstar Style Box™

As of 11/30/2007



## Risk and Return Statistics

as of 12/31/2007 Relative to Principal LifeTime 2010 Blended Index

	3Yr	5Yr
Alpha	-0.64	0.14
Beta	1.22	1.03
R-Squared	90.48	89.07
Standard Deviation	5.20	5.45
Mean	6.83	10.09
Sharpe Ratio	0.48	1.22
Excess Return	-0.13	0.32
Excess Risk	1.82	1.83
Information Ratio	-0.07	0.17

## Operations

Total Investment Expense Net	0.88%
Total Investment Expense Gross	0.88%
Inception Date	03/30/2001
Total Net Assets (mil)	\$1,747.75



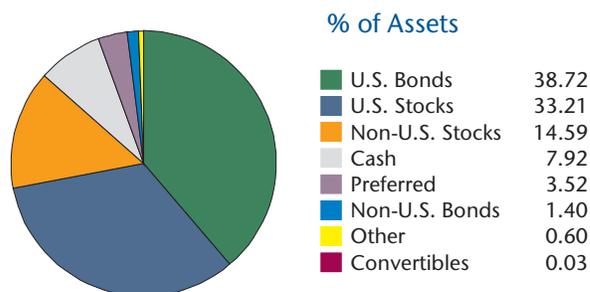
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# Principal LifeTime 2010 Separate Account-Standard

as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



Top ten holdings	% of net assets
1. Principal Inv Bond & Mtg Secs Instl	26.57
2. Principal Inv Disc LargeCap Blend Instl	9.36
3. Principal Inv Intl Growth Instl	8.84
4. Principal Inv Preferred Secs Instl	6.14
5. Principal Inv Real Estate Sec Instl	5.54
6. Principal Inv Ptr International Instl	5.13
7. Principal Inv Ptr LargeCp BI Instl	4.86
8. Principal Inv LargeCap Growth Instl	4.25
9. Principal Inv Ptr Large Cap Gr I Instl	4.17
10. Principal Inv Inflation Protection Instl	3.60
% of net assets in top ten holdings*	78.46

Analysis	
# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	21
GeoAvgCap (mil)	\$23,806.27
Turnover Ratio	15%
P/C Ratio	9.78
P/E Ratio	16.76
P/B Ratio	2.54

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.23	Healthcare	9.91	Consumer Goods	8.61
Hardware	8.55	Consumer Services	6.34	Industrial Materials	14.53
Media	1.46	Business Services	5.11	Energy	8.60
Telecom	4.12	Financial Services	26.42	Utilities	3.11



This retirement focused investment option was selected through the Principal Due Diligence Program<sup>SM</sup>, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

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 Separate Accounts may not be available in all states.

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

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, 2007 are 41.9% Russell 3000 Index, 15.1% EAFE Index, and 43.0% Lehman 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.

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.

This Separate Account invests directly in the Institutional class shares of a Principal Investors LifeTime Fund. The mutual fund operating expenses for each Principal Investors 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 Investors LifeTime Fund invests. Based on the asset allocation of the Principal Investors LifeTime Funds as in the prospectus dated May 29, 2007, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.56%; Principal LifeTime 2010, 0.60%; Principal LifeTime 2020, 0.68%; Principal LifeTime 2030, 0.69%; Principal LifeTime 2040, 0.69%; Principal LifeTime 2050, 0.71%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal Investors 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.

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.

# Principal LifeTime 2020 Separate Account-Standard

as of 12/31/2007

## Investment Strategy

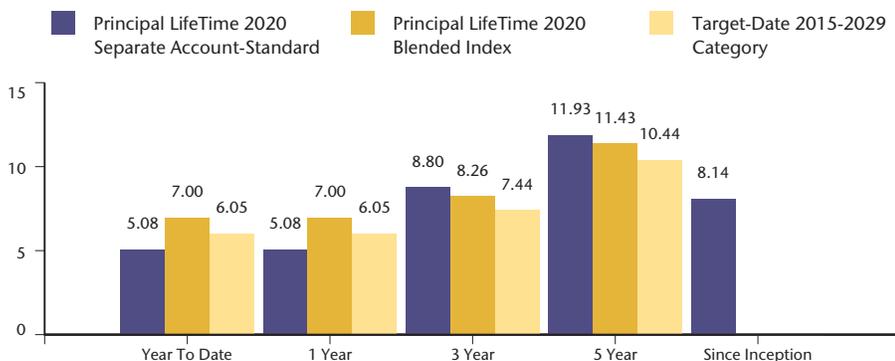
The investment seeks a total return consisting of long-term growth of capital and current income. The fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. The Sub-Advisor intends to allocate assets so that within approximately ten to fifteen years after the year 2020, the fund's assets invested in the underlying funds match the asset allocation of the Principal LifeTime Strategic Income Fund.



## 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 Finnegan**, CFA. Since 05/29/2007. M.A., U of Iowa  
**Randy Welch** Since 05/29/2007. M.B.A., Drake U

## Long-term returns % as of 12/31/2007



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	5.08	5.08	8.80	11.93	8.14
Principal LifeTime 2020 Blended Index %	7.00	7.00	8.26	11.43	-
Target-Date 2015-2029 Category %	6.05	6.05	7.44	10.44	-
Morningstar Percentile Rankings	-	70	19	13	-
# of funds in category	303	303	113	28	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	5.08	14.03	7.49	12.19	21.58
Principal LifeTime 2020 Blended Index %	7.00	11.30	5.12	9.54	17.64
Target-Date 2015-2029 Category %	6.05	12.45	5.80	9.18	20.73
Morningstar Percentile Rankings	70	24	4	10	20
# of Funds in Category	303	173	103	52	18

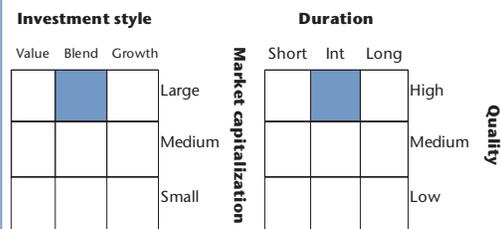
*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target-Date 2015-2029

## Morningstar Style Box™

As of 11/30/2007



## Risk and Return Statistics

as of 12/31/2007 Relative to Principal LifeTime 2020 Blended Index

	3Yr	5Yr
Alpha	-0.07	0.29
Beta	1.19	1.04
R-Squared	95.62	92.92
Standard Deviation	6.38	6.53
Mean	8.80	11.92
Sharpe Ratio	0.69	1.29
Excess Return	0.62	0.61
Excess Risk	1.66	1.76
Information Ratio	0.38	0.34

## Operations

Total Investment Expense Net	0.96%
Total Investment Expense Gross	0.96%
Inception Date	03/30/2001
Total Net Assets (mil)	\$3,556.60



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# Principal LifeTime 2020 Separate Account-Standard

as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.36	Healthcare	10.11	Consumer Goods	8.89
Hardware	8.87	Consumer Services	6.52	Industrial Materials	15.13
Media	1.51	Business Services	5.36	Energy	8.94
Telecom	4.27	Financial Services	23.68	Utilities	3.36



This retirement focused investment option was selected through the Principal Due Diligence Program<sup>SM</sup>, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

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 Separate Accounts may not be available in all states.

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

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, 2007 are 51.1% Russell 3000 Index, 19.4% EAFE Index, and 29.5% Lehman 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.

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.

This Separate Account invests directly in the Institutional class shares of a Principal Investors LifeTime Fund. The mutual fund operating expenses for each Principal Investors 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 Investors LifeTime Fund invests. Based on the asset allocation of the Principal Investors LifeTime Funds as in the prospectus dated May 29, 2007, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.56%; Principal LifeTime 2010, 0.60%; Principal LifeTime 2020, 0.68%; Principal LifeTime 2030, 0.69%; Principal LifeTime 2040, 0.69%; Principal LifeTime 2050, 0.71%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal Investors 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.

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.

# Principal LifeTime 2030 Separate Account-Standard

as of 12/31/2007

## Investment Strategy

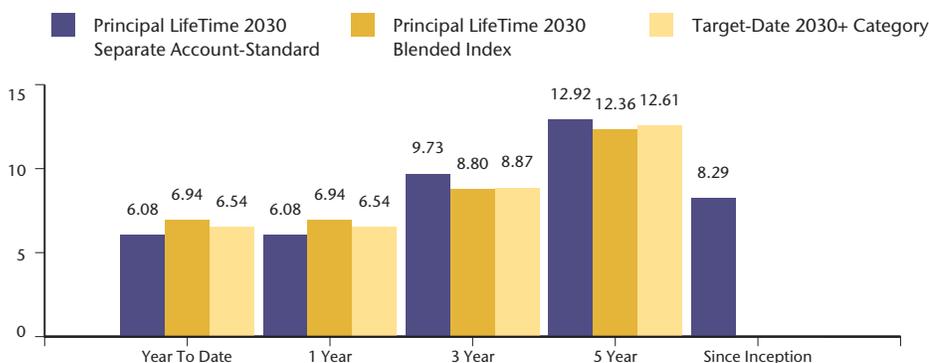
The investment seeks a total return consisting of long-term growth of capital and current income. The fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. The Sub-Advisor intends to allocate assets so that within approximately ten to fifteen years after the year 2030, the fund's assets invested in the underlying funds match the asset allocation of the Principal LifeTime Strategic Income Fund.



## 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 Finnegan**, CFA. Since 05/29/2007. M.A., U of Iowa  
**Randy Welch** Since 05/29/2007. M.B.A., Drake U

## Long-term returns % as of 12/31/2007



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	6.08	6.08	9.73	12.92	8.29
Principal LifeTime 2030 Blended Index %	6.94	6.94	8.80	12.36	-
Target-Date 2030+ Category %	6.54	6.54	8.87	12.61	-
Morningstar Percentile Rankings	-	59	34	51	-
# of funds in category	409	409	152	42	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	6.08	15.13	8.20	12.68	23.33
Principal LifeTime 2030 Blended Index %	6.94	12.72	5.65	10.42	20.51
Target-Date 2030+ Category %	6.54	14.43	7.28	11.31	25.34
Morningstar Percentile Rankings	59	40	13	26	78
# of Funds in Category	409	235	147	87	42

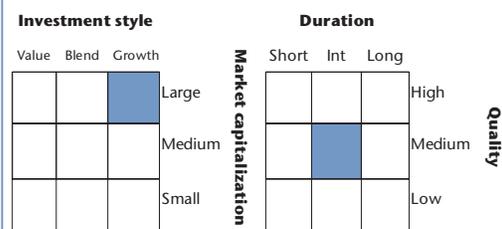
*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target-Date 2030+

## Morningstar Style Box™

As of 11/30/2007



## Risk and Return Statistics

as of 12/31/2007 Relative to Principal LifeTime 2030 Blended Index

	3Yr	5Yr
Alpha	0.27	0.36
Beta	1.17	1.03
R-Squared	97.08	94.93
Standard Deviation	7.11	7.23
Mean	9.73	12.92
Sharpe Ratio	0.75	1.29
Excess Return	1.01	0.68
Excess Risk	1.58	1.65
Information Ratio	0.64	0.41

## Operations

Total Investment Expense Net	0.97%
Total Investment Expense Gross	0.97%
Inception Date	03/30/2001
Total Net Assets (mil)	\$3,044.69



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# Principal LifeTime 2030 Separate Account-Standard

as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.43	Healthcare	10.24	Consumer Goods	8.98
Hardware	8.98	Consumer Services	6.68	Industrial Materials	15.50
Media	1.53	Business Services	5.56	Energy	9.12
Telecom	4.37	Financial Services	22.14	Utilities	3.45



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

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, 2007 are 57.3% Russell 3000 Index, 22.5% EAFE Index, and 20.2% Lehman 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.

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.

This Separate Account invests directly in the Institutional class shares of a Principal Investors LifeTime Fund. The mutual fund operating expenses for each Principal Investors 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 Investors LifeTime Fund invests. Based on the asset allocation of the Principal Investors LifeTime Funds as in the prospectus dated May 29, 2007, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.56%; Principal LifeTime 2010, 0.60%; Principal LifeTime 2020, 0.68%; Principal LifeTime 2030, 0.69%; Principal LifeTime 2040, 0.69%; Principal LifeTime 2050, 0.71%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal Investors 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.

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.

# Principal LifeTime 2040 Separate Account-Standard

as of 12/31/2007

## Investment Strategy

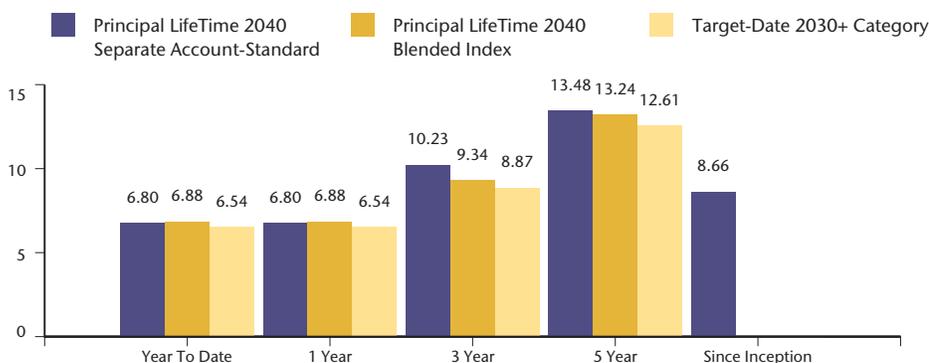
The investment seeks a total return consisting of long-term growth of capital and current income. The fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. The Sub-Advisor intends to allocate assets so that within approximately ten to fifteen years after the year 2030, the fund's assets invested in the underlying funds match the asset allocation of the Principal LifeTime Strategic Income Fund.



## 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 Finnegan**, CFA. Since 05/29/2007. M.A., U of Iowa  
**Randy Welch** Since 05/29/2007. M.B.A., Drake U

## Long-term returns % as of 12/31/2007



## 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 the Principal Sponsor Service Center SM or The Principal Retirement Service Center® at 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 %	6.80	6.80	10.23	13.48	8.66
Principal LifeTime 2040 Blended Index %	6.88	6.88	9.34	13.24	-
Target-Date 2030+ Category %	6.54	6.54	8.87	12.61	-
Morningstar Percentile Rankings	-	46	14	25	-
# of funds in category	409	409	152	42	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	6.80	15.43	8.65	12.86	24.49
Principal LifeTime 2040 Blended Index %	6.88	14.26	6.21	11.37	23.42
Target-Date 2030+ Category %	6.54	14.43	7.28	11.31	25.34
Morningstar Percentile Rankings	46	32	7	21	51
# of Funds in Category	409	235	147	87	42

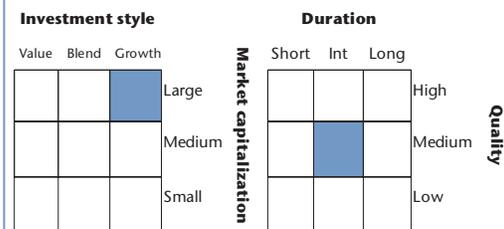
*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target-Date 2030+

## Morningstar Style Box™

As of 11/30/2007



## Risk and Return Statistics

as of 12/31/2007 Relative to Principal LifeTime 2040 Blended Index

	3Yr	5Yr
Alpha	0.32	0.17
Beta	1.13	1.02
R-Squared	97.60	96.62
Standard Deviation	7.65	7.80
Mean	10.24	13.49
Sharpe Ratio	0.76	1.27
Excess Return	0.98	0.36
Excess Risk	1.48	1.45
Information Ratio	0.67	0.25

## Operations

Total Investment Expense Net	0.97%
Total Investment Expense Gross	0.98%
Waiver Expiration Date	02/28/2008
Inception Date	03/30/2001
Total Net Assets (mil)	\$1,526.35



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# Principal LifeTime 2040 Separate Account-Standard

as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.49	Healthcare	10.34	Consumer Goods	8.98
Hardware	9.06	Consumer Services	6.81	Industrial Materials	15.66
Media	1.54	Business Services	5.67	Energy	9.18
Telecom	4.47	Financial Services	21.33	Utilities	3.47



This retirement focused investment option was selected through the Principal Due Diligence Program<sup>SM</sup>, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

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 Separate Accounts may not be available in all states.

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

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, 2007 are 61.8% Russell 3000 Index, 24.7% EAFE Index, and 13.5% Lehman 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.

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.

This Separate Account invests directly in the Institutional class shares of a Principal Investors LifeTime Fund. The mutual fund operating expenses for each Principal Investors 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 Investors LifeTime Fund invests. Based on the asset allocation of the Principal Investors LifeTime Funds as in the prospectus dated May 29, 2007, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.56%; Principal LifeTime 2010, 0.60%; Principal LifeTime 2020, 0.68%; Principal LifeTime 2030, 0.69%; Principal LifeTime 2040, 0.69%; Principal LifeTime 2050, 0.71%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal Investors 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.

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.

# Principal LifeTime 2050 Separate Account-Standard

as of 12/31/2007

## Investment Strategy

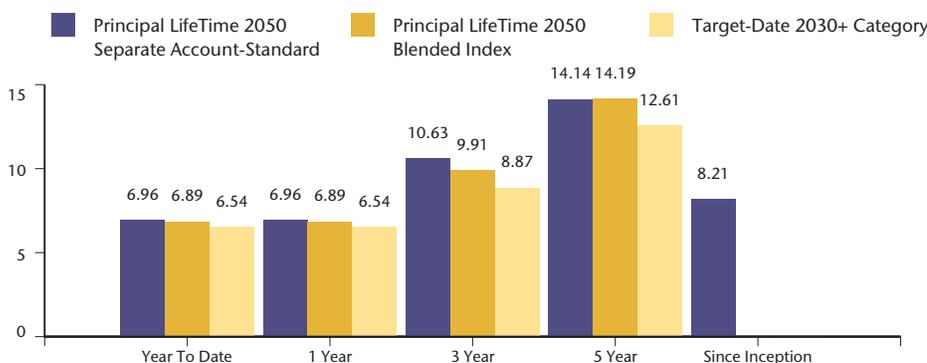
The investment seeks a total return consisting of long-term growth of capital and current income. The fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. The Sub-Advisor intends to allocate assets so that within approximately ten to fifteen years after the year 2050, the fund's assets invested in the underlying funds match the asset allocation of the Principal LifeTime Strategic Income Fund.



## 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 Finnegan**, CFA. Since 05/29/2007. M.A., U of Iowa  
**Randy Welch** Since 05/29/2007. M.B.A., Drake U

## Long-term returns % as of 12/31/2007



## 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 the Principal Sponsor Service Center<sup>SM</sup> or The Principal Retirement Service Center<sup>®</sup> at [www.principal.com](http://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 %	6.96	6.96	10.63	14.14	8.21
Principal LifeTime 2050 Blended Index %	6.89	6.89	9.91	14.19	-
Target-Date 2030+ Category %	6.54	6.54	8.87	12.61	-
Morningstar Percentile Rankings	-	44	4	11	-
# of funds in category	409	409	152	42	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	6.96	15.96	9.17	13.15	26.44
Principal LifeTime 2050 Blended Index %	6.89	15.81	6.79	12.29	25.94
Target-Date 2030+ Category %	6.54	14.43	7.28	11.31	25.34
Morningstar Percentile Rankings	44	24	1	15	27
# of Funds in Category	409	235	147	87	42

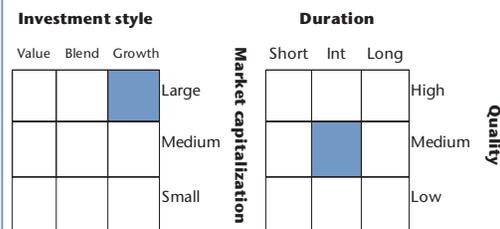
Morningstar percentile rankings are based on total returns.

## Morningstar category

Target-Date 2030+

## Morningstar Style Box™

As of 11/30/2007



## Risk and Return Statistics

as of 12/31/2007 Relative to Principal LifeTime 2050 Blended Index

	3Yr	5Yr
Alpha	-0.53	-0.54
Beta	1.12	1.02
R-Squared	95.81	96.25
Standard Deviation	8.21	8.50
Mean	9.87	13.67
Sharpe Ratio	0.67	1.19
Excess Return	0.03	-0.42
Excess Risk	1.88	1.66
Information Ratio	0.02	-0.25

## Operations

Total Investment Expense Net	0.99%
Total Investment Expense Gross	1.00%
Waiver Expiration Date	02/28/2008
Inception Date	03/30/2001
Total Net Assets (mil)	\$641.52



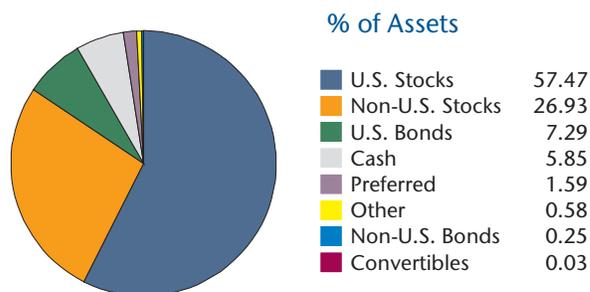
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# Principal LifeTime 2050 Separate Account-Standard

as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



Top ten holdings	% of net assets
1. Principal Inv Intl Growth Instl	14.89
2. Principal Inv Disc LargeCap Blend Instl	12.66
3. Principal Inv Ptr International Instl	7.96
4. Principal Inv Ptr Large Cap Gr I Instl	7.93
5. Principal Inv LargeCap Growth Instl	7.35
6. Principal Inv Ptr LargeCp BI I Instl	6.53
7. Principal Inv Intl Emerg Mkts Instl	4.88
8. Principal Inv Ptr LgCap Value I Instl	4.68
9. Principal Inv LargeCap Value Instl	4.48
10. Principal Inv Ptr Large Cap Value Instl	4.39
% of net assets in top ten holdings*	75.75

Analysis	
# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	23
GeoAvgCap (mil)	\$24,850.49
Turnover Ratio	21%
P/C Ratio	9.63
P/E Ratio	16.52
P/B Ratio	2.54

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.52	Healthcare	10.39	Consumer Goods	8.94
Hardware	9.08	Consumer Services	6.85	Industrial Materials	15.70
Media	1.53	Business Services	5.75	Energy	9.15
Telecom	4.45	Financial Services	21.15	Utilities	3.48



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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 Separate Accounts may not be available in all states.

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

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, 2007 are 64.2% Russell 3000 Index, 25.8% EAFE Index, and 10.0% Lehman 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.

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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.

# Russell LifePoints® Cons Strategy Sep Acct-Standard

as of 12/31/2007

## Investment Strategy

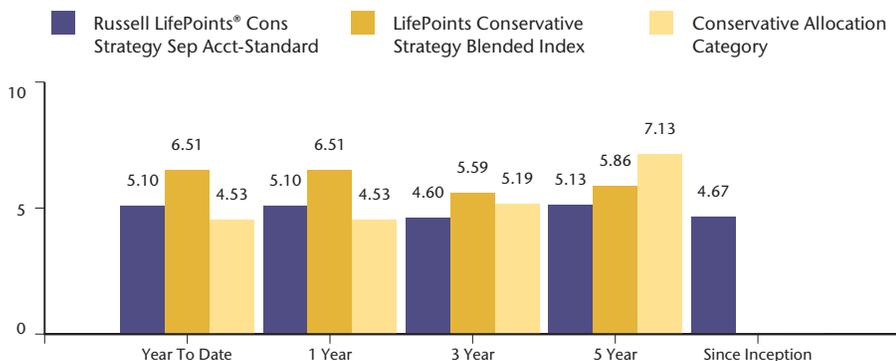
The investment seeks high levels of current income and low long-term capital appreciation. The fund is a fund of funds that diversifies assets by investing in class S shares of several other Frank Russell Investment Company funds. The management may modify the asset allocation and the selection of underlying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



### Portfolio managers

**Jill Johnson** Since 05/31/2004.

## Long-term returns % as of 12/31/2007



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	5.10	5.10	4.60	5.13	4.67
LifePoints Conservative Strategy Blended Index %	6.51	6.51	5.59	5.86	-
Conservative Allocation Category %	4.53	4.53	5.19	7.13	-
Morningstar Percentile Rankings	-	44	71	83	-
# of funds in category	609	609	395	239	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	5.10	6.17	2.56	4.18	7.72
LifePoints Conservative Strategy Blended Index %	6.51	7.11	3.20	4.56	8.03
Conservative Allocation Category %	4.53	8.16	2.97	5.46	12.34
Morningstar Percentile Rankings	44	79	65	74	80
# of Funds in Category	609	558	423	362	285

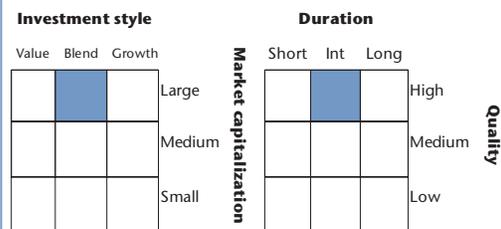
Morningstar percentile rankings are based on total returns.

## Morningstar category

Conservative Allocation

## Morningstar Style Box™

As of 09/30/2007



## Risk and Return Statistics

as of 12/31/2007 Relative to LifePoints Conservative Strategy Blended Index

	3Yr	5Yr
Alpha	-0.49	-0.48
Beta	1.09	1.04
R-Squared	81.91	90.97
Standard Deviation	2.21	2.45
Mean	4.60	5.13
Sharpe Ratio	0.11	0.79
Excess Return	-0.46	-0.42
Excess Risk	0.94	0.75
Information Ratio	-0.49	-0.56

## Operations

Total Investment Expense Net	1.35%
Total Investment Expense Gross	1.75%
Waiver Expiration Date	02/29/2008
Inception Date	03/24/1998
Total Net Assets (mil)	\$492.53



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# Russell LifePoints® Cons Strategy Sep Acct-Standard

as of 12/31/2007

## Portfolio information

Composition as of 09/30/2007



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.48	Healthcare	9.48	Consumer Goods	9.25
Hardware	8.07	Consumer Services	6.55	Industrial Materials	12.09
Media	2.59	Business Services	3.99	Energy	8.08
Telecom	4.19	Financial Services	31.26	Utilities	1.97



This retirement focused investment option was selected through the Principal Due Diligence Program<sup>SM</sup>, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

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 Separate Accounts may not be available in all states.

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

LifePoints Conservative Strategy Blended Index is composed of 14% Russell 1000 Index, 3% EAFE Index, 22% Lehman 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.

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.

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 March 1, 2007, the weighted average operating expenses of the underlying funds are: Conservative Strategy Fund, 0.85%; Moderate Strategy Fund, 0.95%; Balanced Strategy Fund, 1.01%; Growth Strategy Fund, 1.06%; Equity Growth Strategy Fund, 1.13%. 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.

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.

# Russell LifePoints® Moderate Strategy Sep Acct-Standard

as of 12/31/2007

## Investment Strategy

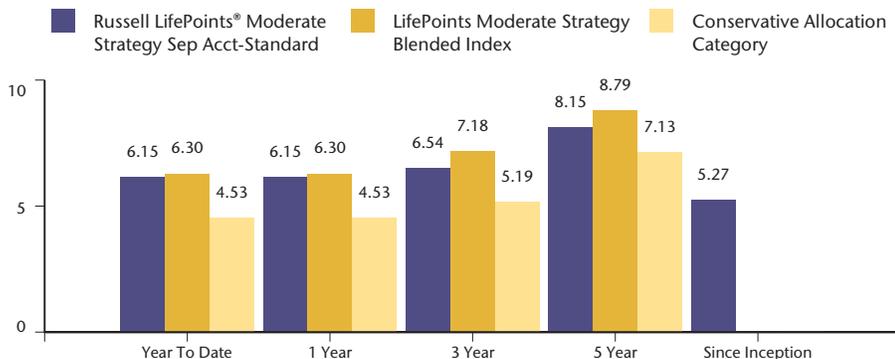
The investment seeks high current income and moderate long term capital appreciation. The fund is a fund of funds that diversifies assets by investing in class S shares of several other Frank Russell Investment Company funds. The management may modify the asset allocation and the selection of underlying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



### Portfolio managers

**Jill Johnson** Since 05/31/2004.

## Long-term returns % as of 12/31/2007



## 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 the Principal Sponsor Service Center SM or The Principal Retirement Service Center® at [www.principal.com](http://www.principal.com), contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	6.15	6.15	6.54	8.15	5.27
LifePoints Moderate Strategy Blended Index %	6.30	6.30	7.18	8.79	-
Conservative Allocation Category %	4.53	4.53	5.19	7.13	-
Morningstar Percentile Rankings	-	26	18	29	-
# of funds in category	609	609	395	239	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	6.15	9.28	4.26	7.16	14.15
LifePoints Moderate Strategy Blended Index %	6.30	10.44	4.89	7.92	14.69
Conservative Allocation Category %	4.53	8.16	2.97	5.46	12.34
Morningstar Percentile Rankings	26	25	26	26	37
# of Funds in Category	609	558	423	362	285

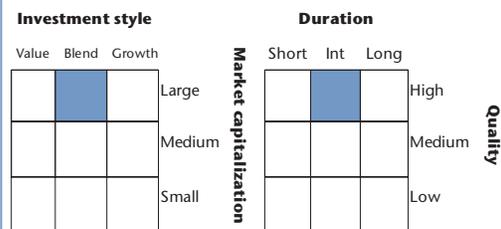
Morningstar percentile rankings are based on total returns.

## Morningstar category

Conservative Allocation

## Morningstar Style Box™

As of 09/30/2007



## Risk and Return Statistics

as of 12/31/2007 Relative to LifePoints Moderate Strategy Blended Index

	3Yr	5Yr
Alpha	0.01	-0.14
Beta	1.07	1.00
R-Squared	88.99	93.89
Standard Deviation	3.71	3.98
Mean	6.54	8.15
Sharpe Ratio	0.58	1.21
Excess Return	0.16	-0.15
Excess Risk	1.24	1.00
Information Ratio	0.13	-0.15

## Operations

Total Investment Expense Net	1.45%
Total Investment Expense Gross	1.83%
Waiver Expiration Date	02/29/2008
Inception Date	03/24/1998
Total Net Assets (mil)	\$1,232.63



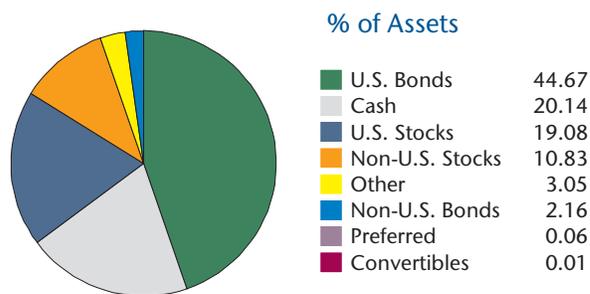
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# Russell LifePoints® Moderate Strategy Sep Acct-Standard

as of 12/31/2007

## Portfolio information

Composition as of 09/30/2007



Top ten holdings	% of net assets
1. Russell Multistrategy Bond S	59.11
2. Russell Diversified Equity S	10.19
3. Russell Quantitative Equity S	10.06
4. Russell International Secs S	9.33
5. Russell Real Estate Secs S	3.08
6. Russell Global Equity S	3.08
7. Russell Special Growth S	3.03
8. Russell Emerging Markets S	2.13
% of net assets in top ten holdings*	100.01

Analysis	
# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	8
GeoAvgCap (mil)	\$26,822.57
Turnover Ratio	78%
P/C Ratio	9.62
P/E Ratio	15.53
P/B Ratio	2.37

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.82	Healthcare	9.49	Consumer Goods	9.96
Hardware	8.61	Consumer Services	6.78	Industrial Materials	13.72
Media	2.58	Business Services	5.25	Energy	8.62
Telecom	4.74	Financial Services	25.14	Utilities	2.29



This retirement focused investment option was selected through the Principal Due Diligence Program<sup>SM</sup>, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

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 Separate Accounts may not be available in all states.

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

LifePoints Moderate Strategy Blended Index is composed of 22% Russell 1000 Index, 3% Russell 2500 Index, 11% EAFE Index, 27% Lehman 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.

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.

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 March 1, 2007, the weighted average operating expenses of the underlying funds are: Conservative Strategy Fund, 0.85%; Moderate Strategy Fund, 0.95%; Balanced Strategy Fund, 1.01%; Growth Strategy Fund, 1.06%; Equity Growth Strategy Fund, 1.13%. 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.

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.

# Russell LifePoints® Balanced Strategy Sep Acct-Stnd

as of 12/31/2007

## Investment Strategy

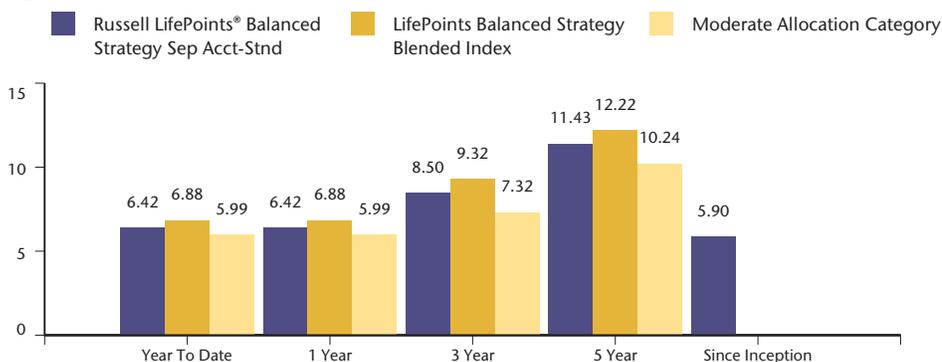
The investment seeks to provide above-average capital appreciation and a moderate level of current income. The fund is a fund of funds that diversifies assets by investing in class S shares of several other Frank Russell Investment Company funds. The management may modify the asset allocation and the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



## Portfolio managers

**Jill Johnson** Since 05/31/2004.

## Long-term returns % as of 12/31/2007



## 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 the Principal Sponsor Service Center<sup>SM</sup> or The Principal Retirement Service Center<sup>®</sup> at [www.principal.com](http://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 %	6.42	6.42	8.50	11.43	5.90
LifePoints Balanced Strategy Blended Index %	6.88	6.88	9.32	12.22	-
Moderate Allocation Category %	5.99	5.99	7.32	10.24	-
Morningstar Percentile Rankings	-	44	24	24	-
# of funds in category	1103	1103	894	698	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	6.42	12.66	6.55	10.63	21.56
LifePoints Balanced Strategy Blended Index %	6.88	14.05	7.17	11.67	22.05
Moderate Allocation Category %	5.99	11.29	5.13	8.86	20.35
Morningstar Percentile Rankings	44	23	24	23	36
# of Funds in Category	1103	1041	985	925	843

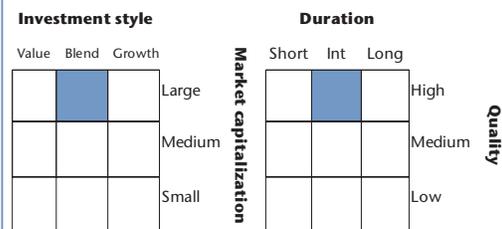
Morningstar percentile rankings are based on total returns.

## Morningstar category

Moderate Allocation

## Morningstar Style Box™

As of 09/30/2007



## Risk and Return Statistics

as of 12/31/2007 Relative to LifePoints Balanced Strategy Blended Index

	3Yr	5Yr
Alpha	0.15	-0.07
Beta	1.05	1.00
R-Squared	91.55	95.36
Standard Deviation	5.53	5.94
Mean	8.51	11.43
Sharpe Ratio	0.74	1.33
Excess Return	0.32	-0.10
Excess Risk	1.61	1.29
Information Ratio	0.20	-0.08

## Operations

Total Investment Expense Net	1.51%
Total Investment Expense Gross	1.93%
Waiver Expiration Date	02/29/2008
Inception Date	03/24/1998
Total Net Assets (mil)	\$5,843.18



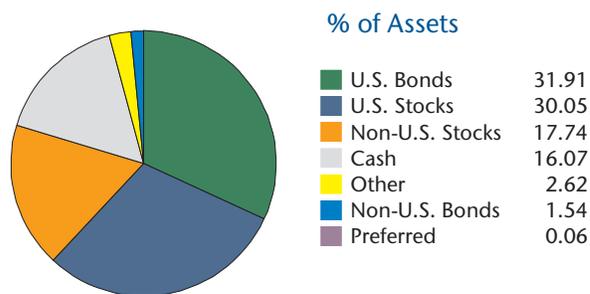
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# Russell LifePoints® Balanced Strategy Sep Acct-Stnd

as of 12/31/2007

## Portfolio information

Composition as of 09/30/2007



Top ten holdings	% of net assets
1. Russell Multistrategy Bond S	39.18
2. Russell Diversified Equity S	15.15
3. Russell Quantitative Equity S	14.95
4. Russell International Secs S	14.37
5. Russell Real Estate Secs S	5.13
6. Russell Global Equity S	4.06
7. Russell Special Growth S	4.01
8. Russell Emerging Markets S	3.15
% of net assets in top ten holdings*	100.00

Analysis	
# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	8
GeoAvgCap (mil)	\$26,725.98
Turnover Ratio	34%
P/C Ratio	9.58
P/E Ratio	15.42
P/B Ratio	2.35

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.79	Healthcare	9.58	Consumer Goods	10.10
Hardware	8.39	Consumer Services	6.59	Industrial Materials	13.49
Media	2.62	Business Services	5.10	Energy	8.53
Telecom	4.60	Financial Services	25.92	Utilities	2.30



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

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% Lehman 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.

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.

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 March 1, 2007, the weighted average operating expenses of the underlying funds are: Conservative Strategy Fund, 0.85%; Moderate Strategy Fund, 0.95%; Balanced Strategy Fund, 1.01%; Growth Strategy Fund, 1.06%; Equity Growth Strategy Fund, 1.13%. 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.

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.

# Russell LifePoints® Growth Strategy Sep Acct-Standard

as of 12/31/2007

## Investment Strategy

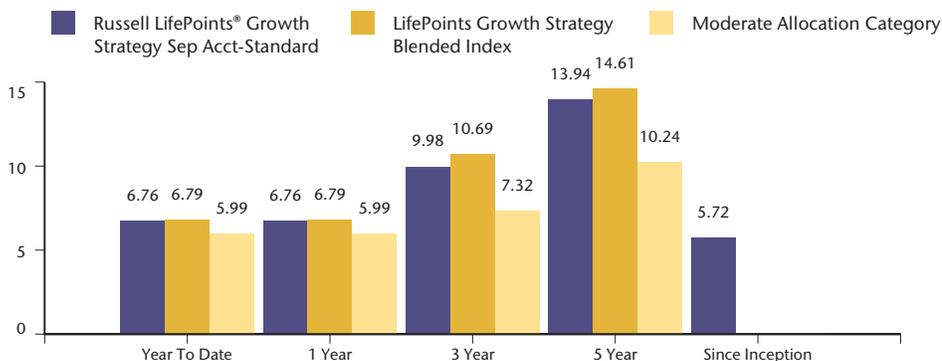
The investment seeks high long-term capital appreciation and low current income. The fund is a fund of funds that diversifies assets by investing in class S shares of several other Frank Russell Investment Company funds. The management may modify the asset allocation and the selection of underlying funds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



## Portfolio managers

**Jill Johnson** Since 05/31/2004.

## Long-term returns % as of 12/31/2007



## 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 the Principal Sponsor Service Center SM or The Principal Retirement Service Center® at [www.principal.com](http://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 %	6.76	6.76	9.98	13.94	5.72
LifePoints Growth Strategy Blended Index %	6.79	6.79	10.69	14.61	-
Moderate Allocation Category %	5.99	5.99	7.32	10.24	-
Morningstar Percentile Rankings	-	38	6	3	-
# of funds in category	1103	1103	894	698	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	6.76	15.27	8.09	12.61	28.19
LifePoints Growth Strategy Blended Index %	6.79	17.04	8.50	13.79	28.19
Moderate Allocation Category %	5.99	11.29	5.13	8.86	20.35
Morningstar Percentile Rankings	38	6	7	9	6
# of Funds in Category	1103	1041	985	925	843

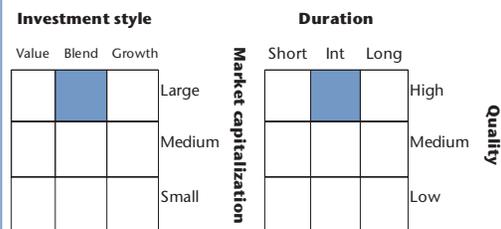
Morningstar percentile rankings are based on total returns.

## Morningstar category

Moderate Allocation

## Morningstar Style Box™

As of 09/30/2007



## Risk and Return Statistics

as of 12/31/2007 Relative to LifePoints Growth Strategy Blended Index

	3Yr	5Yr
Alpha	0.39	-0.11
Beta	1.04	1.03
R-Squared	93.18	96.31
Standard Deviation	7.28	7.85
Mean	9.99	13.94
Sharpe Ratio	0.76	1.31
Excess Return	0.62	0.14
Excess Risk	1.91	1.53
Information Ratio	0.32	0.09

## Operations

Total Investment Expense Net	1.56%
Total Investment Expense Gross	1.98%
Waiver Expiration Date	02/29/2008
Inception Date	03/24/1998
Total Net Assets (mil)	\$4,240.56



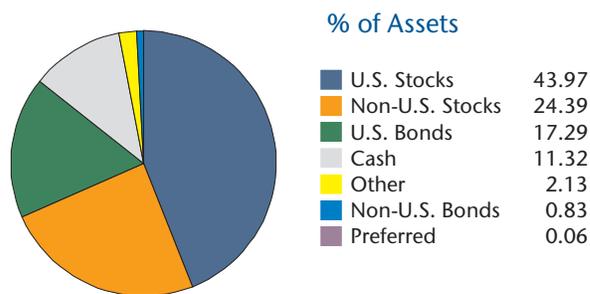
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# Russell LifePoints® Growth Strategy Sep Acct-Standard

as of 12/31/2007

## Portfolio information

Composition as of 09/30/2007



Top ten holdings	% of net assets
1. Russell Diversified Equity S	21.04
2. Russell Quantitative Equity S	19.75
3. Russell Multistrategy Bond S	19.52
4. Russell International Secs S	17.34
5. Russell Real Estate Secs S	6.12
6. Russell Global Equity S	6.05
7. Russell Special Growth S	5.96
8. Russell Emerging Markets S	4.21
% of net assets in top ten holdings*	99.99

Analysis	
# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	8
GeoAvgCap (mil)	\$26,499.37
Turnover Ratio	18%
P/C Ratio	9.53
P/E Ratio	15.38
P/B Ratio	2.35

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.89	Healthcare	9.76	Consumer Goods	9.97
Hardware	8.61	Consumer Services	6.69	Industrial Materials	13.53
Media	2.63	Business Services	5.22	Energy	8.63
Telecom	4.61	Financial Services	25.19	Utilities	2.27



This retirement focused investment option was selected through the Principal Due Diligence Program<sup>SM</sup>, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

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

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% Lehman 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.

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.

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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.

# Russell LifePoints® Equity Growth Strat Sep Acct-Stnd

as of 12/31/2007

## Investment Strategy

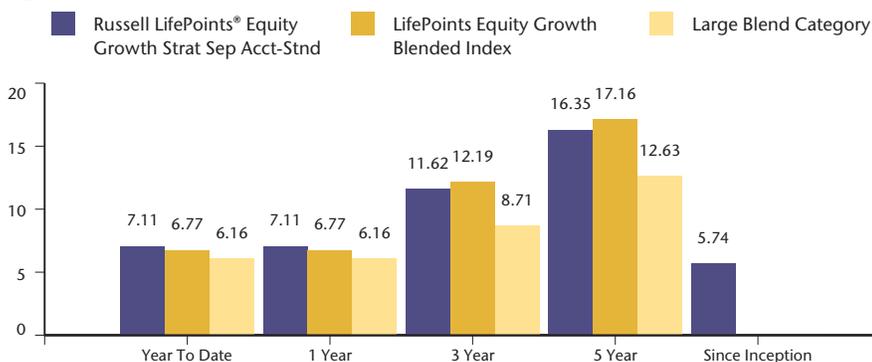
The investment seeks high long-term capital appreciation. The fund is a fund of funds that diversifies assets by investing in class S shares of several other Frank Russell Investment Company funds. It normally invests at least 80% of assets in shares of equity underlying funds. The management may modify 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 Johnson** Since 05/31/2004.

## Long-term returns % as of 12/31/2007



## 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 the Principal Sponsor Service Center<sup>SM</sup> or The Principal Retirement Service Center<sup>®</sup> at [www.principal.com](http://www.principal.com), contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	7.11	7.11	11.62	16.35	5.74
LifePoints Equity Growth Blended Index %	6.77	6.77	12.19	17.16	-
Large Blend Category %	6.16	6.16	8.71	12.63	-
Morningstar Percentile Rankings	-	35	11	8	-
# of funds in category	2090	2090	1623	1278	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	7.11	18.27	9.77	14.63	33.74
LifePoints Equity Growth Blended Index %	6.77	20.30	9.96	16.09	34.71
Large Blend Category %	6.16	14.17	5.88	10.02	27.05
Morningstar Percentile Rankings	35	6	10	8	7
# of Funds in Category	2090	1980	1743	1611	1526

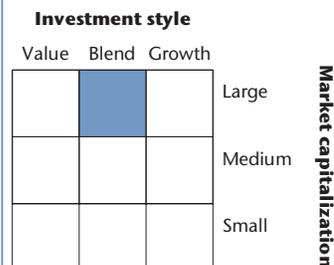
Morningstar percentile rankings are based on total returns.

## Morningstar category

Large Blend

## Morningstar Style Box™

As of 09/30/2007



## Risk and Return Statistics

as of 12/31/2007 Relative to LifePoints Equity Growth Blended Index

	3Yr	5Yr
Alpha	0.65	-0.02
Beta	1.04	1.01
R-Squared	94.27	96.72
Standard Deviation	9.09	9.64
Mean	11.62	16.35
Sharpe Ratio	0.79	1.30
Excess Return	0.93	0.12
Excess Risk	2.19	1.76
Information Ratio	0.42	0.07

## Operations

Total Investment Expense Net	1.63%
Total Investment Expense Gross	2.06%
Waiver Expiration Date	02/29/2008
Inception Date	03/24/1998
Total Net Assets (mil)	\$2,165.07



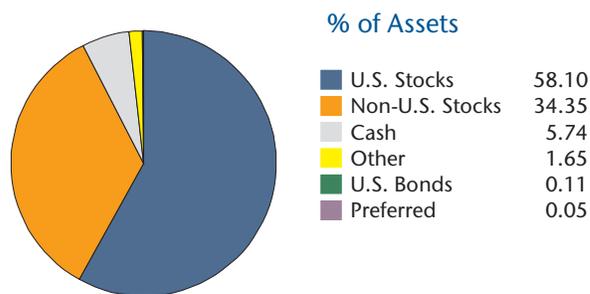
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# Russell LifePoints® Equity Growth Strat Sep Acct-Stnd

as of 12/31/2007

## Portfolio information

Composition as of 09/30/2007



Top ten holdings	% of net assets	Analysis
1. Russell Diversified Equity S	25.82	# of Stock Hldgs 0
2. Russell Quantitative Equity S	24.57	# of Bond Hldgs 0
3. Russell International Secs S	23.39	# of Other Hldgs 7
4. Russell Real Estate Secs S	7.04	GeoAvgCap (mil) \$27,084.94
5. Russell Global Equity S	7.02	Turnover Ratio 3%
6. Russell Special Growth S	6.93	P/C Ratio 9.51
7. Russell Emerging Markets S	5.24	P/E Ratio 15.31
% of net assets in top ten holdings*	100.01	P/B Ratio 2.35

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.84	Healthcare	9.75	Consumer Goods	10.20
Hardware	8.57	Consumer Services	6.67	Industrial Materials	13.69
Media	2.65	Business Services	5.20	Energy	8.66
Telecom	4.67	Financial Services	24.79	Utilities	2.31



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

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.

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 March 1, 2007, the weighted average operating expenses of the underlying funds are: Conservative Strategy Fund, 0.85%; Moderate Strategy Fund, 0.95%; Balanced Strategy Fund, 1.01%; Growth Strategy Fund, 1.06%; Equity Growth Strategy Fund, 1.13%. 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 12/31/2007

## Investment Strategy

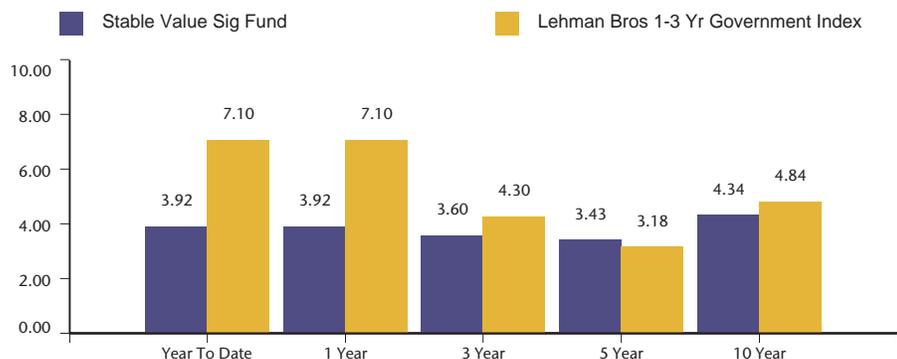
The investment seeks current income by investing primarily in insurance contracts issued by insurance companies, and investments from other financial institutions which offer stability of principal. It holds multiple duration securities with an average quality rating of AAA.

## MORLEY FINANCIAL SERVICES, INC.

### Portfolio managers

#### Management Team

### Long-term returns % as of 12/31/2007



### 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 the Principal Sponsor Service Center <sup>SM</sup> or The Principal Retirement Service Center<sup>®</sup> at [www.principal.com](http://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 %	3.92	3.92	3.60	3.43	4.34
Lehman Bros 1-3 Yr Government Index %	7.10	7.10	4.30	3.18	4.84

Annual Returns	2007	2006	2005	2004	2003
Total Return %	3.92	3.62	3.27	3.01	3.32



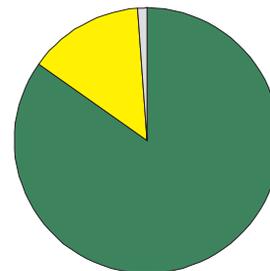
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## Operations

Total Investment Expense Net	0.85%
Total Investment Expense Gross	0.85%
Inception Date	01/09/1997
Total Net Assets (mil)	\$1,919.08

## Portfolio information

Composition as of 09/30/2007



### % of Assets

U.S. Bonds	84.80
Other	14.00
Cash	1.20

## Portfolio composition

### Top ten holdings

Top ten holdings	% of net assets
ALG Wrap-Multi-Asset	14.10
State Street - Multi Asset	13.90
UBS Wrap-Multi Asset	13.90
JP Morgan Chase Wrap - Multi Asset	13.90
Bank of America Wrap-Multi Asset	13.80
Rabobank Wrap-Multi Asset	13.70
IXIS Wrap - PGI	13.40
New York Life Insurance Co	0.80
Hartford Life Insurance Co	0.70
UBS Wrap UBT Actively Managed Fund	0.70

% of net assets in top ten holdings\* 98.90%

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

### Diversification

Diversification	% of assets
Less than 1 Yr	16.30
1-2 Yrs	20.40
2-3 Yrs	20.10
3-4 Yrs	15.20
Over 4 Yrs	28.00

### Statistics

# of Issuers	9
Avg Eff Duration (Yrs)	3.09
Avg Eff Maturity (Yrs)	3.36
7-Day Yield %	4.09
Avg Credit Quality	AAA/Aa1

# Stable Value Sig Fund as of 12/31/2007

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This retirement focused investment option was selected through the Principal Due Diligence Program<sup>SM</sup>, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

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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 Investors Fund is distributed by and securities are offered through Princor Financial Services Corporation, 800-547-7754, member SIPC. Princor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392.

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.

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

# Bond and Mortgage Separate Account-Adv Sel Rate Lev

as of 12/31/2007

## 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 Armstrong**, CFA. Since 01/01/1997. Bachelor, Kearney State C

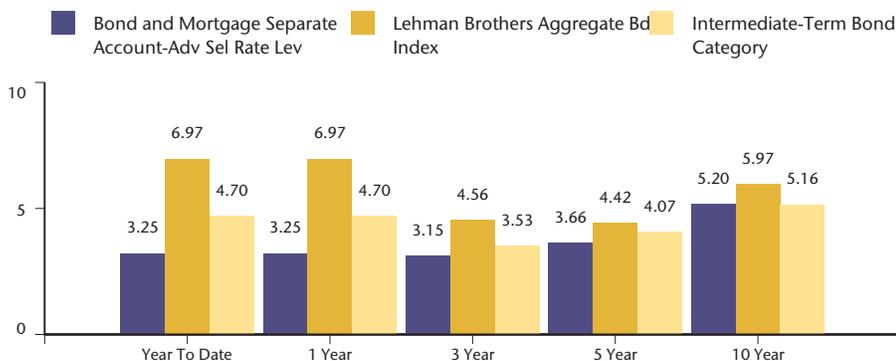
**Timothy Warrick**, CFA. Since 06/01/2002. M.B.A., Drake U

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

**Lawrence Post** Since 11/07/2005. B.A., Lehigh U

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

## Long-term returns % as of 12/31/2007



## Performance disclosure

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*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 %	3.25	3.25	3.15	3.66	5.20
Lehman Brothers Aggregate Bd Index %	6.97	6.97	4.56	4.42	5.97
Intermediate-Term Bond Category %	4.70	4.70	3.53	4.07	5.16
Morningstar Percentile Rankings	-	84	73	65	51
# of funds in category	1097	1097	967	826	414

Annual Returns	2007	2006	2005	2004	2003
Total Return %	3.25	4.14	2.07	4.39	4.46
Lehman Brothers Aggregate Bd Index %	6.97	4.33	2.43	4.34	4.10
Intermediate-Term Bond Category %	4.70	4.15	1.80	3.91	5.10
Morningstar Percentile Rankings	84	41	35	30	46
# of Funds in Category	1097	1092	1043	1035	952

Morningstar percentile rankings are based on total returns.

Morningstar category  
Intermediate-Term Bond

Morningstar Style Box™  
As of 11/30/2007

Duration			Quality	
Short	Int	Long		
				High
				Medium
			Low	

## Risk and Return Statistics

as of 12/31/2007 Relative to  
Lehman Brothers Aggregate Bd Index

	3Yr	5Yr
Alpha	-1.34	-0.69
Beta	0.88	0.95
R-Squared	88.22	94.91
Standard Deviation	2.64	3.49
Mean	3.15	3.65
Sharpe Ratio	-0.44	0.16
Excess Risk	0.96	0.81
Information Ratio	-1.47	-0.95

## Operations

Total Investment Expense Net	1.11%
Total Investment Expense Gross	1.11%
Inception Date	02/01/1983
Total Net Assets (mil)	\$6,181.13



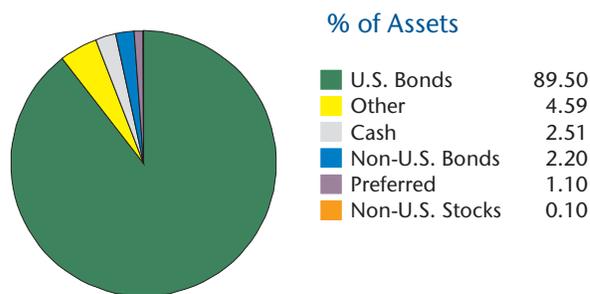
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# Bond and Mortgage Separate Account-Adv Sel Rate Lev

as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



Top ten holdings	% of net assets
1. FGLMC 5.5% 12/01/2037	4.83
2. FGLMC 6% 12/01/2037	4.26
3. FNMA 5.5% 12/01/2037	3.47
4. FGLMC 5% 12/01/2037	3.10
5. FNMA 6% 12/01/2037	2.96
6. FNMA 5% 12/01/2037	2.50
7. US Treasury Bond 6.25%	2.28
8. US Treasury Note 3.625%	2.02
9. FNMA 5% 12/01/2022	1.70
10. FNMA 4.5% 12/01/2022	1.70
% of net assets in top ten holdings*	28.82

Analysis	
# of Stock Hldgs	5
# of Bond Hldgs	1471
# of Other Hldgs	296
Turnover Ratio	27%

## Credit Analysis

	% Bonds
AAA	57.93
AA	7.56
A	9.44
BBB	14.14
BB	5.92
B	4.40
Below B	0.61
Not Rated	0.00

## Statistics

Avg Eff Duration (Yrs)	4.71
Avg Eff Maturity (Yrs)	8.21
Avg Credit Quality	AA
Avg Weighted Coupon	5.52
Avg Weighted Price	101.09



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The full name of this investment option is Principal Bond and Mortgage Separate Acct-Adv Sel Rt Lev.

Lehman Brothers Aggregate Bd 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.

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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-Adv Sel as of 12/31/2007

## Investment Strategy

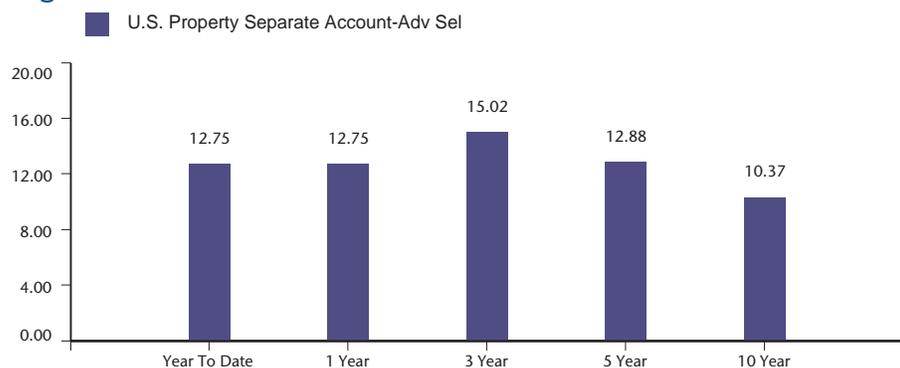
The investment invests the majority of assets on commercial real estate holdings. It focuses on properties that return both lease income and appreciation of the buildings' marketable value. The property holdings usually contain real estate from the multi-family, office, warehouse/manufacturing, and retail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

## Principal Real Estate Investors

### Portfolio managers

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

## Long-term returns % as of 12/31/2007



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	12.75	12.75	15.02	12.88	10.37

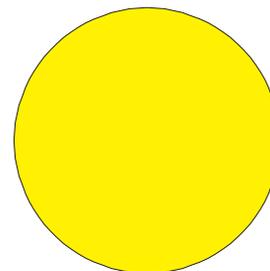
Annual Returns	2007	2006	2005	2004	2003
Total Return %	12.75	14.47	17.91	11.87	7.65

## Operations

Total Investment Expense Net	1.74%
Total Investment Expense Gross	1.74%
Inception Date	01/01/1982
Total Net Assets (mil)	\$6,302.00

## Portfolio information

Composition as of 11/30/2007



### % of Assets

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

### Analysis

Total Number of Hldgs	165
-----------------------	-----

## Portfolio composition

Top ten holdings	% of net assets
Office San Francisco, Ca 379	6.30
Office New York, Ny 284	5.57
Office Bellevue, Wa 258	3.48
Office New York, Ny 380	3.41
Retail Burbank, Ca 275	2.97
Apartment Mercer Island, Va 285	2.43
Office New York, Ny 255	2.38
Office - Cambridge, MA	2.35
Office New York, Ny 1204	2.25
Apartment Tustin, Ca 308	2.18

% of net assets in top ten holdings\* 33.32%

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

## Geographical diversity

	% of properties
West	41.78
East	26.64
South	17.80
Midwest	13.78

## Property type

	% of account
Office	42.49
Apartments	25.47
Retail	16.83
Warehouse	14.11
Other	1.10

# U.S. Property Separate Account-Adv Sel as of 12/31/2007



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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.

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.

# Large-Cap Stock Index Separate Account-Adv Sel Rate Lev

as of 12/31/2007

## 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 12/31/2007



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	4.55	4.55	7.65	11.80	4.93
Standard & Poor's 500 Index %	5.49	5.49	8.62	12.83	5.91
Large Blend Category %	6.16	6.16	8.71	12.63	5.92
Morningstar Percentile Rankings	-	66	70	66	72
# of funds in category	2090	2090	1623	1278	594

Annual Returns	2007	2006	2005	2004	2003
Total Return %	4.55	14.77	3.96	9.84	27.47
Standard & Poor's 500 Index %	5.49	15.79	4.91	10.88	28.68
Large Blend Category %	6.16	14.17	5.88	10.02	27.05
Morningstar Percentile Rankings	66	43	74	56	46
# of Funds in Category	2090	1980	1743	1611	1526

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Blend

## Morningstar Style Box™

As of 11/30/2007

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2007 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	-0.89	-0.91
Beta	1.00	1.00
R-Squared	100.00	100.00
Standard Deviation	7.78	8.60
Mean	7.66	11.81
Sharpe Ratio	0.44	0.98
Excess Return	-0.96	-1.02
Excess Risk	0.03	0.03
Information Ratio	-27.83	-31.66

## Operations

Total Investment Expense Net	0.91%
Total Investment Expense Gross	0.91%
Inception Date	01/01/1990
Total Net Assets (mil)	\$6,713.25



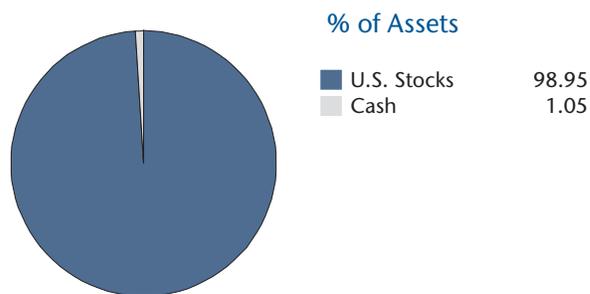
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# Large-Cap Stock Index Separate Account-Adv Sel Rate Lev

as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



Top ten holdings	% of net assets	Analysis
1. ExxonMobil Corporation	3.76	# of Stock Hldgs 500
2. General Electric Company	2.98	# of Bond Hldgs 0
3. Microsoft Corporation	2.06	# of Other Hldgs 2
4. AT&T, Inc.	1.77	GeoAvgCap (mil) \$56,035.10
5. Procter & Gamble Company	1.75	Turnover Ratio 4%
6. Bank of America Corporation	1.56	P/C Ratio 9.93
7. Johnson & Johnson	1.49	P/E Ratio 15.74
8. Chevron Corporation	1.42	P/B Ratio 2.45
9. Cisco Systems, Inc.	1.30	
10. Citigroup, Inc.	1.26	
% of net assets in top ten holdings*		19.35

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.90	Healthcare	12.34	Consumer Goods	9.26
Hardware	10.03	Consumer Services	7.00	Industrial Materials	12.94
Media	3.08	Business Services	4.44	Energy	11.71
Telecom	3.50	Financial Services	18.19	Utilities	3.64
	20.51		41.97		37.55



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The full name of this investment option is Principal Large Cap Stock Index Sep Acct-Adv Sel Rt Lev.

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.

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.

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

# Large-Cap Blend Separate Account-Adv Sel Rate Lev

as of 12/31/2007

## 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.

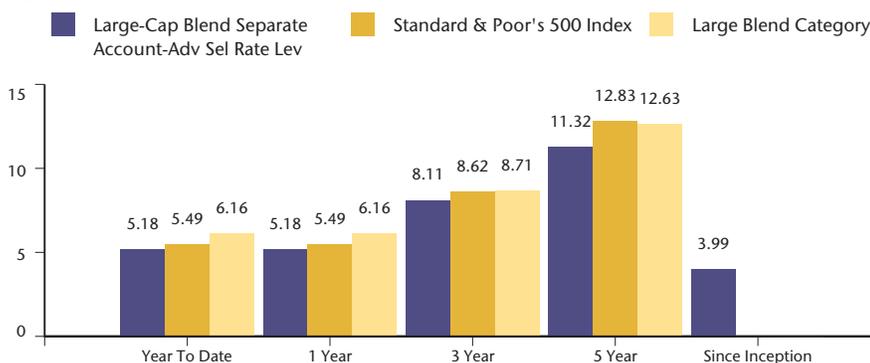


## Portfolio managers

**Richard Whitney**, CFA. Since 03/08/2004. M.B.A., U of Chicago

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

## Long-term returns % as of 12/31/2007



## Performance disclosure

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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 %	5.18	5.18	8.11	11.32	3.99
Standard & Poor's 500 Index %	5.49	5.49	8.62	12.83	-
Large Blend Category %	6.16	6.16	8.71	12.63	-
Morningstar Percentile Rankings	-	56	58	74	-
# of funds in category	2090	2090	1623	1278	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	5.18	15.29	4.21	9.76	23.23
Standard & Poor's 500 Index %	5.49	15.79	4.91	10.88	28.68
Large Blend Category %	6.16	14.17	5.88	10.02	27.05
Morningstar Percentile Rankings	56	33	71	57	82
# of Funds in Category	2090	1980	1743	1611	1526

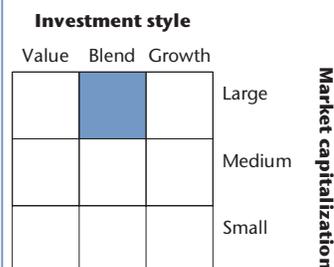
Morningstar percentile rankings are based on total returns.

## Morningstar category

Large Blend

## Morningstar Style Box™

As of 11/30/2007



## Risk and Return Statistics

as of 12/31/2007 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	-0.53	-1.25
Beta	1.02	0.99
R-Squared	98.89	98.48
Standard Deviation	7.98	8.59
Mean	8.11	11.32
Sharpe Ratio	0.48	0.93
Excess Return	-0.51	-1.51
Excess Risk	0.85	1.07
Information Ratio	-0.60	-1.41

## Operations

Total Investment Expense Net	1.30%
Total Investment Expense Gross	1.31%
Waiver Expiration Date	02/28/2008
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,043.23



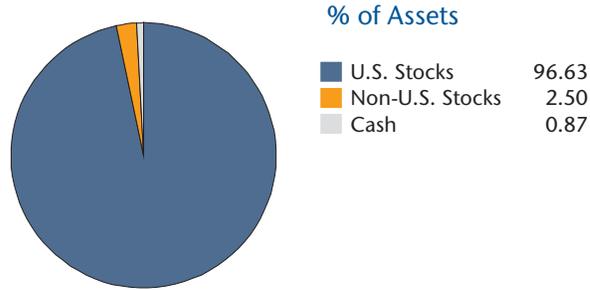
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# Large-Cap Blend Separate Account-Adv Sel Rate Lev

as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



Top ten holdings	% of net assets
1. ExxonMobil Corporation	4.26
2. General Electric Company	2.98
3. Microsoft Corporation	2.29
4. AT&T, Inc.	2.03
5. Procter & Gamble Company	1.93
6. Citigroup, Inc.	1.66
7. Johnson & Johnson	1.49
8. Google, Inc.	1.49
9. American International Group	1.42
10. Schlumberger, Ltd.	1.40
% of net assets in top ten holdings*	20.95

Analysis	
# of Stock Hldgs	293
# of Bond Hldgs	0
# of Other Hldgs	4
GeoAvgCap (mil)	\$50,889.61
Turnover Ratio	53%
P/C Ratio	10.28
P/E Ratio	16.30
P/B Ratio	2.59

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	4.38	Healthcare	12.59	Consumer Goods	8.22
Hardware	10.23	Consumer Services	8.48	Industrial Materials	11.80
Media	2.42	Business Services	4.31	Energy	11.64
Telecom	3.58	Financial Services	17.74	Utilities	4.60



This retirement focused investment option was selected through the Principal Due Diligence Program<sup>SM</sup>, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

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 Separate Accounts may not be available in all states.

The full name of this investment option is Principal Partners Lg-Cp Blend Sep Acct-Adv Sel Rt Lev.

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.

This Separate Account invests solely in the Institutional class shares of the Principal Investors 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. 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.

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

# Large-Cap Value Separate Account-Adv Sel Rate Lev

as of 12/31/2007

## Investment Strategy

The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets in companies with large market capitalizations (those with market capitalizations similar to companies in the Russell 1000 Value Index (as of December 31, 2006, this range was between approximately \$1.3 billion and \$446.9 billion)) at the time of purchase. It may invest up to 25% of assets in securities of foreign companies.



**ALLIANCEBERNSTEIN**  
Investments

## Portfolio managers

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

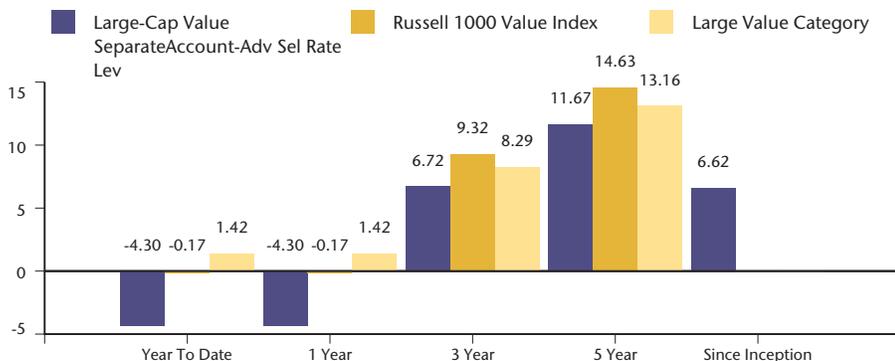
**John D. Phillips Jr.**, CFA. Since 11/01/2002. M.B.A, Harvard U

**John Mahedy**, CPA, CFA. Since 03/01/2006. B.S., New York U

**Chris Marx** Since 03/01/2006. M.B.A., Stanford Graduate School of Business

**Kurt Zyla** Since 01/16/2007. B.S., New York U

## Long-term returns % as of 12/31/2007



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-4.30	-4.30	6.72	11.67	6.62
Russell 1000 Value Index %	-0.17	-0.17	9.32	14.63	-
Large Value Category %	1.42	1.42	8.29	13.16	-
Morningstar Percentile Rankings	-	86	74	78	-
# of funds in category	1432	1432	1166	922	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	-4.30	21.23	4.76	12.69	26.77
Russell 1000 Value Index %	-0.17	22.25	7.05	16.49	30.03
Large Value Category %	1.42	18.15	5.95	12.97	28.44
Morningstar Percentile Rankings	86	12	62	53	59
# of Funds in Category	1432	1371	1296	1220	1050

Morningstar percentile rankings are based on total returns.

## Morningstar category

Large Value

## Morningstar Style Box™

As of 11/30/2007

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2007 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	-2.66	-2.65
Beta	1.06	1.00
R-Squared	98.25	97.80
Standard Deviation	8.72	9.33
Mean	6.72	11.66
Sharpe Ratio	0.30	0.90
Excess Return	-2.60	-2.97
Excess Risk	1.24	1.39
Information Ratio	-2.11	-2.13

## Operations

Total Investment Expense Net	1.33%
Total Investment Expense Gross	1.33%
Inception Date	12/29/2000
Total Net Assets (mil)	\$2,515.73



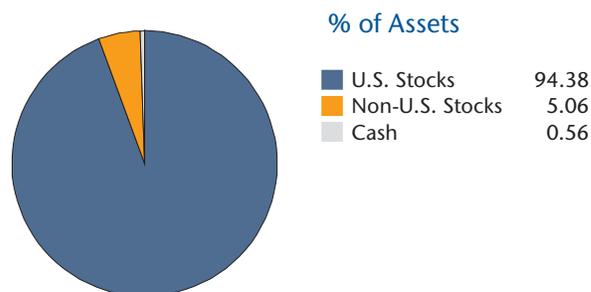
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# Large-Cap Value Separate Account-Adv Sel Rate Lev

as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



Rank	Company	% of net assets
1.	ExxonMobil Corporation	6.13
2.	General Electric Company	4.30
3.	AT&T, Inc.	3.74
4.	Bank of America Corporation	3.47
5.	Chevron Corporation	3.30
6.	Pfizer Inc.	2.95
7.	J.P. Morgan Chase & Co.	2.72
8.	Citigroup, Inc.	2.67
9.	ConocoPhillips	2.40
10.	Verizon Communications Inc.	2.38
% of net assets in top ten holdings*		34.06

# of Stock Hldgs	133
# of Bond Hldgs	0
# of Other Hldgs	1
GeoAvgCap (mil)	\$56,536.29
Turnover Ratio	29%
P/C Ratio	5.70
P/E Ratio	12.49
P/B Ratio	1.78

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	0.37	Healthcare	7.23	Consumer Goods	9.78
Hardware	2.45	Consumer Services	6.90	Industrial Materials	15.56
Media	2.67	Business Services	1.68	Energy	15.41
Telecom	7.74	Financial Services	28.17	Utilities	2.04



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The full name of this investment option is Principal Partners Large-Cap Val Sep Acct-Adv Sel Rt Lev.

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.

This Separate Account invests solely in the Institutional class shares of the Principal Investors 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. 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.

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

# Large-Cap Growth I Separate Account-Adv Sel Rate Lev

as of 12/31/2007

## Investment Strategy

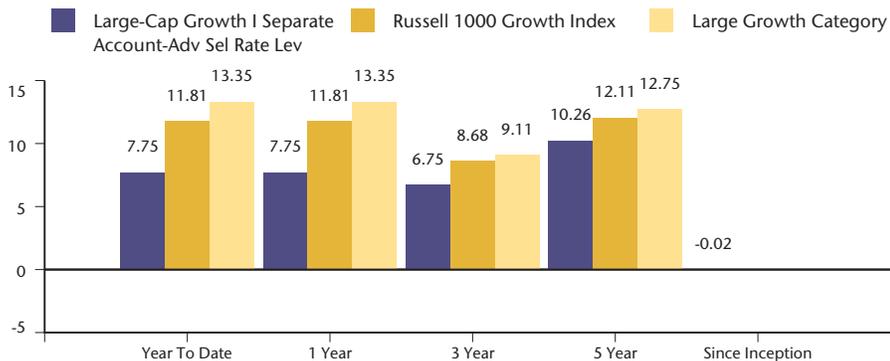
The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets in equity securities of companies with market capitalizations within the range of companies in the Russell 1000 Growth index at the time of purchase. It invests less than 25% of total assets in foreign 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**, CFA. Since 08/19/2004. M.B.A., U of Pennsylvania

## Long-term returns % as of 12/31/2007



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	7.75	7.75	6.75	10.26	-0.02
Russell 1000 Growth Index %	11.81	11.81	8.68	12.11	-
Large Growth Category %	13.35	13.35	9.11	12.75	-
Morningstar Percentile Rankings	-	78	78	81	-
# of funds in category	1748	1748	1449	1215	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	7.75	5.51	7.01	8.64	23.32
Russell 1000 Growth Index %	11.81	9.07	5.26	6.30	29.75
Large Growth Category %	13.35	7.05	6.71	7.81	28.66
Morningstar Percentile Rankings	78	66	43	43	80
# of Funds in Category	1748	1642	1495	1400	1311

Morningstar percentile rankings are based on total returns.

## Morningstar category

Large Growth

## Morningstar Style Box™

As of 11/30/2007

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2007 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	-1.84	-1.79
Beta	1.03	1.02
R-Squared	84.61	88.95
Standard Deviation	9.66	9.85
Mean	6.74	10.26
Sharpe Ratio	0.28	0.73
Excess Return	-1.94	-1.85
Excess Risk	3.78	3.29
Information Ratio	-0.51	-0.56

## Operations

Total Investment Expense Net	1.30%
Total Investment Expense Gross	1.31%
Waiver Expiration Date	02/28/2008
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,791.77



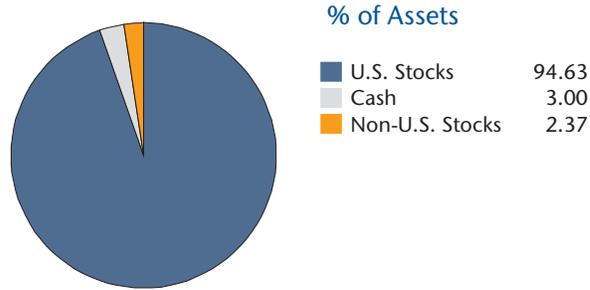
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# Large-Cap Growth I Separate Account-Adv Sel Rate Lev

as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



## Top ten holdings

	% of net assets
1. Microsoft Corporation	4.51
2. Google, Inc.	3.99
3. State Street Corporation	3.82
4. American Tower Corporation A	3.76
5. General Electric Company	3.25
6. Danaher Corporation	3.11
7. Gilead Sciences, Inc.	2.95
8. Amazon.com, Inc.	2.76
9. Juniper Networks, Inc.	2.64
10. CVS Caremark Corporation	2.55
% of net assets in top ten holdings*	33.34

## Analysis

# of Stock Hldgs	62
# of Bond Hldgs	0
# of Other Hldgs	1
GeoAvgCap (mil)	\$36,321.53
Turnover Ratio	48%
P/C Ratio	15.08
P/E Ratio	21.90
P/B Ratio	3.65

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	10.10	Healthcare	13.59	Consumer Goods	1.47
Hardware	20.94	Consumer Services	16.23	Industrial Materials	9.16
Media	0.90	Business Services	11.01	Energy	3.26
Telecom	5.83	Financial Services	7.52	Utilities	0.00



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The full name of this investment option is Principal Partners Large-Cap Gr I Sep Acct-Adv Sel Rt Lev.

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.

This Separate Account invests solely in the Institutional class shares of the Principal Investors 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. 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 12/31/2007

## Investment Strategy

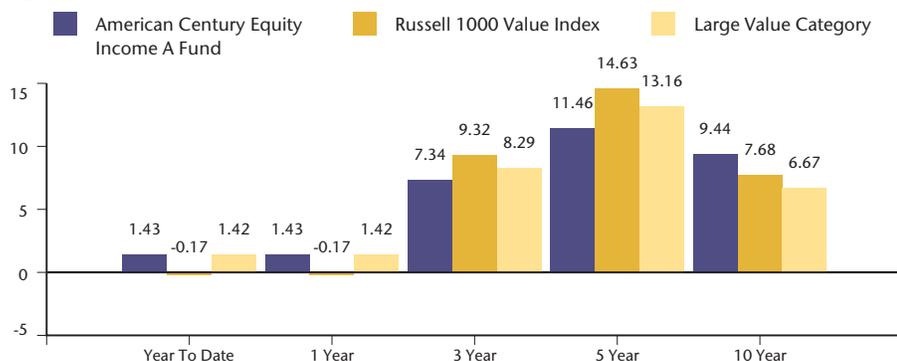
The investment seeks current income; capital appreciation is a secondary consideration. The fund invests in equity securities of companies with a favorable income-paying history and with the potential for an increase in share price.



## Portfolio managers

**Phillip Davidson**, CFA. Since 08/01/1994. M.B.A., Illinois State U  
**Scott A. Moore**, CFA. Since 10/31/1996. M.B.A., U of Missouri-Columbia  
**Kevin Toney**, CFA. Since 08/30/2003. M.B.A., U of Pennsylvania

## Long-term returns % as of 12/31/2007



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	1.43	1.43	7.34	11.46	9.44
Russell 1000 Value Index %	-0.17	-0.17	9.32	14.63	7.68
Large Value Category %	1.42	1.42	8.29	13.16	6.67
Morningstar Percentile Rankings	-	53	66	82	8
# of funds in category	1432	1432	1166	922	419

Annual Returns	2007	2006	2005	2004	2003
Total Return %	1.43	19.30	2.20	12.26	23.94
Russell 1000 Value Index %	-0.17	22.25	7.05	16.49	30.03
Large Value Category %	1.42	18.15	5.95	12.97	28.44
Morningstar Percentile Rankings	53	35	89	59	93
# of Funds in Category	1432	1371	1296	1220	1050

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Value

## Morningstar Style Box™

As of 09/30/2007

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2007 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	-0.54	-0.31
Beta	0.71	0.76
R-Squared	90.69	88.93
Standard Deviation	6.13	7.40
Mean	7.34	11.46
Sharpe Ratio	0.49	1.09
Excess Return	-1.98	-3.16
Excess Risk	3.00	3.34
Information Ratio	-0.66	-0.95

## Operations

Total Investment Expense Net	1.22%
Total Investment Expense Gross	1.22%
Inception Date	03/07/1997
Extended Performance Inception Date <sup>#</sup>	08/01/1994
Total Net Assets (mil)	\$6,175.90
12b-1 Fees	0.25%
Ticker	TWEAX

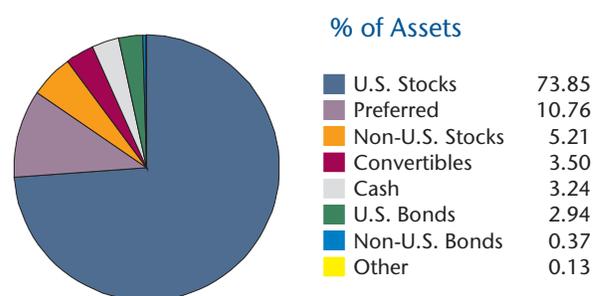


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# American Century Equity Income A Fund as of 12/31/2007

## Portfolio information

Composition as of 09/30/2007



Top ten holdings	% of net assets
1. General Electric Company	5.75
2. ExxonMobil Corporation	4.07
3. FNMA Pfd 144A	3.62
4. Freddie Mac	3.61
5. AT&T, Inc.	3.34
6. Southern Company	3.18
7. United Parcel Service, Inc.	2.84
8. Bank of America Corporation	2.80
9. Kraft Foods, Inc.	2.74
10. H.J. Heinz Company	2.46
% of net assets in top ten holdings*	34.41

Analysis	
# of Stock Hldgs	62
# of Bond Hldgs	5
# of Other Hldgs	29
GeoAvgCap (mil)	\$42,529.43
Turnover Ratio	160%
P/C Ratio	10.08
P/E Ratio	15.22
P/B Ratio	2.52

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	0.00	Healthcare	9.79	Consumer Goods	17.12
Hardware	0.90	Consumer Services	2.33	Industrial Materials	13.22
Media	0.16	Business Services	4.88	Energy	11.39
Telecom	4.33	Financial Services	23.35	Utilities	12.53

**Access Funds** consist of an assortment of mutual funds from some of the premier names in the mutual fund industry. These investment options provide for additional choice to supplement the Foundation Options we offer through the Principal Due Diligence Program<sup>SM</sup>.

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. Princor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392.

*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](http://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 12/31/2007

## Investment Strategy

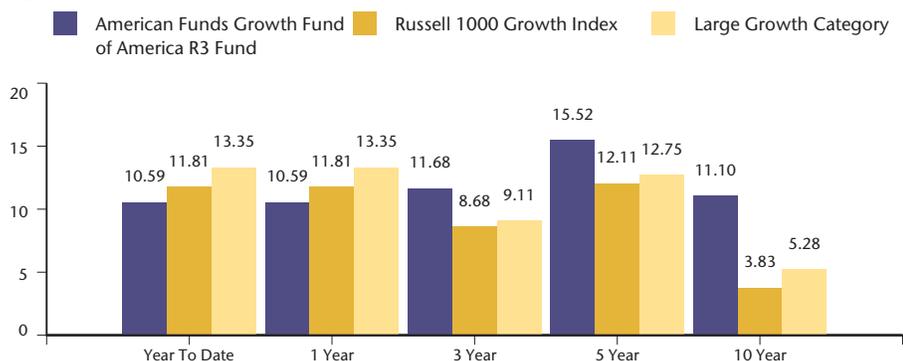
The investment seeks capital growth by investing in common stocks. The fund primarily invests in high potential growth companies. It may also invest up to 15% of assets in securities of issuers domiciled outside the United States and Canada and not included in Standard & Poor's 500 Composite Index. It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



### Portfolio managers

**James E. Drasdo** Since 11/01/1985.  
**R. Michael Shanahan** Since 11/01/1985.  
**James F. Rothenberg, CFA.** Since 11/01/1988. M.B.A., Harvard U  
**Gordon Crawford** Since 11/01/1991.  
**Don D. O'Neal** Since 11/01/1993.

## Long-term returns % as of 12/31/2007



## 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 the Principal Sponsor Service Center<sup>SM</sup> or The Principal Retirement Service Center<sup>®</sup> at [www.principal.com](http://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 %	10.59	10.59	11.68	15.52	11.10
Russell 1000 Growth Index %	11.81	11.81	8.68	12.11	3.83
Large Growth Category %	13.35	13.35	9.11	12.75	5.28
Morningstar Percentile Rankings	-	66	20	16	4
# of funds in category	1748	1748	1449	1215	554

Annual Returns	2007	2006	2005	2004	2003
Total Return %	10.59	10.62	13.87	11.60	32.32
Russell 1000 Growth Index %	11.81	9.07	5.26	6.30	29.75
Large Growth Category %	13.35	7.05	6.71	7.81	28.66
Morningstar Percentile Rankings	66	19	9	18	21
# of Funds in Category	1748	1642	1495	1400	1311

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Growth

## Morningstar Style Box™

As of 09/30/2007

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2007 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	3.15	3.36
Beta	0.91	0.97
R-Squared	78.40	84.14
Standard Deviation	8.91	9.56
Mean	11.68	15.52
Sharpe Ratio	0.81	1.24
Excess Return	3.00	3.41
Excess Risk	4.20	3.84
Information Ratio	0.71	0.89

## Operations

Total Investment Expense Net	0.93%
Total Investment Expense Gross	0.96%
Inception Date	05/21/2002
Extended Performance	
Inception Date#	01/01/1959
Total Net Assets (mil)	\$193,854.99
12b-1 Fees	0.50%
Ticker	RGACX



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# American Funds Growth Fund of America R3 Fund as of 12/31/2007

## Portfolio information

Composition as of 09/30/2007



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	5.47	Healthcare	13.10	Consumer Goods	6.17
Hardware	14.47	Consumer Services	10.71	Industrial Materials	13.09
Media	4.07	Business Services	6.89	Energy	14.55
Telecom	2.79	Financial Services	8.57	Utilities	0.13

**Access Funds** consist of an assortment of mutual funds from some of the premier names in the mutual fund industry. These investment options provide for additional choice to supplement the Foundation Options we offer through the Principal Due Diligence Program<sup>SM</sup>.

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.

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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.

# Mid-Cap Growth Separate Account-Adv Sel Rate Lev

as of 12/31/2007

## 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: 1) \$2.5 billion or 2) the highest market capitalization of the companies in the Russell 2000 Growth index (as of December 31, 2006, the range was between approximately \$39 million and \$3.1 billion)) at the time of purchase. It may invest up to 25% of assets in foreign securities.



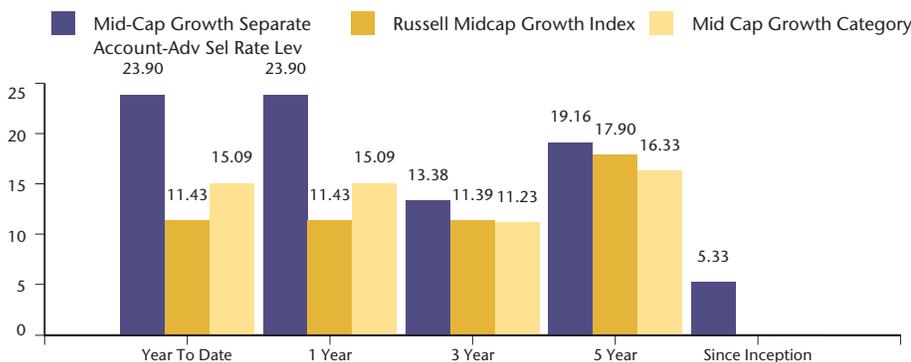
## Portfolio managers

**Christopher K. McHugh**, CFA. Since 12/06/2000. B.S., C of Philadelphia

**Tara Hedlund**, CPA. Since 01/16/2007. B.A., Villanova U

**Jason Schrotberger**, CFA. Since 01/16/2007. M.B.A., U of Illinois

## Long-term returns % as of 12/31/2007



## 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 the Principal Sponsor Service Center<sup>SM</sup> or The Principal Retirement Service Center<sup>®</sup> at [www.principal.com](http://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 %	23.90	23.90	13.38	19.16	5.33
Russell Midcap Growth Index %	11.43	11.43	11.39	17.90	-
Mid Cap Growth Category %	15.09	15.09	11.23	16.33	-
Morningstar Percentile Rankings	-	13	28	19	-
# of funds in category	967	967	811	682	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	23.90	5.84	11.14	10.92	48.61
Russell Midcap Growth Index %	11.43	10.66	12.10	15.48	42.71
Mid Cap Growth Category %	15.09	9.00	9.84	13.23	35.96
Morningstar Percentile Rankings	13	73	41	68	6
# of Funds in Category	967	994	936	903	890

Morningstar percentile rankings are based on total returns.

## Morningstar category

Mid Cap Growth

## Morningstar Style Box™

As of 11/30/2007

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2007 Relative to Russell Midcap Growth Index

	3Yr	5Yr
Alpha	1.07	-0.89
Beta	1.13	1.16
R-Squared	89.21	92.01
Standard Deviation	12.79	14.02
Mean	13.38	19.16
Sharpe Ratio	0.71	1.10
Excess Return	1.99	1.26
Excess Risk	4.44	4.40
Information Ratio	0.45	0.29

## Operations

Total Investment Expense Net	1.56%
Total Investment Expense Gross	1.57%
Waiver Expiration Date	02/28/2008
Inception Date	10/28/1999
Total Net Assets (mil)	\$744.43



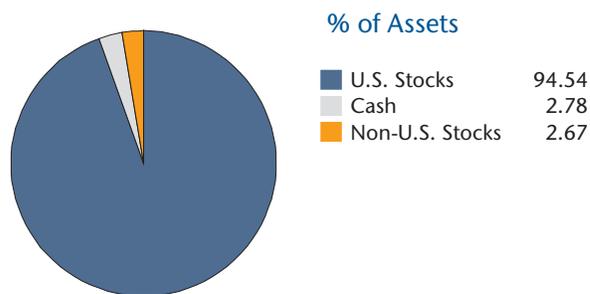
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# Mid-Cap Growth Separate Account-Adv Sel Rate Lev

as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



Top ten holdings	% of net assets	Analysis
1. First Solar, Inc.	2.06	# of Stock Hldgs 96
2. T Rowe Price Group	1.91	# of Bond Hldgs 0
3. VeriSign, Inc.	1.85	# of Other Hldgs 1
4. Owens-Illinois, Inc.	1.62	GeoAvgCap (mil) \$8,161.05
5. Allergan, Inc.	1.54	Turnover Ratio 146%
6. Gamestop Corporation A	1.51	P/C Ratio 13.26
7. MEMC Electronic Materials	1.49	P/E Ratio 26.44
8. MasterCard Incorporated A	1.49	P/B Ratio 3.85
9. Apollo Group, Inc. A	1.46	
10. IntercontinentalExchange, Inc.	1.45	
% of net assets in top ten holdings*	16.38	

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	6.80	Healthcare	12.32	Consumer Goods	9.87
Hardware	13.69	Consumer Services	6.94	Industrial Materials	15.93
Media	1.77	Business Services	10.47	Energy	11.20
Telecom	1.87	Financial Services	7.40	Utilities	1.74



This retirement focused investment option was selected through the Principal Due Diligence Program<sup>SM</sup>, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

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 Separate Accounts may not be available in all states.

The full name of this investment option is Principal Partners Mid-Cap Growth Sep Acct-Adv Sel Rt Lev.

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.

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 Investors 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. 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.

# Mid-Cap Value I Separate Account-Adv Sel as of 12/31/2007

## Investment Strategy

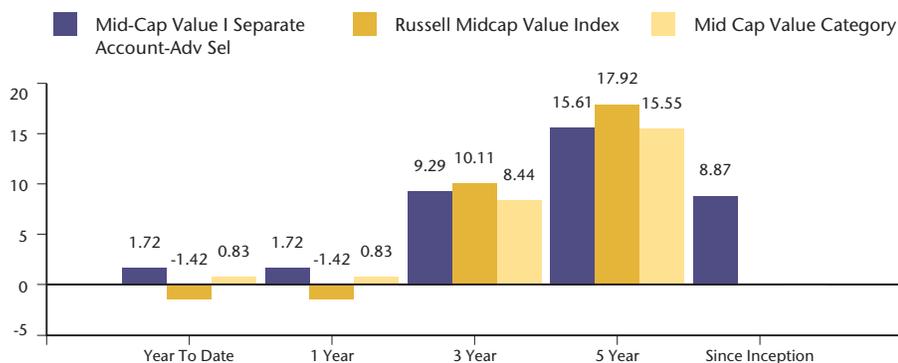
The investment seeks long term growth of capital. The fund invests at least 80% of assets in a diversified portfolio of equity investments in mid cap issuers with a medium market capitalization (those with market capitalizations similar to companies in the Russell MidCap Value Index) at the time of purchase. 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 12/31/2007



## 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 the Principal Sponsor Service Center<sup>SM</sup> or The Principal Retirement Service Center<sup>®</sup> at [www.principal.com](http://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 %	1.72	1.72	9.29	15.61	8.87
Russell Midcap Value Index %	-1.42	-1.42	10.11	17.92	-
Mid Cap Value Category %	0.83	0.83	8.44	15.55	-
Morningstar Percentile Rankings	-	46	40	45	-
# of funds in category	405	405	274	220	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	1.72	14.95	11.65	23.52	28.05
Russell Midcap Value Index %	-1.42	20.22	12.65	23.71	38.07
Mid Cap Value Category %	0.83	15.87	8.82	17.85	33.85
Morningstar Percentile Rankings	46	61	24	11	77
# of Funds in Category	405	375	310	320	331

Morningstar percentile rankings are based on total returns.

## Morningstar category

Mid Cap Value

## Morningstar Style Box™

As of 11/30/2007

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2007 Relative to Russell Midcap Value Index

	3Yr	5Yr
Alpha	-0.78	-0.94
Beta	1.01	0.92
R-Squared	93.91	87.93
Standard Deviation	9.66	10.30
Mean	9.30	15.61
Sharpe Ratio	0.53	1.16
Excess Return	-0.81	-2.31
Excess Risk	2.38	3.70
Information Ratio	-0.34	-0.62

## Operations

Total Investment Expense Net	1.75%
Total Investment Expense Gross	1.76%
Waiver Expiration Date	02/28/2008
Inception Date	07/01/1999
Total Net Assets (mil)	\$931.66



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# Mid-Cap Value I Separate Account-Adv Sel as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	1.33	Healthcare	3.10	Consumer Goods	8.94
Hardware	4.42	Consumer Services	5.60	Industrial Materials	19.06
Media	1.26	Business Services	5.27	Energy	9.62
Telecom	2.66	Financial Services	24.07	Utilities	14.66



This retirement focused investment option was selected through the Principal Due Diligence Program<sup>SM</sup>, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

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The full name of this investment option is Principal Partners Mid-Cap Value I Separate Acct-Adv Sel.

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.

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.

Effective May 1, 2004, the name of this Separate Account changed from the American Century Value (Adv) Separate Account to the Principal Partners Mid-Cap Value I Separate Account. Effective May 1, 2004, the portfolio is sub-advised by Goldman Sachs Asset Management. Prior to May 1, 2004, the Separate Account invested solely in the American Century Value (Adv) mutual fund.

This Separate Account invests solely in the Institutional class shares of the Principal Investors 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. 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.

# Small-Cap Growth II Sep Acct-Adv Sel Rate Lev as of 12/31/2007

## Investment Strategy

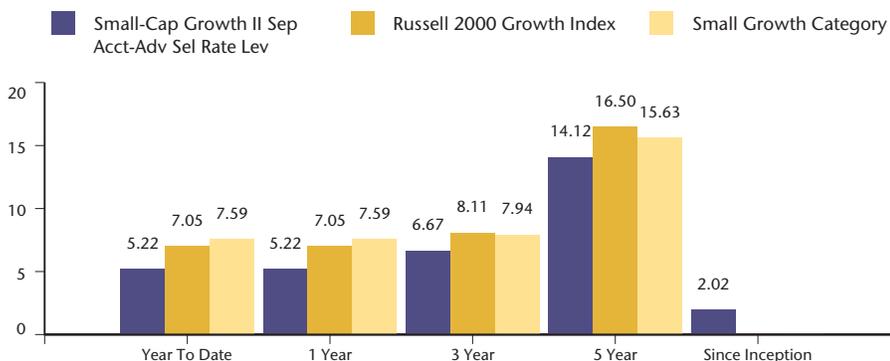
The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets in common stocks of companies with small market capitalizations (those with market capitalizations equal to or smaller than the greater of \$2.5 billion or the highest market capitalization of the companies 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 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. B.S., Millersville U  
**Joseph Garner** Since 03/01/2006. B.A., Millersville U

## Long-term returns % as of 12/31/2007



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	5.22	5.22	6.67	14.12	2.02
Russell 2000 Growth Index %	7.05	7.05	8.11	16.50	-
Small Growth Category %	7.59	7.59	7.94	15.63	-
Morningstar Percentile Rankings	-	59	63	72	-
# of funds in category	829	829	671	556	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	5.22	8.36	6.46	10.52	44.28
Russell 2000 Growth Index %	7.05	13.35	4.15	14.31	48.54
Small Growth Category %	7.59	10.81	6.02	12.41	45.54
Morningstar Percentile Rankings	59	68	44	64	49
# of Funds in Category	829	763	723	711	696

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Small Growth

## Morningstar Style Box™

As of 11/30/2007

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2007 Relative to Russell 2000 Growth Index

	3Yr	5Yr
Alpha	-1.06	-0.69
Beta	0.90	0.87
R-Squared	96.16	94.17
Standard Deviation	13.25	14.00
Mean	6.67	13.97
Sharpe Ratio	0.23	0.78
Excess Return	-1.45	-2.53
Excess Risk	2.96	3.97
Information Ratio	-0.49	-0.64

## Operations

Total Investment Expense Net	1.56%
Total Investment Expense Gross	1.57%
Waiver Expiration Date	02/28/2008
Inception Date	12/29/2000
Total Net Assets (mil)	\$650.76



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# Small-Cap Growth II Sep Acct-Adv Sel Rate Lev as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	9.91	Healthcare	22.03	Consumer Goods	3.94
Hardware	16.88	Consumer Services	7.02	Industrial Materials	14.71
Media	0.80	Business Services	13.94	Energy	4.51
Telecom	2.86	Financial Services	3.41	Utilities	0.00



This retirement focused investment option was selected through the Principal Due Diligence Program<sup>SM</sup>, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

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 Separate Accounts may not be available in all states.

The full name of this investment option is Principal Pttrs Sm-Cp Growth II Sep Acct-Adv Sel Rt Lev.

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.

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 Investors 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. 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.

# Small-Cap Value I Separate Account-Adv Sel Rate Lev

as of 12/31/2007

## Investment Strategy

The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets 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 may also invest up to 25% of assets in foreign securities. It uses quantitative and fundamental research, systematic stock valuation and a disciplined portfolio construction process. The fund may also purchase securities issued as part of, or a short period after, companies IPOs offerings.



## Portfolio managers

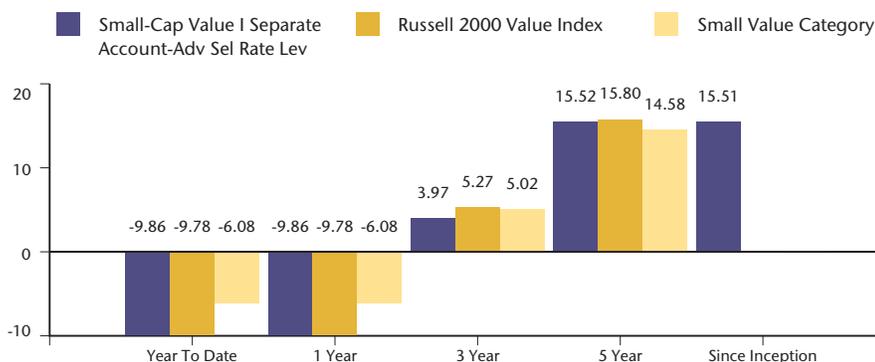
**Christopher Blum**, CFA. Since 12/30/2002. B.B.A., Bernard M. Baruch School for Business

**Dennis Ruhl**, CFA. Since 03/01/2005. Master, MIT

**Peter D. Goslin**, CFA. Since 03/01/2006. M.B.A., U of Notre Dame

**Ronald P. Gala**, CFA. Since 01/16/2007. M.B.A., U of Pittsburgh

## Long-term returns % as of 12/31/2007



## 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 the Principal Sponsor Service Center<sup>SM</sup> or The Principal Retirement Service Center<sup>®</sup> at [www.principal.com](http://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 %	-9.86	-9.86	3.97	15.52	15.51
Russell 2000 Value Index %	-9.78	-9.78	5.27	15.80	-
Small Value Category %	-6.08	-6.08	5.02	14.58	-
Morningstar Percentile Rankings	-	78	69	29	-
# of funds in category	438	438	329	258	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	-9.86	17.72	5.89	22.49	49.49
Russell 2000 Value Index %	-9.78	23.48	4.71	22.25	46.03
Small Value Category %	-6.08	16.27	6.40	21.14	42.38
Morningstar Percentile Rankings	78	44	61	41	21
# of Funds in Category	438	389	348	307	303

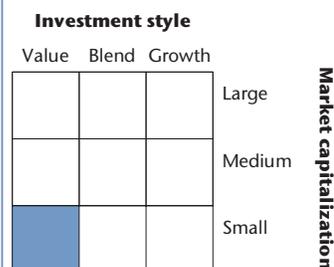
*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Small Value

## Morningstar Style Box™

As of 11/30/2007



## Risk and Return Statistics

as of 12/31/2007 Relative to Russell 2000 Value Index

	3Yr	5Yr
Alpha	-1.23	-0.18
Beta	1.00	1.00
R-Squared	98.43	98.65
Standard Deviation	12.86	13.78
Mean	3.98	15.53
Sharpe Ratio	0.03	0.89
Excess Return	-1.29	-0.27
Excess Risk	1.61	1.62
Information Ratio	-0.80	-0.17

## Operations

Total Investment Expense Net	1.56%
Total Investment Expense Gross	1.58%
Waiver Expiration Date	02/28/2008
Inception Date	12/31/2002
Total Net Assets (mil)	\$416.95



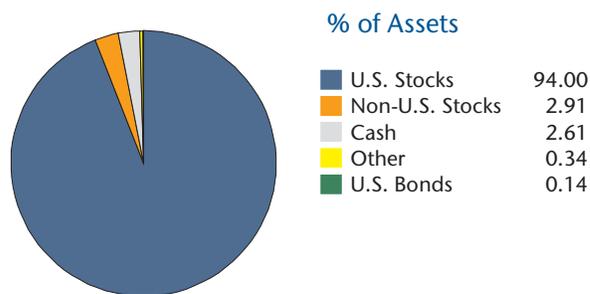
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# Small-Cap Value I Separate Account-Adv Sel Rate Lev

as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



Top ten holdings	% of net assets
1. Russell 2000 12/21/2007	2.66
2. Cash Offset For Long Futures	2.66
3. CF Industries Holdings, Inc.	1.00
4. Deluxe Corporation	0.94
5. Applied Industrial Technologies, Inc.	0.88
6. Delphi Financial Group	0.82
7. Tupperware Brands Corporation	0.82
8. Portland General Electric Company	0.78
9. Zenith National Insurance	0.75
10. Greif Corporation A	0.74
% of net assets in top ten holdings*	12.05

Analysis	
# of Stock Hldgs	588
# of Bond Hldgs	1
# of Other Hldgs	4
GeoAvgCap (mil)	\$1,052.27
Turnover Ratio	63%
P/C Ratio	5.61
P/E Ratio	12.67
P/B Ratio	1.36

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.19	Healthcare	5.72	Consumer Goods	6.05
Hardware	7.56	Consumer Services	5.83	Industrial Materials	19.46
Media	1.55	Business Services	9.67	Energy	4.09
Telecom	1.65	Financial Services	29.19	Utilities	6.03



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The full name of this investment option is Principal Partners Sm-Cp Value I Sep Acct-Adv Sel Rt Lev.

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.

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.

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Effective August 8, 2005, Mellon Equity 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-Adv Sel as of 12/31/2007

## 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 purchases securities of companies with their principal place of business or principal offices outside the U.S., shares of companies for which the principal securities trading market is outside the U.S., or shares of companies, regardless of where their securities are traded, that derive 50% or more of their total revenue from either goods or services produced or sales made outside the U.S.

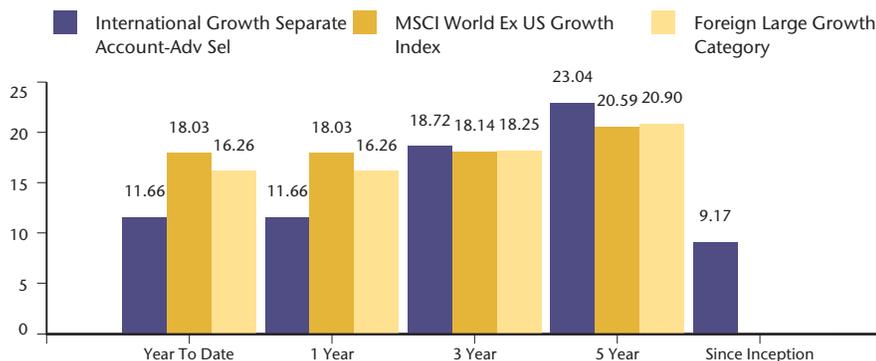


## Portfolio managers

**Steven Larson**, CFA. Since 11/01/2002. M.B.A., U of Minnesota

**John Pihlblad**, CFA. Since 11/01/2002. B.A., C of Westminster

## Long-term returns % as of 12/31/2007



## 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 the Principal Sponsor Service Center<sup>SM</sup> or The Principal Retirement Service Center<sup>®</sup> at [www.principal.com](http://www.principal.com), contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.*

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	11.66	11.66	18.72	23.04	9.17
MSCI World Ex US Growth Index %	18.03	18.03	18.14	20.59	-
Foreign Large Growth Category %	16.26	16.26	18.25	20.90	-
Morningstar Percentile Rankings	-	85	36	27	-
# of funds in category	220	220	173	155	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	11.66	23.43	21.42	21.92	38.20
MSCI World Ex US Growth Index %	18.03	22.12	14.41	16.27	32.99
Foreign Large Growth Category %	16.26	23.95	15.23	16.23	33.83
Morningstar Percentile Rankings	85	51	12	15	26
# of Funds in Category	220	243	213	221	226

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Foreign Large Growth

## Morningstar Style Box<sup>TM</sup>

As of 11/30/2007

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2007 Relative to MSCI World Ex US Growth Index

	3Yr	5Yr
Alpha	0.51	1.21
Beta	1.12	1.02
R-Squared	96.06	95.01
Standard Deviation	11.53	11.32
Mean	18.72	23.03
Sharpe Ratio	1.18	1.62
Excess Return	2.06	1.79
Excess Risk	2.59	2.55
Information Ratio	0.80	0.70

## Operations

Total Investment Expense Net	1.74%
Total Investment Expense Gross	1.77%
Waiver Expiration Date	02/28/2008
Inception Date	12/29/2000
Total Net Assets (mil)	\$2,339.48

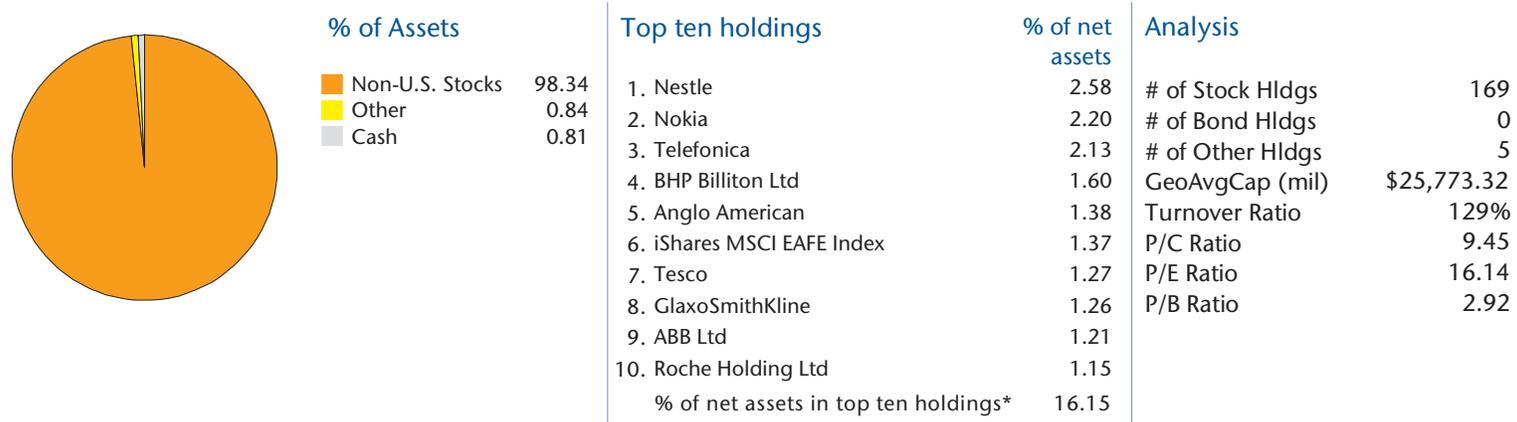


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# International Growth Separate Account-Adv Sel as of 12/31/2007

## Portfolio information

Composition as of 11/30/2007



### Top 5 Countries

	% of net assets
United Kingdom	19.74
Japan	18.88
Germany	9.04
Switzerland	8.58
Canada	7.41

### Regional exposure

	% of net assets
Europe	31.12
Japan	9.44
Pacific Rim	5.38
Other	4.07



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

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.

This Separate Account invests solely in the Institutional class shares of the Principal Investors 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. 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 12/31/2007

## Investment Strategy

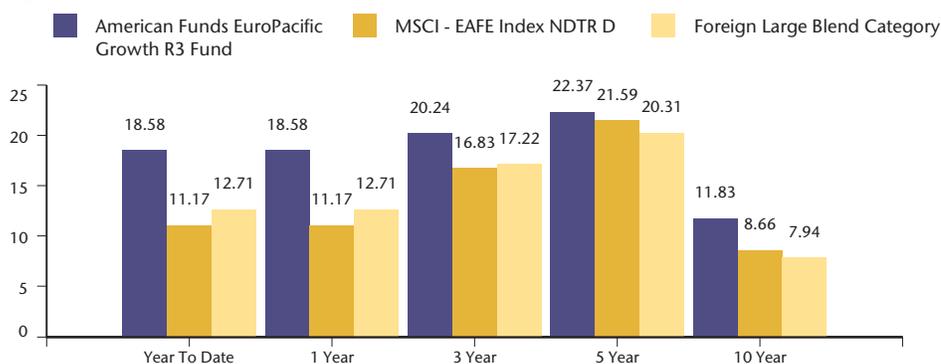
The investment seeks long-term growth of capital. The fund primarily invests in securities of issuers located in Europe and the Pacific Basin. It is designed for investors seeking capital appreciation and diversification through investments in stocks of issuers based outside the United States.



## Portfolio managers

**Stephen E. Beppler**, CFA. Since 04/16/1984. BA, Columbia U.  
**Mark E. Denning** Since 06/01/1990.  
**Robert W. Lovelace**, CFA. Since 06/01/1994. B.A., U of Princeton  
**Alwyn Heong** Since 06/01/1996.  
**Carl M. Kawaja** Since 06/01/2001.

## Long-term returns % as of 12/31/2007



## 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 the Principal Sponsor Service Center<sup>SM</sup> or The Principal Retirement Service Center<sup>®</sup> at [www.principal.com](http://www.principal.com), contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	18.58	18.58	20.24	22.37	11.83
MSCI - EAFE Index NDTR D %	11.17	11.17	16.83	21.59	8.66
Foreign Large Blend Category %	12.71	12.71	17.22	20.31	7.94
Morningstar Percentile Rankings	-	11	15	16	6
# of funds in category	743	743	557	462	227

Annual Returns	2007	2006	2005	2004	2003
Total Return %	18.58	21.43	20.73	19.23	32.37
MSCI - EAFE Index NDTR D %	11.17	26.34	13.54	20.25	38.59
Foreign Large Blend Category %	12.71	24.77	14.72	17.39	33.58
Morningstar Percentile Rankings	11	86	8	26	53
# of Funds in Category	743	657	608	551	504

Morningstar percentile rankings are based on total returns.

## Morningstar category

Foreign Large Blend

## Morningstar Style Box™

As of 09/30/2007

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2007 Relative to MSCI - EAFE Index NDTR D

	3Yr	5Yr
Alpha	2.72	1.19
Beta	1.02	0.97
R-Squared	90.37	91.57
Standard Deviation	10.25	10.88
Mean	20.24	22.37
Sharpe Ratio	1.45	1.64
Excess Return	3.41	0.78
Excess Risk	3.18	3.18
Information Ratio	1.07	0.24

## Operations

Total Investment Expense Net	1.11%
Total Investment Expense Gross	1.15%
Inception Date	05/21/2002
Extended Performance	
Inception Date#	04/16/1984
Total Net Assets (mil)	\$125,382.69
12b-1 Fees	0.50%
Ticker	RERCX



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# American Funds EuroPacific Growth R3 Fund as of 12/31/2007

## Portfolio information

Composition as of 09/30/2007



Top 5 Countries		Regional exposure	
	% of net assets		% of net assets
Germany	10.20	Europe	54.10
France	9.65	Pacific Rim	21.82
Japan	9.42	Japan	9.52
United Kingdom	7.65	Other	7.66
Switzerland	7.49	Latin America	6.43
		United States	0.46

**Access Funds** consist of an assortment of mutual funds from some of the premier names in the mutual fund industry. These investment options provide for additional choice to supplement the Foundation Options we offer through the Principal Due Diligence Program<sup>SM</sup>.

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.

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*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](http://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.

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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  
 Plans' Investment Returns  
 Plan Years Ended December 31 for the Years Shown  
 (Unaudited)

	401(a) Basic and Supplemental Plans										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	10-YEAR TOTALS
<b>ADDITIONS</b>											
Investment Income	\$546,172	\$468,182	(\$276,960)	(\$314,551)	(\$671,491)	\$1,064,011	\$710,928	\$523,858	\$1,098,556	\$635,207	\$3,783,912
Less investment management fees	(17,402)	(21,435)	(18,011)	(19,942)	(19,612)	(21,428)	(16,597)	(19,262)	(10,660)	(11,577)	(175,926)
<b>Net investment income</b>	528,770	446,747	(294,971)	(334,493)	(691,103)	1,042,583	694,331	504,596	1,087,896	623,630	3,607,986
<b>Contributions:</b>											
Participant	263,129	257,004	266,632	285,856	295,051	314,827	314,814	313,385	321,602	324,722	2,957,022
Employer	393,501	378,535	389,371	421,448	438,205	452,337	571,546	562,389	545,888	559,145	4,712,365
<b>Total additions</b>	1,185,400	1,082,286	361,032	372,811	42,153	1,809,747	1,580,691	1,380,370	1,955,386	1,507,497	11,277,373
<b>DEDUCTIONS</b>											
Benefits paid to participants	(371,696)	(349,984)	(539,718)	(178,984)	(354,705)	(250,159)	(179,684)	(785,224)	(401,384)	(594,302)	(4,005,840)
<b>CHANGES IN NET ASSETS</b>	813,704	732,302	(178,686)	193,827	(312,552)	1,559,588	1,401,007	595,146	1,554,002	913,195	
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	3,279,822	4,093,526	4,825,828	4,647,142	4,840,969	4,528,417	6,088,005	7,489,012	8,084,158	9,638,160	
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	\$4,093,526	\$4,825,828	\$4,647,142	\$4,840,969	\$4,528,417	\$6,088,005	\$7,489,012	\$8,084,158	\$9,638,160	\$10,551,355	
<b>AVERAGE INVESTMENT RETURNS *</b>	14.34%	10.02%	-6.23%	-7.05%	-14.75%	19.64%	10.23%	6.48%	12.28%	6.18%	

\* 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

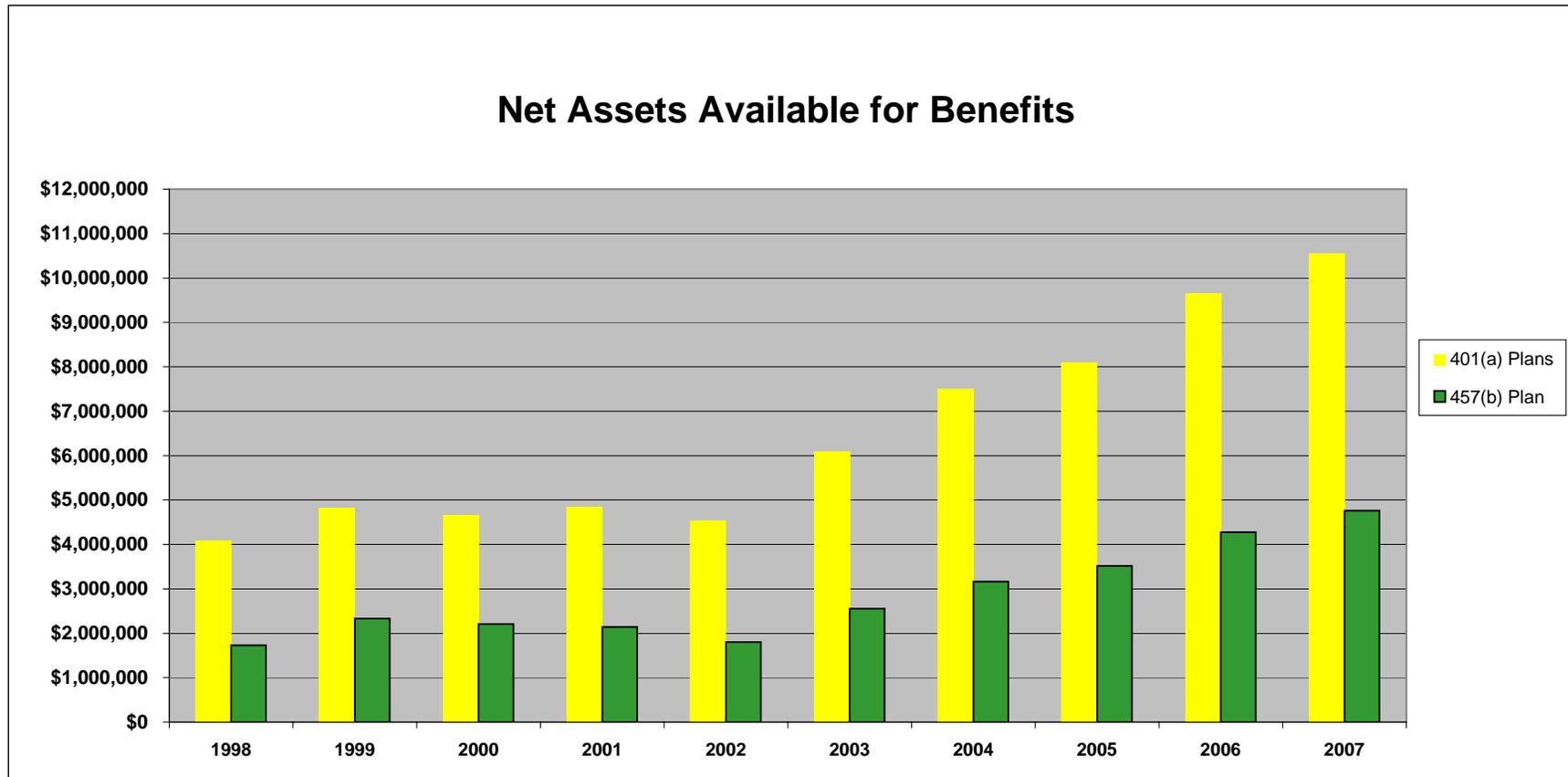
Historical Statements of Changes in Net Assets Available for Benefits and  
 Plan Investment Returns  
 Plan Years Ended December 31 for the Years Shown  
 (Unaudited)

	457(b) Optional Savings Plan										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	10-YEAR TOTALS
<b>ADDITIONS</b>											
Investment Income	\$275,809	\$404,354	(\$242,077)	(\$266,380)	(\$422,305)	\$498,346	\$302,284	\$229,580	\$463,995	\$300,559	\$1,544,165
Less investment management fees	(6,390)	(8,432)	(8,088)	(6,584)	(5,501)	(5,268)					(40,263)
Net investment income	269,419	395,922	(250,165)	(272,964)	(427,806)	493,078	302,284	229,580	463,995	300,559	1,503,902
<b>Contributions:</b>											
Participant	184,338	187,063	189,353	203,833	224,369	218,754	257,406	286,868	313,367	336,897	2,402,248
Employer	93,686	90,308	88,547	96,415	100,862	103,966	111,488	113,261	111,085	117,225	1,026,843
Total additions	547,443	673,293	27,735	27,284	(102,575)	815,798	671,178	629,709	888,447	754,681	4,932,993
<b>DEDUCTIONS</b>											
Benefits paid to participants	(124,692)	(71,699)	(155,857)	(90,173)	(237,397)	(65,202)	(59,465)	(278,548)	(131,561)	(268,516)	(1,483,110)
<b>CHANGES IN NET ASSETS</b>	422,751	601,594	(128,122)	(62,889)	(339,972)	750,596	611,713	351,161	756,886	486,165	
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	1,308,656	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	
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	\$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	
<b>AVERAGE INVESTMENT RETURNS *</b>	17.72%	19.48%	-11.03%	-12.56%	-21.69%	22.65%	10.58%	6.87%	11.92%	6.66%	

\* 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)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<i>401(a) Basic and Supplemental Plans</i>										
<b>Number of Participants (Basic)</b>	136	133	170	175	172	167	179	153	140	138
<b>Number of Participants (Supplemental)</b>	124	121	133	143	141	141	149	120	107	113
<b>Total Annual Participant Deferrals</b>	263,129	257,004	266,632	285,856	295,051	314,827	314,814	313,385	321,602	324,722
<b>Net Assets Available for Benefits</b>	\$4,093,526	\$4,825,828	\$4,647,142	\$4,840,969	\$4,528,417	\$6,088,005	\$7,489,012	\$8,084,158	\$9,638,160	\$10,551,355

*457(b) Optional Savings Plan*

<b>Number of Participants</b>	120	110	128	141	128	132	141	114	106	112
<b>Total Annual Participant Deferrals</b>	184,338	187,063	189,353	203,833	224,369	218,754	257,406	286,868	313,367	336,897
<b>Annual Compensation Corporation Total</b>	4,205,078	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
<b>Average Deferral Percentage</b>	4.38%	4.51%	4.33%	4.33%	4.63%	4.38%	4.96%	5.52%	6.17%	6.39%
<b>Net Assets Available for Benefits</b>	\$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

**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 12, 2008

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, 2007 and 2006, and have issued our report thereon dated June 12, 2008. Our report was modified to include an emphasis of a matter regarding the new presentation of a Comprehensive Annual Financial Report, the impact of hurricanes Katrina and Rita, and an explanatory paragraph on the change in method of disclosing interest rate risk. We conducted our audits 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 audits, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 audits, 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

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