



**LOUISIANA LOTTERY CORPORATION**  
**A COMPONENT UNIT OF THE STATE OF LOUISIANA**  
**BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE PLAN YEAR ENDED DECEMBER 31, 2009**

**LOUISIANA LOTTERY CORPORATION**  
**BASIC, SUPPLEMENTAL, AND OPTIONAL SAVINGS RETIREMENT PLANS**  
**A COMPONENT UNIT OF THE STATE OF LOUISIANA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE PLAN YEAR ENDED DECEMBER 31, 2009**

**PREPARED BY ACCOUNTING DEPARTMENT**

**KAREN B. FOURNET**

**SENIOR VICE PRESIDENT**

**SECRETARY TREASURER**

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

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b>INTRODUCTORY SECTION</b>	
LETTER OF TRANSMITTAL .....	1
ORGANIZATIONAL CHART .....	5
CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING.....	6
 <b>FINANCIAL SECTION</b>	
INDEPENDENT AUDITOR'S REPORT .....	7
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	9
<b>BASIC FINANCIAL STATEMENTS</b>	
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS .....	15
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS .....	16
NOTES TO THE FINANCIAL STATEMENTS.....	17
<b>SUPPLEMENTAL INFORMATION SCHEDULES</b>	
<b>SCHEDULES OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS, BY INVESTMENT OPTION</b>	
<b>SCHEDULE 1 - 401(A) BASIC PLAN FOR THE YEAR ENDED</b>	
DECEMBER 31, 2009 .....	26
<b>SCHEDULE 2 - 401(A) SUPPLEMENTAL PLAN FOR THE YEAR ENDED</b>	
DECEMBER 31, 2009 .....	27
<b>SCHEDULE 3 - 457(B) OPTIONAL SAVINGS PLAN FOR THE YEAR ENDED</b>	
DECEMBER 31, 2009 .....	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 PLAN INVESTMENT RETURNS - BASIC PLAN .....	88
HISTORICAL STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS AND PLAN INVESTMENT RETURNS - SUPPLEMENTAL PLAN .....	89
HISTORICAL STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS AND PLAN INVESTMENT RETURNS - OPTIONAL SAVINGS PLAN .....	90
FINANCIAL TREND INFORMATION.....	91
DEMOGRAPHIC INFORMATION - PARTICIPATION AND DEFERRAL TRENDS .....	92

<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....</b>	<b>93</b>
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June 30, 2010

Board of Directors, Louisiana Lottery Corporation

## **Introduction**

The Louisiana Lottery Corporation (the Corporation) is pleased to submit its Comprehensive Annual Financial Report for the Basic, Supplemental, and Optional Savings retirement plans for the plan year ended December 31, 2009. Lottery management is responsible for the accuracy and completeness of all data and disclosures in this report. To the best of our knowledge, the information presented is accurate and complete in all material respects and fairly depicts the financial activities and position of these plans.

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

## **Government Finance Officers Association Certificate of Achievement**

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting (see page 6) to the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans for its comprehensive annual financial report for the year ended December 31, 2008. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

## **The Retirement Plans**

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

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

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

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

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

Detailed provisions of each plan are included in the notes to the financial statements beginning on page 17. Financial results for the plans are discussed in management's discussion and analysis beginning on page 9 and the remainder of the financial section. Historical financial results and demographic information is presented in the statistical section beginning on page 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. An effective control system of policies and procedures operating as intended prevents or detects errors or misstatements. Inherently, most controls cannot provide complete effectiveness and the cost of operating the controls should not exceed the anticipated benefits. However, the internal control structure for the plans should provide reasonable assurance that corporate objectives will be achieved in the following categories:

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

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

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

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

- Monitoring of laws and regulations affecting the plans with PLIC and outside counsel
- Monitoring of investment performance and management through PLIC's due diligence program and other outside sources
- Reporting of employee termination information to PLIC

- Quarterly reconciliation of payroll contributions and the Corporation's general ledger to PLIC employer statements
- Annual preparation of the plans' financial statements and all related reconciliations

Employee compliance with these standards is constantly monitored and evaluated.

### **Independent Audit**

The Louisiana Legislative Auditor performs an annual audit of the plans' financial statements. The audits are conducted in accordance with generally accepted auditing standards and generally accepted government auditing standards. The independent auditor's opinion on the plans' financial statements for the year ended December 31, 2009, is included in the financial section of this report.

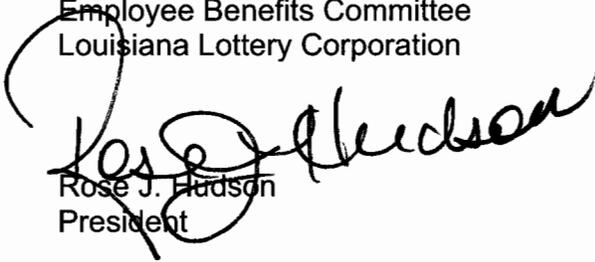
### **Acknowledgements**

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.

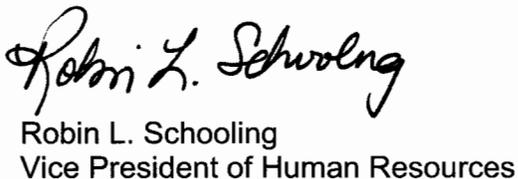
We are committed to providing thorough and relevant financial information to the users of our financial statements. Our preparation of this Comprehensive Annual Financial Report reflects this commitment. The additional presentations and disclosures required will assist readers in obtaining an understanding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

Respectfully submitted,

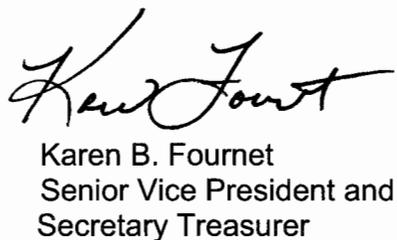
Employee Benefits Committee  
Louisiana Lottery Corporation



Rose J. Hudson  
President



Robin L. Schooling  
Vice President of Human Resources

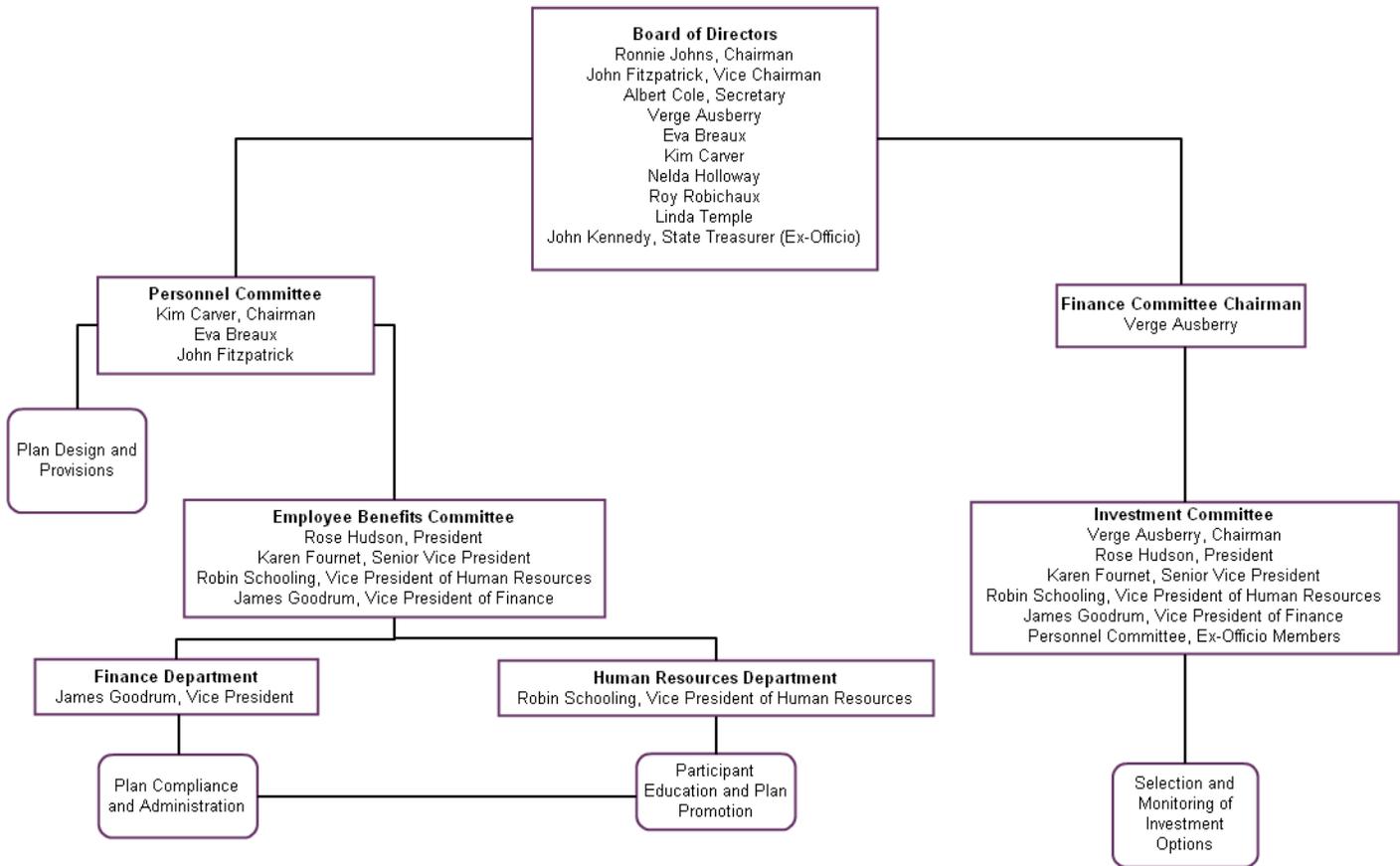


Karen B. Fournet  
Senior Vice President and  
Secretary Treasurer



James F. Goodrum  
Vice President of Finance  
and Controller

# Organizational Chart



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

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

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2008

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



President

Executive Director

**FINANCIAL SECTION**



LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

May 27, 2010

Independent Auditor's Report

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

We have audited the accompanying statement of net assets available for benefits of the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans as of December 31, 2009, and the related statement of changes in net assets available for benefits for the year then ended, which collectively comprise the Plans' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Louisiana Lottery Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans as of December 31, 2009, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## LOUISIANA LOTTERY CORPORATION

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2010, on our consideration of the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 9 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

BF:WDD:EFS:PEP:dl

LLCRP09



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

**Management's Discussion and Analysis  
For the Year Ended December 31, 2009**

This discussion of the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans' financial statements provides an overview and analysis of the plans' financial position and activities for the year ended December 31, 2009. 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 15 includes all assets and liabilities of the plans. The balances reported are as of the year ended December 31, 2009. 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 period ending December 31, 2009, is presented in the statement of changes in net assets available for benefits on page 16. The categories of activities included on this statement provide reasons for increases or decreases in plan net assets. Investment income includes all interest, dividends, and market value gains or losses earned by each investment fund during the year. This income is reflected net of the plans' administrative service provider's investment management fees. Participant and employer contributions are the funds deposited into participant accounts for each pay period during the year in accordance with the terms of the plans. Withdrawals paid to terminated or retired employees are included in the benefits paid to participants' category. A description of

## MANAGEMENT'S DISCUSSION AND ANALYSIS

contribution and distribution requirements can be found in note 2 to the financial statements beginning on page 18.

The supplementary information schedules beginning on page 26 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 17 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, 2009, and the year ended December 31, 2008, is presented below.

<b>401(a)</b>		
<b>Basic Plan</b>		
<b>Plan Years Ended December 31 for the Years Shown</b>		
	<b>2009</b>	<b>2008</b>
<b>Assets</b>	\$6,380,180	\$4,600,089
<b>Liabilities</b>	NONE	NONE
<b>Net assets available for benefits</b>	\$6,380,180	\$4,600,089
<b>Additions:</b>		
Net investment income	\$1,325,603	(\$2,246,435)
Contributions:		
Participant	327,100	323,826
Employer	263,792	260,984
<b>Total additions</b>	1,916,495	(1,661,625)
<b>Deductions:</b>		
Benefits paid to participants	(136,404)	(451,899)
<b>Increase (Decrease) in net assets</b>	\$1,780,091	(\$2,113,524)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	<b>2009</b>	<b>2008</b>
<b>Assets</b>	\$3,611,152	\$2,679,081
<b>Liabilities</b>	NONE	NONE
<b>Net assets available for benefits</b>	\$3,611,152	\$2,679,081
<b>Additions:</b>		
Net investment income	\$723,265	(\$1,329,029)
Contributions:		
Participant	18,973	953
Employer	319,334	314,337
<b>Total additions</b>	1,061,572	(1,013,739)
<b>Deductions:</b>		
Benefits paid to participants	(129,501)	(144,922)
<b>Increase (Decrease) in net assets</b>	\$932,071	(\$1,158,661)

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

	<b>2009</b>	<b>2008</b>
<b>Assets</b>	\$4,559,490	\$3,309,188
<b>Liabilities</b>	NONE	NONE
<b>Net assets available for benefits</b>	\$4,559,490	\$3,309,188
<b>Additions:</b>		
Net investment income	\$932,255	(\$1,642,628)
Contributions:		
Participant	336,770	367,608
Employer	121,961	122,485
<b>Total additions</b>	1,390,986	(1,152,535)
<b>Deductions:</b>		
Benefits paid to participants	(140,684)	(296,816)
<b>Increase (Decrease) in net assets</b>	\$1,250,302	(\$1,449,351)

The assets of the plans increased 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>2009</u>	<u>2008</u>
<i>Basic Plan</i>	24.15%	-39.71%
<i>Supplemental Plan</i>	23.00%	-40.79%
<i>Optional Savings Plan</i>	23.70%	-40.72%

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

The specific asset allocation for each fund is included in the investment section beginning on page 32. This information indicates 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.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

	<u>2009</u>	<u>2008</u>
<b><u>Economic Indicators:</u></b>		
<i>Gross Domestic Product (GDP)</i>	-2.40%	0.40%
<i>Federal Funds Rate</i>	0.25%	0.25%
<i>Unemployment Rate</i>	10.00%	7.40%
<i>Consumer Price Index (CPI)</i>	-0.40%	3.80%
<b><u>Financial Markets:</u></b>		
<i>Dow Jones Industrial Average (DJIA)</i>	18.82%	-33.83%
<i>NASDAQ Composite Index</i>	43.89%	-40.54%
<i>Standard and Poor's 500 Index (S&amp;P500)</i>	23.45%	-38.49%
<i>10-Year Treasury Note Yield</i>	3.84%	2.24%

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

An economic recovery began in the second half of 2009. Although gross domestic product was at -2.40% for the entire year, the third quarter GDP was a positive 2.20% followed by the fourth quarter at a positive 5.60%. The growth has not yet driven inflation higher as evidenced by the -0.40% consumer price index. This has allowed the Federal Reserve to maintain the federal funds rate at exceptionally low levels which may fuel further growth. But, the unemployment rate increased to 10% by the end of 2009. Economists are cautiously optimistic that this trend will begin to reverse and the recovery will be sustained.

These economic and financial market factors had an impact on the performance of investments. Most domestic and international stock funds had solid gains in 2009 and steep losses in 2008. Short-term money market fund returns were at zero because of the extremely low federal funds rate. The values of corporate and asset-backed fixed-income funds decreased in 2008 because of credit quality issues and rebounded sharply in 2009 as these concerns eased. U.S. Treasury notes and bonds were the few safe-haven investments in 2008 and were fairly stable investments in 2009. Commercial real estate investments had significant losses in 2009 because of the increase in unemployment and the decline of property values caused by a shrinking market for sales of buildings and a shortage of credit availability for these transactions.

The investment performance of the individual funds offered through the plans was affected by the financial market environment. Investment income generated by each fund is listed on the supplementary schedules beginning on page 26. 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 three plans and elective participant deferrals in the Optional Savings Plan. Total compensation was \$5.46 million in both 2009 and 2008. Contributions are calculated as a percentage of wages. In addition, the average deferral percentages for the Optional Savings Plan for plan years 2009 and 2008 were 6.17% and 6.74%, respectively. The contribution provisions for both plans are outlined in note 2 to the financial statements beginning on page 18. Historical compensation and deferral information is provided in the demographic information in the statistical section of this report on page 92.

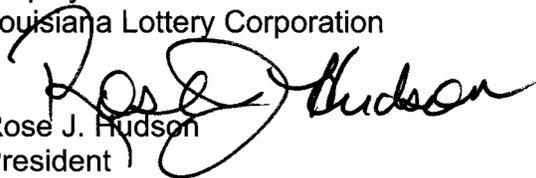
**Benefits paid to participants**

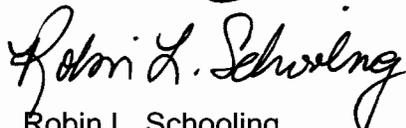
The amount of benefits paid out in any given year is dependent upon the volume of employee terminations or retirements, the length of service of these employees, the balances maintained in their accounts, and the distribution elections that determine the timing of payments. Differences in these factors 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 18.

This financial overview of the Basic, Supplemental, and Optional Savings Retirement Plans is provided as a supplemental analysis of the financial position and activities of the plans as of and for the year ended December 31, 2009. 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

  
Robin L. Schooling  
Vice President of Human Resources

  
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, 2009**

	<b>401(a) Plans</b>		<b>457(b) Plan</b>
	<b><u>Basic</u></b>	<b><u>Supplemental</u></b>	<b><u>Optional Savings</u></b>
<b>ASSETS</b>			
Investments (note 3)	\$6,380,180	\$3,611,152	\$4,559,490
<b>LIABILITIES</b>			
	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<u>\$6,380,180</u>	<u>\$3,611,152</u>	<u>\$4,559,490</u>

The accompanying notes are an integral part of this statement.

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

**Statement of Changes in Net Assets Available for Benefits  
For the Year Ended December 31, 2009**

	<u>401(a) Plans</u>		<u>457(b) Plan</u>
	<u>Basic</u>	<u>Supplemental</u>	<u>Optional Savings</u>
<b>ADDITIONS</b>			
Investment income	\$1,334,564	\$723,265	\$932,255
Less investment management fees (note 4)	(8,961)	NONE	NONE
Net investment income	<u>1,325,603</u>	<u>723,265</u>	<u>932,255</u>
Contributions:			
Participant	327,100	18,973	336,770
Employer	<u>263,792</u>	<u>319,334</u>	<u>121,961</u>
Total additions	<u>1,916,495</u>	<u>1,061,572</u>	<u>1,390,986</u>
<b>DEDUCTIONS</b>			
Benefits paid to participants	<u>(136,404)</u>	<u>(129,501)</u>	<u>(140,684)</u>
Net increase	1,780,091	932,071	1,250,302
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>			
	<u>4,600,089</u>	<u>2,679,081</u>	<u>3,309,188</u>
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>			
	<u><u>\$6,380,180</u></u>	<u><u>\$3,611,152</u></u>	<u><u>\$4,559,490</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 Plans are provided by an insurance company.

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

#### C. BASIS OF ACCOUNTING

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

**Contributions**

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

**Investment Income**

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

**Plan Expenses**

Fees related to the record keeping and administration of the Plans are paid by the Louisiana Lottery Corporation. Investment management fees, which are based on the daily net assets, are deducted monthly from the investment income of the Basic Plan and, therefore, are not a liability of the Plans at December 31, 2009.

**Benefits Paid to Participants**

Benefits are recorded when due.

**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, 2009, there were 130 participants in the Basic Plan, 102 participants in the Supplemental Plan, and 99 participants in the Optional Savings Plan.

**A. BASIC RETIREMENT PLAN**

The Corporation has a money purchase plan under Section 401(a) of the 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 \$16,500. 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, 2009, 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 serving as the trustee. Other mutual fund investments are offered through a group custodial agreement that includes Principal 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 debt, real estate, asset allocation, and equity investment funds. No specific credit ratings for funds invested in debt securities are required. In addition, the policy does not specifically address requirements for interest rate or foreign currency risk.

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

## NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2009, investments are composed of the following:

	<i>401(a)</i>		<i>457(b)</i>
	<i>Plans</i>		<i>Plan</i>
	<u>Basic</u>	<u>Supplemental</u>	<u>Optional Savings</u>
<b>Principal Stable Value Signature Fund</b> (Union Bond & Trust Company - Trustee)		\$202,192	\$153,011
<b>PLIC Flexible Investment Annuity Group Contract</b>			
<b>Separate Accounts:</b>			
<b>Principal Proprietary Funds R2 Rate Level:</b>			
U.S. Property		6,693	12,816
LargeCap S&P 500 Index		153,660	188,282
MidCap Value I		10,649	14,844
International Growth (1)		43,994	22,714
<b>Principal Proprietary Funds R3 Rate Level:</b>			
Bond & Mortgage		81,853	51,247
LargeCap Blend II		61,007	86,361
LargeCap Growth I		34,918	81,213
LargeCap Value III		39,369	36,010
MidCap Growth III		84,738	144,568
SmallCap Growth II		46,104	87,442
SmallCap Value I		65,162	83,996
<b>Principal Proprietary Funds R6 Level:</b>			
<b>Principal LifeTime:</b>			
LifeTime Strategic Income (1)	\$28,841		
LifeTime 2010 (1)	66,065	71,310	198,199
LifeTime 2020 (1)	238,985	120,832	105,607
LifeTime 2030 (1)	383,976	52,278	40,073
LifeTime 2040 (1)	140,485	17,316	15,738
LifeTime 2050 (1)	3,231	3,803	530
<b>Nonproprietary Funds R6 Level:</b>			
<b>Russell LifePoints:</b>			
Conservative Strategy (1)	257,335	130,440	257,635
Moderate Strategy (1)	165,102	107,178	271,972
Balanced Strategy (1)	2,772,024	944,247	822,670
Growth Strategy (1)	1,730,468	1,051,054	1,469,369
Equity Growth Strategy (1)	593,668	129,489	218,531
<b>Mutual Fund Investments</b>			
<b>(Principal Trust Company - Trustee):</b>			
American Century Equity Income A Fund		34,216	40,564
American Funds Growth Fund of America R3 Fund (1)		24,779	36,257
American Funds Europacific Growth R3 Fund (1)		93,871	119,841
<b>Total</b>	<u>\$6,380,180</u>	<u>\$3,611,152</u>	<u>\$4,559,490</u>

(1) At December 31, 2009, funds contain investments in international securities. In the Principal LifeTime funds, approximately 10% of Strategic Income, 16% of LifeTime 2010, 19% of

## NOTES TO THE FINANCIAL STATEMENTS

LifeTime 2020, 22% of LifeTime 2030, 25% of LifeTime 2040, and 27% of LifeTime 2050 are invested in international securities. In the Russell LifePoints funds, approximately 18% of Conservative, 23% of Moderate, 27% of Balanced, 30% of Growth, and 35% of Equity Growth are invested in international securities. The American Funds Growth Fund of America R3 Fund contains approximately 17% international investments. The Principal International Growth separate account and the American Funds Europacific Growth R3 Fund are international funds.

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

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

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

The percentage of each funds' holdings invested in bonds at December 31, 2009, 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	70	AA+/Aa1	1.85	-
Principal Bond & Mortgage	85	AA	4.21	43.44
<b>Principal LifeTime:</b>				
LifeTime Strategic Income	45	AA	4.90	24.58
LifeTime 2010	31	A	4.74	21.60
LifeTime 2020	24	A	4.52	22.22
LifeTime 2030	18	BBB	4.54	17.52
LifeTime 2040	12	BBB	4.52	12.56
LifeTime 2050	8	BB	4.50	7.14
<b>Russell LifePoints:</b>				
Conservative Strategy	64	A	3.61	35.07
Moderate Strategy	52	A	3.92	40.00
Balanced Strategy	35	A	3.92	40.00
Growth Strategy	18	A	3.92	40.00

#### **4. INVESTMENT MANAGEMENT FEES**

An asset-based fee of 0.20% is assessed to the Basic Plan only pursuant to a service and expense agreement with PLIC. This fee, which is based on the daily net assets, is deducted monthly from the separate accounts. During the year ended December 31, 2009, investment management fees were \$8,961.

#### **5. FORFEITURES**

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

During the year ended December 31, 2009, forfeited nonvested accounts of \$6,814 in the Supplemental Plan and \$2,256 in the Optional Savings Plan were reallocated to the accounts of remaining active participants at December 31, 2007.

At December 31, 2009, forfeiture account balances of \$12,810 and \$4,270 remain in the Supplemental Plan and Optional Savings Plan, respectively. These funds represent forfeited nonvested accounts for the 2008 and 2009 plan years that will be reallocated to the remaining participants that were active at the end of those years.

#### **6. INCOME TAX STATUS**

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

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

#### **7. RISK MANAGEMENT**

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

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

## **8. TERMINATION**

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

## **9. MERGERS**

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

## **10. LITIGATION**

There is no pending litigation against the Plans at December 31, 2009.

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

Whereas Statement B presents the totals for the Plans as a whole, these schedules present the changes in net assets available for benefits by investment option for the year ended December 31, 2009.

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

**Schedule of Changes in Net Assets Available for Benefits, by Investment  
Option for the 401(a) Basic Plan  
For the Year Ended December 31, 2009**

	NET ASSETS AVAILABLE FOR 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>PLIC Flexible Investment Annuity Group Contract</b>								
<b>Separate Accounts:</b>								
<b>Principal Proprietary Funds R6 Rate Level:</b>								
<b>Principal Life Time:</b>								
LifeTime Strategic Income	\$1,254	\$5,420	(\$37)	\$2,868	\$2,313	(\$1,056)	\$18,079	\$28,841
LifeTime 2010	27,035	11,299	(84)	15,397	12,418			66,065
LifeTime 2020	90,355	48,202	(321)	23,612	19,041	(1,810)	59,906	238,985
LifeTime 2030	106,706	71,211	(458)	51,016	41,142	(4,360)	118,719	383,976
LifeTime 2040	35,483	25,902	(161)	23,515	18,964	(3,444)	40,226	140,485
LifeTime 2050	3,473	2,454	(11)	4,863	3,922	(11,470)		3,231
<b>Nonproprietary Funds R6 Rate Level:</b>								
<b>Russell LifePoints:</b>								
Conservative Strategy	200,450	40,159	(421)	14,193	11,446		(8,492)	257,335
Moderate Strategy	178,602	39,411	(332)	15,467	12,473	(76,552)	(3,967)	165,102
Balanced Strategy	2,309,448	586,935	(3,599)	52,293	42,172	(32,052)	(183,173)	2,772,024
Growth Strategy	1,196,732	373,273	(2,633)	88,611	71,461	(5,660)	8,684	1,730,468
Equity Growth Strategy	450,551	130,298	(904)	35,265	28,440		(49,982)	593,668
<b>Total</b>	<b>\$4,600,089</b>	<b>\$1,334,564</b>	<b>(\$8,961)</b>	<b>\$327,100</b>	<b>\$263,792</b>	<b>(\$136,404)</b>	<b>NONE</b>	<b>\$6,380,180</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) Supplemental Plan  
For the Year Ended December 31, 2009**

	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>	\$122,765	\$3,664		\$15,133		\$60,630	\$202,192
<b>PLIC Flexible Investment Annuity Group Contract Separate Accounts:</b>							
<b>Principal Proprietary Funds R2 Rate Level:</b>							
U.S. Property	8,481	(2,867)		1,054		25	6,693
LargeCap S&P 500 Index	159,156	34,760		3,755	(\$2,869)	(41,142)	153,660
MidCap Value I	7,145	2,657		1,207	(360)	(360)	10,649
International Growth	32,354	8,289		1,673		1,678	43,994
<b>Principal Proprietary Funds R3 Rate Level:</b>							
Bond & Mortgage	80,550	15,123		3,666		(17,486)	81,853
LargeCap Blend II	47,157	13,830		3,638		(3,618)	61,007
LargeCap Growth I	29,543	14,541		1,902	(6,960)	(4,108)	34,918
LargeCap Value III	35,988	6,801		4,413	(2,561)	(5,272)	39,369
MidCap Growth III	73,782	27,596		4,198	(13,776)	(7,062)	84,738
SmallCap Growth II	31,899	10,692		3,699	(2,650)	2,464	46,104
SmallCap Value I	64,398	9,278		7,020		(15,534)	65,162
<b>Principal Proprietary Funds R6 Rate Level:</b>							
<b>Principal LifeTime:</b>							
LifeTime 2010	53,348	13,867		3,980		115	71,310
LifeTime 2020	33,690	20,882	\$18,973	5,982		41,305	120,832
LifeTime 2030	17,046	11,177		15,512		8,543	52,278
LifeTime 2040	5,361	3,362		8,507		86	17,316
LifeTime 2050	6,407	1,324		3,473		(7,401)	3,803
<b>Nonproprietary Funds R6 Rate Level:</b>							
<b>Russell LifePoints:</b>							
Conservative Strategy	67,088	18,964		8,739	(4,124)	39,773	130,440
Moderate Strategy	135,084	26,693		14,993	(44,490)	(25,102)	107,178
Balanced Strategy	710,687	191,466		71,018	(36,989)	8,065	944,247
Growth Strategy	743,876	224,085		101,091	(11,740)	(6,258)	1,051,054
Equity Growth Strategy	79,494	28,075		18,963		2,957	129,489
<b>Mutual Fund Investments (Principal Trust Company - Trustee):</b>							
American Century Equity Income A Fund	35,728	3,635		4,011	(3,342)	(9,158)	34,216
American Funds Growth Fund of America R3 Fund	23,384	7,340		3,931		(6,534)	24,779
American Funds Europacific Growth R3 Fund	74,670	28,031		7,776		(16,606)	93,871
<b>Total</b>	<b>\$2,679,081</b>	<b>\$723,265</b>	<b>\$18,973</b>	<b>\$319,334</b>	<b>(\$129,501)</b>	<b>NONE</b>	<b>\$3,611,152</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, 2009**

	NET ASSETS AVAILABLE FOR BEGINNING OF YEAR	INVESTMENT INCOME	PARTICIPANT CONTRIBUTIONS	EMPLOYER CONTRIBUTIONS	BENEFITS PAID TO PARTICIPANTS	INTERFUND TRANSFERS	NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR
<b>Principal Stable Value Signature Fund (Union Bond &amp; Trust Company - Trustee)</b>	\$94,707	\$2,375	\$34,181	\$6,248	(\$2)	\$15,502	\$153,011
<b>PLIC Flexible Investment Annuity Group Contract Separate Accounts:</b>							
<b>Principal Proprietary Funds R2 Rate Level:</b>							
U.S. Property	16,416	(5,532)	1,269	651		12	12,816
LargeCap S&P 500 Index	167,817	38,537	3,917	1,157	(7,818)	(15,328)	188,282
MidCap Value I	12,173	3,547	1,095	476		(2,447)	14,844
International Growth	14,498	3,919	1,073	431		2,793	22,714
<b>Principal Proprietary Funds R3 Rate Level:</b>							
Bond & Mortgage	42,886	8,773	4,067	1,158	(2)	(5,635)	51,247
LargeCap Blend II	63,393	19,034	5,342	1,337	(875)	(1,870)	86,361
LargeCap Growth I	59,809	28,079	1,388	717	(2,410)	(6,370)	81,213
LargeCap Value III	31,180	5,740	2,829	1,216	(3,502)	(1,453)	36,010
MidCap Growth III	95,417	45,039	6,157	1,952	(4,222)	225	144,568
SmallCap Growth II	66,295	20,363	3,032	1,063	(3,614)	303	87,442
SmallCap Value I	66,575	11,463	5,701	2,218	(5)	(1,956)	83,996
<b>Principal Proprietary Funds R6 Rate Level:</b>							
<b>Principal LifeTime:</b>							
LifeTime 2010	143,630	38,210	14,783	1,540		36	198,199
LifeTime 2020	43,174	21,172	3,147	2,101		36,013	105,607
LifeTime 2030	17,749	7,400	9,810	5,236	(177)	55	40,073
LifeTime 2040	4,939	2,956	4,571	3,254		18	15,738
LifeTime 2050	4,884	646	913	835	(481)	(6,267)	530
<b>Nonproprietary Funds R6 Rate Level:</b>							
<b>Russell LifePoints:</b>							
Conservative Strategy	170,682	40,106	7,059	3,099	(4,988)	41,677	257,635
Moderate Strategy	314,146	66,530	24,397	6,695	(93,791)	(46,005)	271,972
Balanced Strategy	572,755	165,041	50,944	24,274	(2,259)	11,915	822,670
Growth Strategy	1,038,262	314,792	108,034	38,220	(11,961)	(17,978)	1,469,369
Equity Growth Strategy	124,569	47,715	28,259	11,491		6,497	218,531
<b>Mutual Fund Investments (Principal Trust Company - Trustee):</b>							
American Century Equity Income A Fund	31,925	4,195	4,243	1,896	(2)	(1,693)	40,564
American Funds Growth Fund of America R3 Fund	29,576	9,545	2,646	1,453	(4,570)	(2,393)	36,257
American Funds Europacific Growth R3 Fund	81,731	32,610	7,913	3,243	(5)	(5,651)	119,841
<b>Total</b>	<b>\$3,309,188</b>	<b>\$932,255</b>	<b>\$336,770</b>	<b>\$121,961</b>	<b>(\$140,684)</b>	<b>NONE</b>	<b>\$4,559,490</b>

**INVESTMENT SECTION  
(UNAUDITED)**

## Investment Program Overview

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

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

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

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

- **Investment Policy Approved Investment Options** (Page 30)
  - Contains a listing of funds available for investment by participants in each plan grouped into categories of investor preference (i.e. completely do-it-for-me, almost do-it-for-me, do-it-myself)
- **Investment Styles** (Page 31)
  - Reflects the diversification of the investment offerings by asset classes, styles, and investment managers
- **Asset Allocation** (Page 32)
  - Provides an overview of the allocation of plan assets by asset class at December 31, 2009
- **Fair Value and Percent of Total Fair Value for Each Investment** (Page 33)
  - Presents the fair value of each investment and percent to total plan assets fair value
- **Investment Performance** (Page 34)
  - Average annualized % rates of return for the 1, 3, and 5 year time periods and net expense ratios for each fund are provided
- **Fund Fact Sheets** (Pages 35-87)
  - Contain detailed information about each investment option including investment strategy, returns compared to market categories and benchmarks, statistics, and holdings

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

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

# Investment Policy Approved Investment Options

Source: Louisiana Lottery Corporation Retirement Plans Investment Policy

## Louisiana Lottery Corporation Investment Policy Current Approved Investment Options

Investment Fund	Investment Style	Basic Plan	Supplemental Plan	Optional Savings Plan
<b>Lifecycle (Age-Based) Funds:</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>Lifestyle (Risk-Based) Funds:</b>				
<b>Almost "Do-it-for-me" Investors</b>				
<b>Russell LifePoints Portfolios:</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>Individual Separate Accounts and Funds:</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 LargeCap S&P 500 Index	Domestic Stock/Large Blend Index		√	√
LargeCap Blend II Separate Account	Domestic Stock/Large Blend		√	√
LargeCap Value III Separate Account	Domestic Stock/Large Value		√	√
LargeCap Growth I Separate Account	Domestic Stock/Large Growth		√	√
American Century Equity Income A Fund	Domestic Stock/Large Value		√	√
American Funds Growth Fund of America R3 Fund	Domestic Stock/Large Growth		√	√
MidCap Growth III Separate Account	Domestic Stock/Mid Growth		√	√
MidCap Value I Separate Account	Domestic Stock/Mid Value		√	√
SmallCap Growth II Separate Account	Domestic Stock/Small Growth		√	√
SmallCap Value I Separate Account	Domestic Stock/Small Value		√	√
International Growth Separate Account	International or Foreign Stock		√	√
American Funds Europacific Growth R3 Fund	International or Foreign Stock		√	√

√ - Approved investment option

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

### Risk Spectrum

Low Risk/Return <  > High Risk/Return



**Investment Styles**

Source: Investment Committee and Principal Financial Group

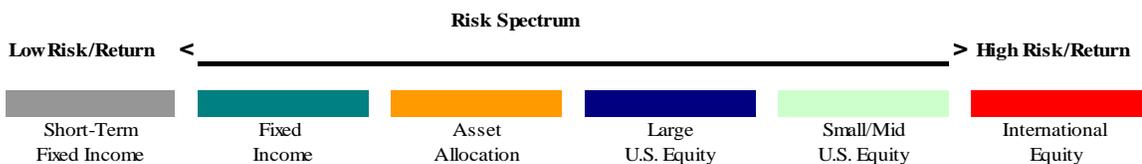
**Domestic Funds Investment Style Box**

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

**Other Investment Styles**

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



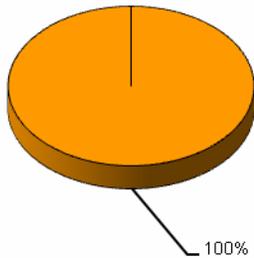
# Asset Allocation

Source: Investment Committee

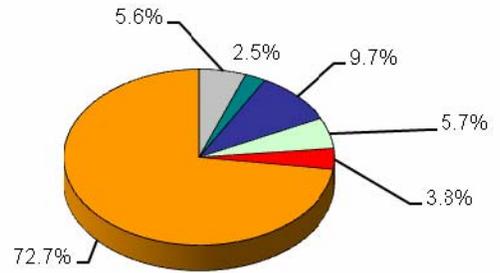
This chart reflects that the majority of participants prefer investing in the asset allocation funds offered in the investment menu for the Plans. The Basic Plan only allows investments into these lifestyle and lifecycle funds while the Supplemental and Optional Savings Plans offer the full menu of options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

## 401(a) Plans

Basic

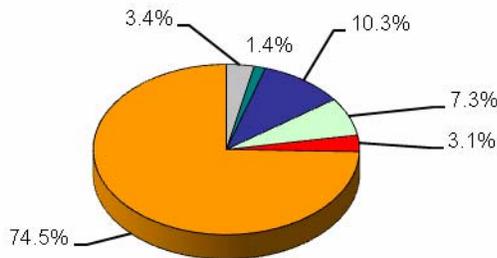


Supplemental

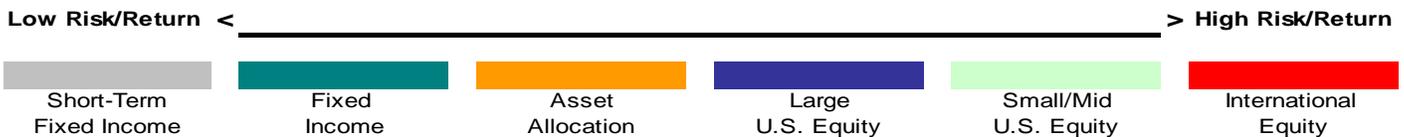


## 457(b) Plan

Optional Savings



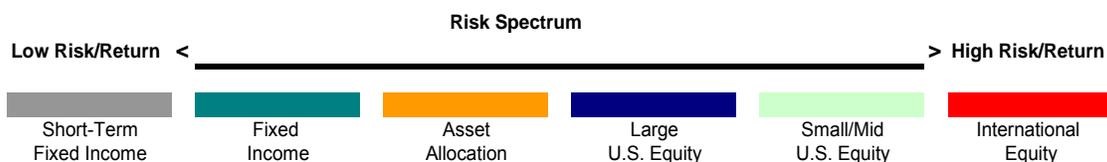
### Risk Spectrum



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

Source: Principal Financial Group

	401(a) Plans				457(b) Plan	
	Basic		Supplemental		Optional Savings	
	2009	%	2009	%	2009	%
<b><u>Lifecycle (Age-Based) Funds:</u></b>						
<b>Principal LifeTime Portfolios:</b>						
<i>Target Date Portfolios</i>						
Principal LifeTime Strategic Income	\$28,841	0.45%				
Principal LifeTime 2010	66,065	1.04%	\$71,310	1.97%	\$198,199	4.35%
Principal LifeTime 2020	238,985	3.75%	120,832	3.35%	105,607	2.32%
Principal LifeTime 2030	383,976	6.02%	52,278	1.45%	40,073	0.88%
Principal LifeTime 2040	140,485	2.20%	17,316	0.48%	15,738	0.35%
Principal LifeTime 2050	3,231	0.05%	3,803	0.11%	530	0.01%
<b><u>Lifestyle (Risk-Based) Funds:</u></b>						
<b>Russell LifePoints Portfolios:</b>						
<i>Target Risk Portfolio Series</i>						
Conservative Strategy	257,335	4.03%	130,440	3.61%	257,635	5.65%
Moderate Strategy	165,102	2.59%	107,178	2.97%	271,972	5.96%
Balanced Strategy	2,772,024	43.45%	944,247	26.15%	822,670	18.04%
Growth Strategy	1,730,468	27.12%	1,051,054	29.11%	1,469,369	32.23%
Equity Growth Strategy	593,668	9.30%	129,489	3.59%	218,531	4.79%
<b><u>Individual Separate Accounts and Funds:</u></b>						
Principal Stable Value Signature Fund			202,192	5.56%	153,011	3.35%
Principal Bond & Mortgage Separate Account			81,853	2.27%	51,247	1.12%
U.S. Property Separate Account			6,693	0.19%	12,816	0.28%
Principal LargeCap S&P 500 Index Separate Account			153,660	4.26%	188,282	4.13%
LargeCap Blend II Separate Account			61,007	1.69%	86,361	1.89%
LargeCap Value III Separate Account			39,369	1.09%	36,010	0.79%
LargeCap Growth I Separate Account			34,918	0.97%	81,213	1.78%
American Century Equity Income A Fund			34,216	0.95%	40,564	0.89%
American Funds Growth Fund of America R3 Fund			24,779	0.69%	36,257	0.80%
MidCap Growth III Separate Account			84,738	2.35%	144,568	3.17%
MidCap Value I Separate Account			10,649	0.29%	14,844	0.33%
SmallCap Growth II Separate Account			46,104	1.28%	87,442	1.92%
SmallCap Value I Separate Account			65,162	1.80%	83,996	1.84%
International Growth Separate Account			43,994	1.22%	22,714	0.50%
American Funds Europacific Growth R3 Fund			93,871	2.60%	119,841	2.63%
	\$6,380,180	100.00%	\$3,611,152	100.00%	\$4,559,490	100.00%



## Investment Performance

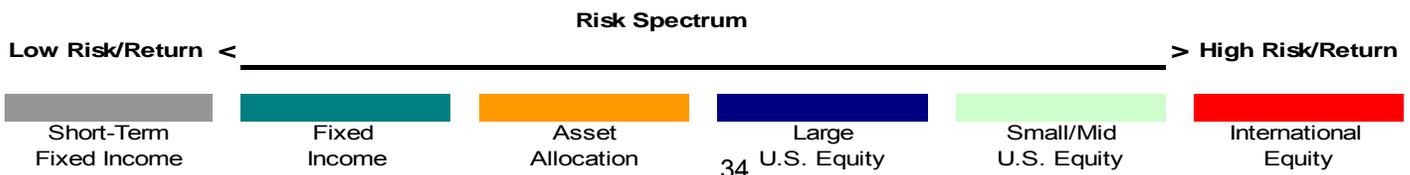
Source: Principal Financial Group

Comparisons to benchmarks and peer groups included in fund fact sheets beginning on page 35

### % Rates of Return Through December 31, 2009

	<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	18.34	-2.30	1.10	0.76
Principal LifeTime 2010	24.72	-3.52	1.15	0.86
Principal LifeTime 2020	27.25	-3.99	1.64	0.92
Principal LifeTime 2030	28.62	-4.60	1.58	0.95
Principal LifeTime 2040	29.26	-5.16	1.36	0.97
Principal LifeTime 2050	29.56	-5.52	1.32	1.00
<b><u>Lifestyle (Risk-Based) Funds:</u></b>				
<b>Russell LifePoints Portfolios:</b>				
<i>Target Risk Portfolio Series</i>				
Conservative Strategy	19.82	2.02	2.95	1.41
Moderate Strategy	23.75	0.05	2.68	1.47
Balanced Strategy	26.40	-2.03	2.45	1.53
Growth Strategy	28.59	-4.35	1.75	1.60
Equity Growth Strategy	30.39	-6.89	0.94	1.66
<b><u>Individual Separate Accounts and Funds:</u></b>				
Principal Stable Value Signature Fund	1.81	3.10	3.24	0.85
Principal Bond & Mortgage Separate Account	21.12	2.63	2.81	1.12
U.S. Property Separate Account	-31.99	-12.87	-2.24	1.74
Principal LargeCap S&P 500 Index Separate Account	25.34	-6.42	-0.44	0.90
LargeCap Blend II Separate Account	28.85	-5.06	0.55	1.32
LargeCap Value III Separate Account	18.39	-12.64	-3.27	1.34
LargeCap Growth I Separate Account	51.30	-1.26	1.68	1.29
American Century Equity Income A Fund	11.95	-3.25	2.00	1.24
American Funds Growth Fund of America R3 Fund	34.12	-3.40	2.57	0.99
MidCap Growth III Separate Account	44.22	-2.91	1.49	1.56
MidCap Value I Separate Account	32.83	-4.86	2.02	1.77
SmallCap Growth II Separate Account	30.60	-7.58	-1.86	1.58
SmallCap Value I Separate Account	15.47	-11.11	-2.63	1.61
International Growth Separate Account	22.67	-10.31	1.57	1.77
American Funds Europacific Growth R3 Fund	38.71	-0.83	7.41	1.11

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



## **Fund Fact Sheets**

*Source: Reprinted with permission from Principal Financial Group*

# Principal LifeTime Strategic Income Separate Account-R6

as of 12/31/2009

## Investment Strategy

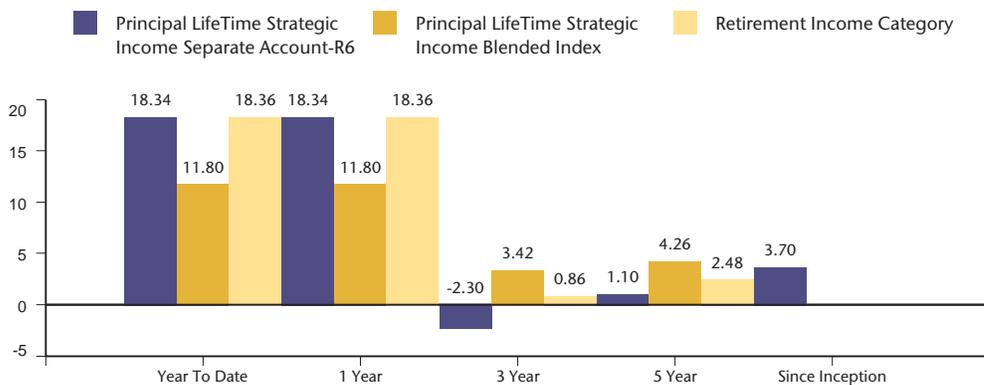
The investment seeks current income and, as a secondary objective, capital appreciation. The fund invests in underlying fixed-income funds, but also invests in underlying equity and hybrid funds according to an asset allocation strategy designed for investors seeking current income from their investment.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



## Portfolio managers

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

## Long-term returns % as of 12/31/2009



## Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit [www.principal.com](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 %	18.34	18.34	-2.30	1.10	3.70
Principal LifeTime Strategic Income Blended Index %	11.80	11.80	3.42	4.26	-
Retirement Income Category %	18.36	18.36	0.86	2.48	-
Morningstar Percentile Rankings	-	46	82	83	-
# of Funds in Category	134	134	85	56	-

Annual Returns	2009	2008	2007	2006	2005
Total Return %	18.34	-22.42	1.57	8.95	3.96
Principal LifeTime Strategic Income Blended Index %	11.80	-6.49	7.10	6.90	3.48
Retirement Income Category %	18.36	-18.06	4.46	7.34	3.30
Morningstar Percentile Rankings	46	69	90	19	22
# of Funds in Category	134	122	107	84	57

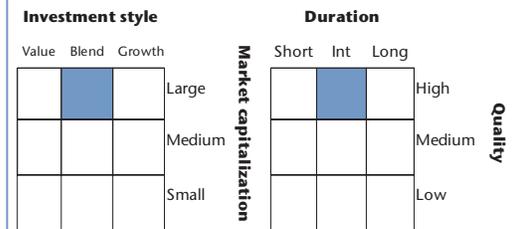
Morningstar percentile rankings are based on total returns.

## Morningstar category

Retirement Income

## Morningstar Style Box™

As of 11/30/2009



## Risk and Return Statistics

as of 12/31/2009 Relative to Principal LifeTime Strategic Income Blended Index

	3Yr	5Yr
Alpha	-5.83	-3.33
Beta	1.36	1.32
R-Squared	84.24	82.33
Standard Deviation	10.33	8.27
Mean	-2.29	1.10
Sharpe Ratio	-0.40	-0.19
Excess Return	-5.71	-3.15
Excess Risk	4.85	3.94
Information Ratio	-1.18	-0.80

## Operations

Total Investment Expense Net	0.76%
Total Investment Expense Gross	0.76%
Inception Date	03/30/2001
Total Net Assets (mil)	\$554.82



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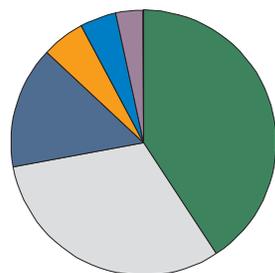
Risk and return statistical data is provided by Markov Processes International (MPI).

# Principal LifeTime Strategic Income Separate Account-R6

as of 12/31/2009

## Portfolio information†

Composition as of 11/30/2009



Asset Class	% of Assets
U.S. Bonds	40.73
Cash	31.30
U.S. Stocks	14.92
Non-U.S. Stocks	5.22
Non-U.S. Bonds	4.37
Preferred	3.31
Other	0.10
Convertibles	0.04

## Top ten holdings

Rank	Top ten holdings	% of net assets
1.	Principal Bond & Mtg Securities Inst	21.09
2.	Principal Core Plus Bond I Institutional	17.28
3.	Principal Inflation Protection Inst	12.34
4.	Principal Ultra Short Bond Inst	9.94
5.	Principal Global Div Inc Instl	5.88
6.	Principal Preferred Securities Inst	5.56
7.	Principal Real Estate Securities Inst	5.18
8.	Principal Discp Large Cap Blend Inst	3.31
9.	Principal High Yield I Inst	3.00
10.	Principal Large Cap Blend I Inst	1.86
% of net assets in top ten holdings*		85.44

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	24
GeoAvgCap (mil)	\$14,492.62
Turnover Ratio	31%
P/C Ratio	5.15
P/E Ratio	17.68
P/B Ratio	1.61

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.20	Healthcare	7.40	Consumer Goods	8.56
Hardware	6.77	Consumer Services	7.18	Industrial Materials	9.49
Media	1.45	Business Services	3.67	Energy	9.09
Telecom	4.00	Financial Services	37.77	Utilities	2.43

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

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

Principal LifeTime Strategic Income Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime Strategic Income portfolio. The weightings as of March 31, 2009 are 19.0% Russell 3000 Index, 6.0% MSCI EAFE Index, and 75.0% Barclays Capital Aggregate Index.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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

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

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

Effective July 1, 2009, the management fee component of the gross and net Total Investment Expense of Principal LifeTime Funds will be reduced to 0.03% annually, from 0.1225%. Since the Principal LifeTime Separate Accounts invest wholly in the Institutional Shares of the Principal LifeTime mutual funds, this reduction will flow through to the Principal LifeTime Separate Accounts.

This Separate Account invests directly in the Institutional class shares of a Principal LifeTime Fund. The mutual fund operating expenses for each Principal LifeTime Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying funds in which the Principal LifeTime Fund invests. Based on the asset allocation of the Principal LifeTime Funds as in the prospectus dated March 1, 2009, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.55%; Principal LifeTime 2010, 0.66%; Principal LifeTime 2015, 0.67%; Principal LifeTime 2020, 0.72%; Principal LifeTime 2025, 0.71%; Principal LifeTime 2030, 0.75%; Principal LifeTime 2035, 0.75%; Principal LifeTime 2040, 0.77%; Principal LifeTime 2045, 0.82%; Principal LifeTime 2050, 0.79%; Principal LifeTime 2055, 0.79%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal LifeTime Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

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. Additionally there is no guarantee this investment option will provide adequate income at or through retirement.

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

# Principal LifeTime 2010 Separate Account-R6 as of 12/31/2009

## Investment Strategy

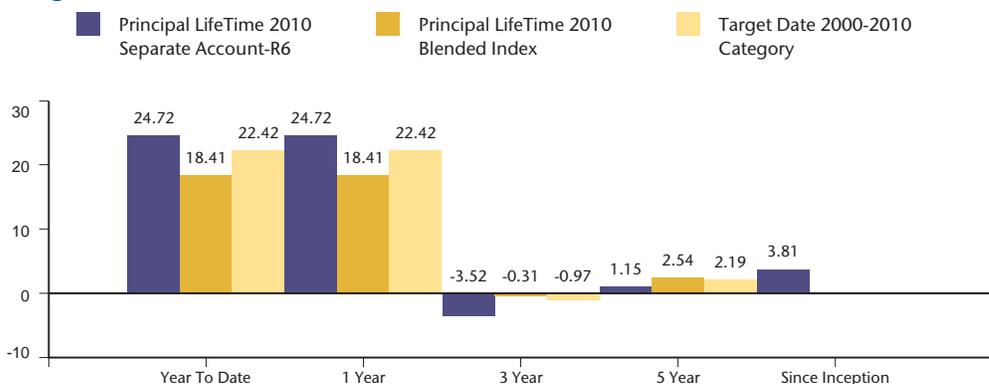
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable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



## Portfolio managers

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

## Long-term returns % as of 12/31/2009



## Performance disclosure

*Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit [www.principal.com](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 %	24.72	24.72	-3.52	1.15	3.81
Principal LifeTime 2010 Blended Index %	18.41	18.41	-0.31	2.54	-
Target Date 2000-2010 Category %	22.42	22.42	-0.97	2.19	-
Morningstar Percentile Rankings	-	27	89	79	-
# of Funds in Category	201	201	137	55	-

Annual Returns	2009	2008	2007	2006	2005
Total Return %	24.72	-30.38	3.44	11.84	5.40
Principal LifeTime 2010 Blended Index %	18.41	-20.76	7.02	8.73	4.11
Target Date 2000-2010 Category %	22.42	-22.46	5.22	8.58	3.68
Morningstar Percentile Rankings	27	90	84	18	7
# of Funds in Category	201	304	266	188	126

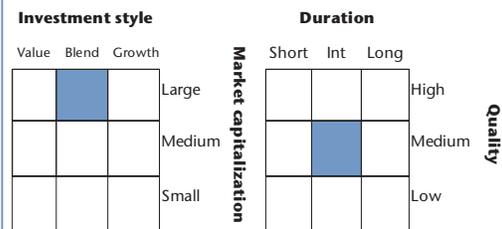
*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target Date 2000-2010

## Morningstar Style Box™

As of 11/30/2009



## Risk and Return Statistics

as of 12/31/2009 Relative to Principal LifeTime 2010 Blended Index

	3Yr	5Yr
Alpha	-2.44	-1.10
Beta	1.21	1.21
R-Squared	96.79	96.41
Standard Deviation	15.36	12.24
Mean	-3.51	1.15
Sharpe Ratio	-0.31	-0.09
Excess Return	-3.21	-1.39
Excess Risk	3.86	3.15
Information Ratio	-0.83	-0.44

## Operations

Total Investment Expense Net	0.86%
Total Investment Expense Gross	0.86%
Inception Date	03/30/2001
Total Net Assets (mil)	\$1,665.72



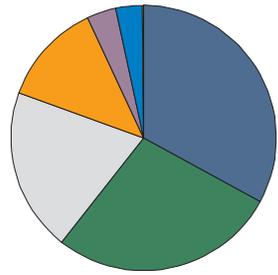
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Risk and return statistical data is provided by Markov Processes International (MPI).

# Principal LifeTime 2010 Separate Account-R6 as of 12/31/2009

## Portfolio information†

Composition as of 11/30/2009



Asset Class	% of Assets
U.S. Stocks	33.00
U.S. Bonds	27.61
Cash	19.91
Non-U.S. Stocks	12.55
Preferred	3.50
Non-U.S. Bonds	3.25
Other	0.15
Convertibles	0.03

## Top ten holdings

Rank	Top ten holdings	% of net assets
1.	Principal Bond & Mtg Securities Inst	14.89
2.	Principal Core Plus Bond I Institutional	12.35
3.	Principal Discp Large Cap Blend Inst	8.41
4.	Principal Real Estate Securities Inst	6.47
5.	Principal Preferred Securities Inst	6.37
6.	Principal Large Cap Blend I Inst	4.48
7.	Principal Large Cap Growth I Inst	4.22
8.	Principal International Growth Inst	3.96
9.	Principal International Value I Instl	3.92
10.	Principal International I Inst	3.90
	% of net assets in top ten holdings*	68.98

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	27
GeoAvgCap (mil)	\$18,843.99
Turnover Ratio	13%
P/C Ratio	4.87
P/E Ratio	16.79
P/B Ratio	1.68

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.65	Healthcare	8.55	Consumer Goods	9.82
Hardware	8.11	Consumer Services	7.98	Industrial Materials	11.35
Media	1.80	Business Services	4.15	Energy	9.55
Telecom	4.81	Financial Services	28.42	Utilities	2.80

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

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

Principal LifeTime 2010 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2010 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2009 are 39.9% Russell 3000 Index, 14.1% MSCI EAFE Index, and 46.0% Barclays Capital Aggregate Index.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 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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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.

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

Effective July 1, 2009, the management fee component of the gross and net Total Investment Expense of Principal LifeTime Funds will be reduced to 0.03% annually, from 0.1225%. Since the Principal LifeTime Separate Accounts invest wholly in the Institutional Shares of the Principal LifeTime mutual funds, this reduction will flow through to the Principal LifeTime Separate Accounts.

This Separate Account invests directly in the Institutional class shares of a Principal LifeTime Fund. The mutual fund operating expenses for each Principal LifeTime Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying funds in which the Principal LifeTime Fund invests. Based on the asset allocation of the Principal LifeTime Funds as in the prospectus dated March 1, 2009, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.55%; Principal LifeTime 2010, 0.66%; Principal LifeTime 2015, 0.67%; Principal LifeTime 2020, 0.72%; Principal LifeTime 2025, 0.71%; Principal LifeTime 2030, 0.75%; Principal LifeTime 2035, 0.75%; Principal LifeTime 2040, 0.77%; Principal LifeTime 2045, 0.82%; Principal LifeTime 2050, 0.79%; Principal LifeTime 2055, 0.79%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal LifeTime Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

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. Additionally there is no guarantee this investment option will provide adequate income at or through retirement.

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

# Principal LifeTime 2020 Separate Account-R6 as of 12/31/2009

## Investment Strategy

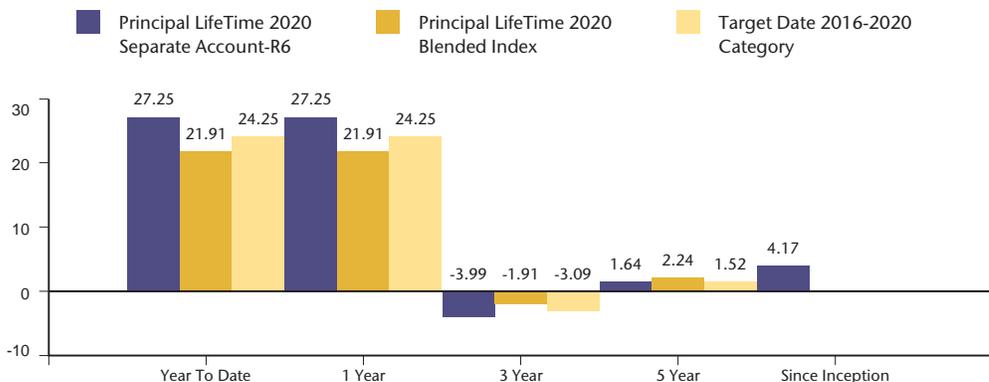
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable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



## Portfolio managers

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

## Long-term returns % as of 12/31/2009



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	27.25	27.25	-3.99	1.64	4.17
Principal LifeTime 2020 Blended Index %	21.91	21.91	-1.91	2.24	-
Target Date 2016-2020 Category %	24.25	24.25	-3.09	1.52	-
Morningstar Percentile Rankings	-	34	67	47	-
# of Funds in Category	212	212	127	61	-

Annual Returns	2009	2008	2007	2006	2005
Total Return %	27.25	-33.81	5.08	14.03	7.49
Principal LifeTime 2020 Blended Index %	21.91	-26.44	7.00	11.30	5.12
Target Date 2016-2020 Category %	24.25	-29.46	6.02	11.95	5.80
Morningstar Percentile Rankings	34	70	67	14	4
# of Funds in Category	212	186	134	91	62

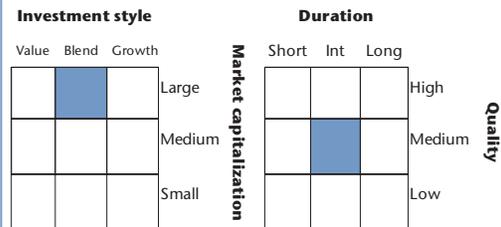
*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target Date 2016-2020

## Morningstar Style Box™

As of 11/30/2009



## Risk and Return Statistics

as of 12/31/2009 Relative to Principal LifeTime 2020 Blended Index

	3Yr	5Yr
Alpha	-1.25	-0.32
Beta	1.15	1.15
R-Squared	98.29	98.17
Standard Deviation	17.62	14.11
Mean	-3.99	1.64
Sharpe Ratio	-0.28	-0.02
Excess Return	-2.08	-0.60
Excess Risk	3.27	2.66
Information Ratio	-0.64	-0.23

## Operations

Total Investment Expense Net	0.92%
Total Investment Expense Gross	0.92%
Inception Date	03/30/2001
Total Net Assets (mil)	\$4,108.67



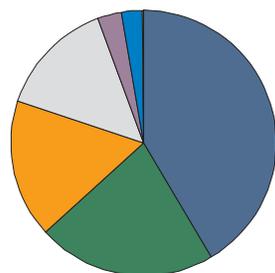
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Risk and return statistical data is provided by Markov Processes International (MPI).

# Principal LifeTime 2020 Separate Account-R6 as of 12/31/2009

## Portfolio information†

Composition as of 11/30/2009



Asset Class	% of Assets
U.S. Stocks	41.45
U.S. Bonds	21.79
Non-U.S. Stocks	16.94
Cash	14.20
Preferred	2.89
Non-U.S. Bonds	2.55
Other	0.16
Convertibles	0.02

Top ten holdings	% of net assets
1. Principal Bond & Mtg Securities Inst	11.70
2. Principal Discp Large Cap Blend Inst	10.42
3. Principal Core Plus Bond I Institutional	9.65
4. Principal Large Cap Growth I Inst	5.70
5. Principal Large Cap Blend I Inst	5.49
6. Principal Preferred Securities Inst	5.48
7. Principal High Yield I Inst	5.35
8. Principal International Growth Inst	5.30
9. Principal International Value I Instl	5.29
10. Principal International I Inst	5.28
% of net assets in top ten holdings*	69.65

Analysis	
# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	23
GeoAvgCap (mil)	\$19,664.27
Turnover Ratio	7%
P/C Ratio	4.73
P/E Ratio	16.42
P/B Ratio	1.70

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.84	Healthcare	9.07	Consumer Goods	10.40
Hardware	8.56	Consumer Services	8.40	Industrial Materials	12.10
Media	1.88	Business Services	4.50	Energy	9.76
Telecom	5.11	Financial Services	24.42	Utilities	2.96

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

Principal LifeTime 2020 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2020 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2009 are 49.7% Russell 3000 Index, 18.8% MSCI EAFE Index, and 31.5% Barclays Capital Aggregate Index.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 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.

Effective July 1, 2009, the management fee component of the gross and net Total Investment Expense of Principal LifeTime Funds will be reduced to 0.03% annually, from 0.1225%. Since the Principal LifeTime Separate Accounts invest wholly in the Institutional Shares of the Principal LifeTime mutual funds, this reduction will flow through to the Principal LifeTime Separate Accounts.

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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. Additionally there is no guarantee this investment option will provide adequate income at or through retirement.

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

# Principal LifeTime 2030 Separate Account-R6 as of 12/31/2009

## Investment Strategy

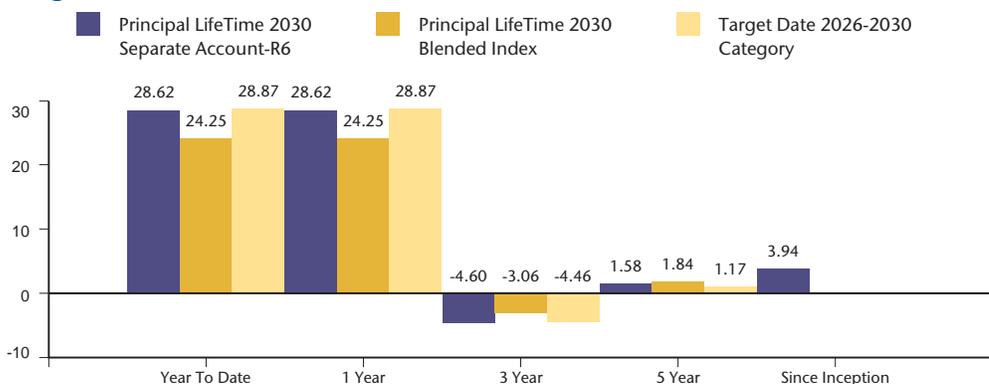
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable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



## Portfolio managers

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**Randy L. Welch** Since 05/29/2007. M.B.A., Drake University  
**David Blake**, CFA. Since 03/31/2008. M.B.A., Saint Louis University

## Long-term returns % as of 12/31/2009



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	28.62	28.62	-4.60	1.58	3.94
Principal LifeTime 2030 Blended Index %	24.25	24.25	-3.06	1.84	-
Target Date 2026-2030 Category %	28.87	28.87	-4.46	1.17	-
Morningstar Percentile Rankings	-	52	57	25	-
# of Funds in Category	200	200	123	58	-

Annual Returns	2009	2008	2007	2006	2005
Total Return %	28.62	-36.36	6.08	15.13	8.20
Principal LifeTime 2030 Blended Index %	24.25	-30.22	6.94	12.72	5.65
Target Date 2026-2030 Category %	28.87	-36.04	6.50	13.60	6.81
Morningstar Percentile Rankings	52	49	58	23	4
# of Funds in Category	200	169	130	87	58

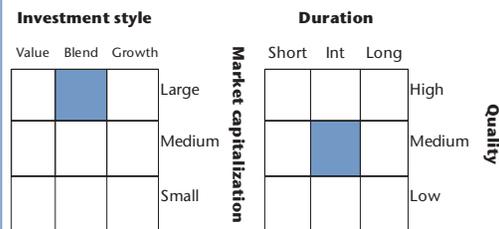
*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target Date 2026-2030

## Morningstar Style Box™

As of 11/30/2009



## Risk and Return Statistics

as of 12/31/2009 Relative to Principal LifeTime 2030 Blended Index

	3Yr	5Yr
Alpha	-0.75	0.03
Beta	1.11	1.12
R-Squared	98.73	98.65
Standard Deviation	19.12	15.36
Mean	-4.60	1.58
Sharpe Ratio	-0.27	-0.01
Excess Return	-1.54	-0.26
Excess Risk	2.93	2.41
Information Ratio	-0.53	-0.11

## Operations

Total Investment Expense Net	0.95%
Total Investment Expense Gross	0.95%
Inception Date	03/30/2001
Total Net Assets (mil)	\$3,660.60



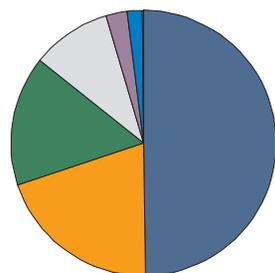
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Risk and return statistical data is provided by Markov Processes International (MPI).

# Principal LifeTime 2030 Separate Account-R6 as of 12/31/2009

## Portfolio information<sup>†</sup>

Composition as of 11/30/2009



### % of Assets

U.S. Stocks	49.76
Non-U.S. Stocks	20.08
U.S. Bonds	15.86
Cash	9.69
Preferred	2.58
Non-U.S. Bonds	1.84
Other	0.18
Convertibles	0.01

### Top ten holdings

1. Principal Discp Large Cap Blend Inst	11.79
2. Principal Large Cap Growth I Inst	6.88
3. Principal Bond & Mtg Securities Inst	6.56
4. Principal High Yield I Inst	6.18
5. Principal Large Cap Blend I Inst	6.06
6. Principal International Value I Instl	5.85
7. Principal International Growth Inst	5.82
8. Principal International I Inst	5.81
9. Principal Large Cap Growth Inst	5.65
10. Principal Core Plus Bond I Institutional	5.56
% of net assets in top ten holdings*	66.15

### % of net assets

### Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	23
GeoAvgCap (mil)	\$20,035.82
Turnover Ratio	7%
P/C Ratio	4.70
P/E Ratio	16.37
P/B Ratio	1.71

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.91	Healthcare	9.17	Consumer Goods	10.44
Hardware	8.77	Consumer Services	8.50	Industrial Materials	12.19
Media	1.91	Business Services	4.56	Energy	9.93
Telecom	5.19	Financial Services	23.45	Utilities	2.97

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

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

Principal LifeTime 2030 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2030 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2009 are 56.3% Russell 3000 Index, 22.0% MSCI EAFE Index, and 21.7% Barclays Capital Aggregate Index.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 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.

Effective July 1, 2009, the management fee component of the gross and net Total Investment Expense of Principal LifeTime Funds will be reduced to 0.03% annually, from 0.1225%. Since the Principal LifeTime Separate Accounts invest wholly in the Institutional Shares of the Principal LifeTime mutual funds, this reduction will flow through to the Principal LifeTime Separate Accounts.

This Separate Account invests directly in the Institutional class shares of a Principal LifeTime Fund. The mutual fund operating expenses for each Principal LifeTime Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying funds in which the Principal LifeTime Fund invests. Based on the asset allocation of the Principal LifeTime Funds as in the prospectus dated March 1, 2009, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.55%; Principal LifeTime 2010, 0.66%; Principal LifeTime 2015, 0.67%; Principal LifeTime 2020, 0.72%; Principal LifeTime 2025, 0.71%; Principal LifeTime 2030, 0.75%; Principal LifeTime 2035, 0.75%; Principal LifeTime 2040, 0.77%; Principal LifeTime 2045, 0.82%; Principal LifeTime 2050, 0.79%; Principal LifeTime 2055, 0.79%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal LifeTime Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

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. Additionally there is no guarantee this investment option will provide adequate income at or through retirement.

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

# Principal LifeTime 2040 Separate Account-R6 as of 12/31/2009

## Investment Strategy

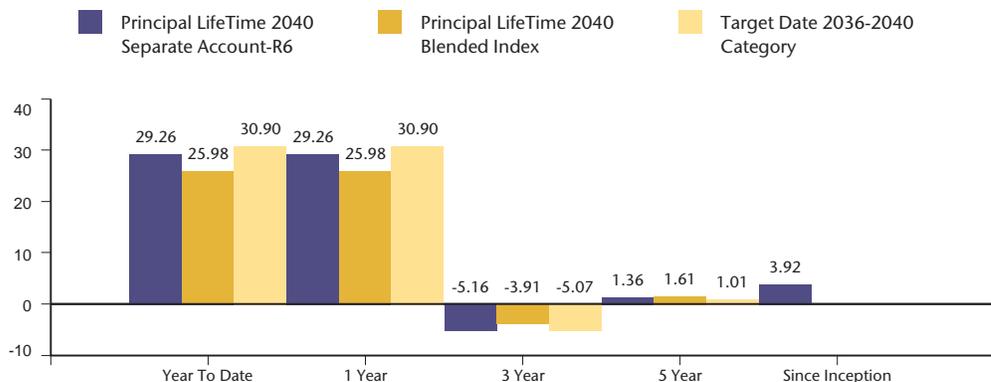
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable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



## Portfolio managers

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

## Long-term returns % as of 12/31/2009



## Performance disclosure

*Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit [www.principal.com](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 %	29.26	29.26	-5.16	1.36	3.92
Principal LifeTime 2040 Blended Index %	25.98	25.98	-3.91	1.61	-
Target Date 2036-2040 Category %	30.90	30.90	-5.07	1.01	-
Morningstar Percentile Rankings	-	60	49	21	-
# of Funds in Category	193	193	106	53	-

Annual Returns	2009	2008	2007	2006	2005
Total Return %	29.26	-38.20	6.80	15.43	8.65
Principal LifeTime 2040 Blended Index %	25.98	-32.87	6.88	14.26	6.21
Target Date 2036-2040 Category %	30.90	-37.94	6.21	14.67	7.41
Morningstar Percentile Rankings	60	53	41	36	5
# of Funds in Category	193	151	111	77	53

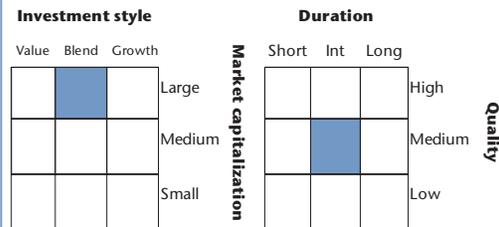
*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target Date 2036-2040

## Morningstar Style Box™

As of 11/30/2009



## Risk and Return Statistics

as of 12/31/2009 Relative to Principal LifeTime 2040 Blended Index

	3Yr	5Yr
Alpha	-0.55	0.01
Beta	1.09	1.09
R-Squared	98.94	98.91
Standard Deviation	20.15	16.21
Mean	-5.15	1.37
Sharpe Ratio	-0.28	-0.02
Excess Return	-1.25	-0.24
Excess Risk	2.64	2.15
Information Ratio	-0.47	-0.11

## Operations

Total Investment Expense Net	0.97%
Total Investment Expense Gross	0.97%
Inception Date	03/30/2001
Total Net Assets (mil)	\$2,079.31



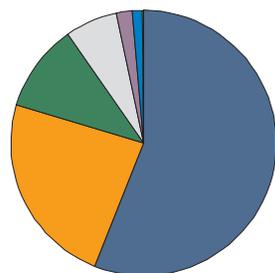
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Risk and return statistical data is provided by Markov Processes International (MPI).

# Principal LifeTime 2040 Separate Account-R6 as of 12/31/2009

## Portfolio information†

Composition as of 11/30/2009



Asset Class	% of Assets
U.S. Stocks	56.01
Non-U.S. Stocks	23.65
U.S. Bonds	10.66
Cash	6.34
Preferred	1.95
Non-U.S. Bonds	1.20
Other	0.18
Convertibles	0.01

## Top ten holdings

Rank	Top ten holdings	% of net assets
1.	Principal Discp Large Cap Blend Inst	12.33
2.	Principal Large Cap Growth I Inst	8.21
3.	Principal International Value I Instl	6.67
4.	Principal International I Inst	6.63
5.	Principal International Growth Inst	6.57
6.	Principal Large Cap Blend I Inst	6.53
7.	Principal Large Cap Growth Inst	6.42
8.	Principal High Yield I Inst	6.00
9.	Principal Intl Emerging Markets Inst	4.59
10.	Principal Large Cap Value III Inst	4.55
% of net assets in top ten holdings*		68.48

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	23
GeoAvgCap (mil)	\$20,775.95
Turnover Ratio	6%
P/C Ratio	4.64
P/E Ratio	16.20
P/B Ratio	1.71

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.94	Healthcare	9.35	Consumer Goods	10.63
Hardware	8.93	Consumer Services	8.66	Industrial Materials	12.50
Media	1.96	Business Services	4.69	Energy	10.19
Telecom	5.35	Financial Services	21.77	Utilities	3.04

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

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

Principal LifeTime 2040 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2040 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2009 are 61.0% Russell 3000 Index, 24.5% MSCI EAFE Index, and 14.5% Barclays Capital Aggregate Index.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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

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

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

Effective July 1, 2009, the management fee component of the gross and net Total Investment Expense of Principal LifeTime Funds will be reduced to 0.03% annually, from 0.1225%. Since the Principal LifeTime Separate Accounts invest wholly in the Institutional Shares of the Principal LifeTime mutual funds, this reduction will flow through to the Principal LifeTime Separate Accounts.

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

# Principal LifeTime 2050 Separate Account-R6 as of 12/31/2009

## Investment Strategy

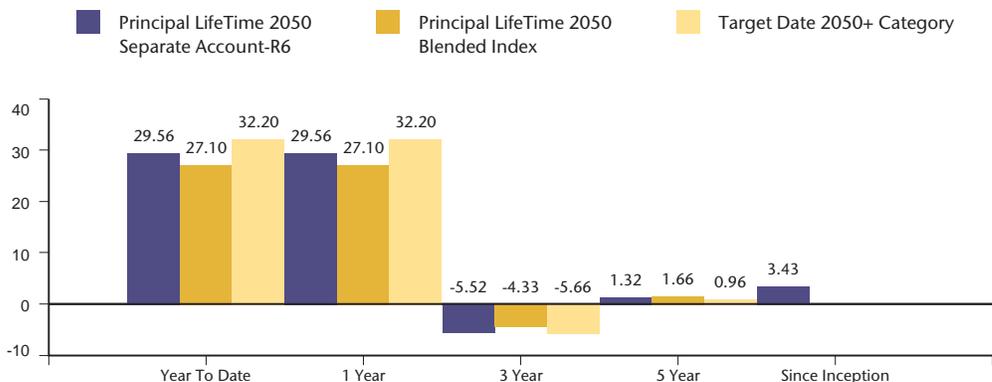
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable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



## Portfolio managers

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

## Long-term returns % as of 12/31/2009



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	29.56	29.56	-5.52	1.32	3.43
Principal LifeTime 2050 Blended Index %	27.10	27.10	-4.33	1.66	-
Target Date 2050+ Category %	32.20	32.20	-5.66	0.96	-
Morningstar Percentile Rankings	-	71	36	17	-
# of Funds in Category	159	159	29	7	-

Annual Returns	2009	2008	2007	2006	2005
Total Return %	29.56	-39.14	6.96	15.96	9.17
Principal LifeTime 2050 Blended Index %	27.10	-34.23	6.89	15.81	6.79
Target Date 2050+ Category %	32.20	-38.86	5.94	15.51	8.76
Morningstar Percentile Rankings	71	49	34	16	17
# of Funds in Category	159	97	29	16	7

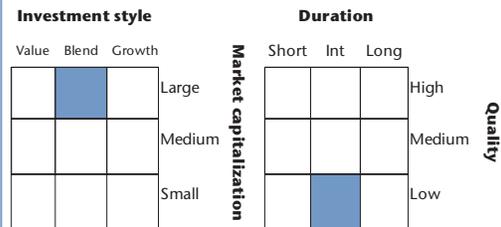
*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target Date 2050+

## Morningstar Style Box™

As of 11/30/2009



## Risk and Return Statistics

as of 12/31/2009 Relative to Principal LifeTime 2050 Blended Index

	3Yr	5Yr
Alpha	-0.54	-0.10
Beta	1.07	1.08
R-Squared	99.01	98.97
Standard Deviation	20.77	16.79
Mean	-5.51	1.33
Sharpe Ratio	-0.28	-0.01
Excess Return	-1.18	-0.33
Excess Risk	2.53	2.08
Information Ratio	-0.46	-0.16

## Operations

Total Investment Expense Net	1.00%
Total Investment Expense Gross	1.00%
Inception Date	03/30/2001
Total Net Assets (mil)	\$859.03



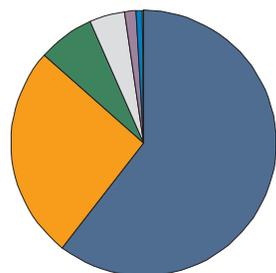
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Risk and return statistical data is provided by Markov Processes International (MPI).

# Principal LifeTime 2050 Separate Account-R6 as of 12/31/2009

## Portfolio information†

Composition as of  
11/30/2009



Asset Class	% of Assets
U.S. Stocks	60.51
Non-U.S. Stocks	26.03
U.S. Bonds	6.84
Cash	4.29
Preferred	1.41
Non-U.S. Bonds	0.75
Other	0.17

## Top ten holdings

Rank	Top ten holdings	% of net assets
1.	Principal Discp Large Cap Blend Inst	11.84
2.	Principal Large Cap Growth I Inst	8.48
3.	Principal International Value I Instl	7.31
4.	Principal International I Inst	7.26
5.	Principal International Growth Inst	7.20
6.	Principal Large Cap Growth Inst	7.19
7.	Principal Large Cap Blend I Inst	6.43
8.	Principal Large Cap Value III Inst	5.21
9.	Principal High Yield I Inst	5.21
10.	Principal Large Cap Value I Inst	5.16
% of net assets in top ten holdings*		71.28

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	23
GeoAvgCap (mil)	\$20,616.45
Turnover Ratio	7%
P/C Ratio	4.61
P/E Ratio	16.21
P/B Ratio	1.70

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.86	Healthcare	9.31	Consumer Goods	10.61
Hardware	8.77	Consumer Services	8.64	Industrial Materials	12.51
Media	1.97	Business Services	4.71	Energy	10.20
Telecom	5.35	Financial Services	21.97	Utilities	3.08

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

Principal LifeTime 2050 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2050 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2009 are 64.2% Russell 3000 Index, 25.8% MSCI EAFE Index, and 10.0% Barclays Capital Aggregate Index.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 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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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. Additionally there is no guarantee this investment option will provide adequate income at or through retirement.

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# Russell LifePoints® Conservative Strategy Sep Acct-R6

as of 12/31/2009

## Investment Strategy

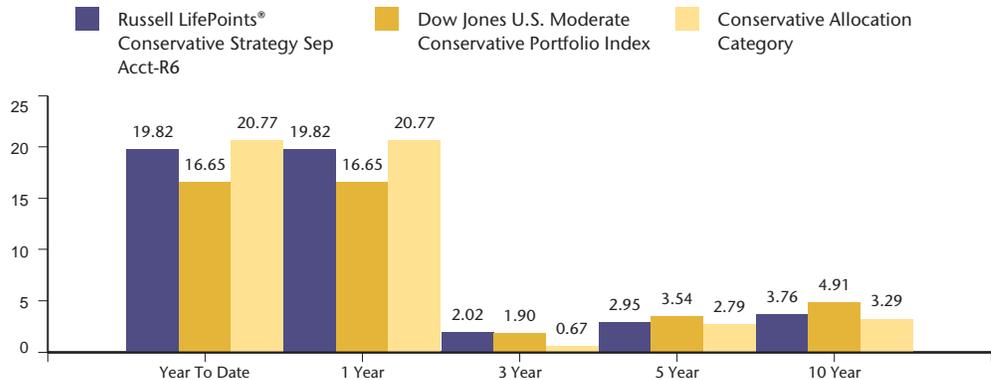
The investment seeks high levels of current income and low long-term capital appreciation. The fund is a fund of funds that diversifies assets by investing in class Y shares of several other Russell Investment Company funds. The management may modify the asset allocation and the selection of underlying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



Portfolio managers

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

## Long-term returns % as of 12/31/2009



## Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit [www.principal.com](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 %	19.82	19.82	2.02	2.95	3.76
Dow Jones U.S. Moderate Conservative Portfolio Index %	16.65	16.65	1.90	3.54	4.91
Conservative Allocation Category %	20.77	20.77	0.67	2.79	3.29
Morningstar Percentile Rankings	-	57	27	49	34
# of Funds in Category	628	628	522	343	151

Annual Returns	2009	2008	2007	2006	2005
Total Return %	19.82	-15.68	5.10	6.17	2.56
Dow Jones U.S. Moderate Conservative Portfolio Index %	16.65	-13.81	5.23	7.45	4.69
Conservative Allocation Category %	20.77	-18.61	4.53	8.16	2.97
Morningstar Percentile Rankings	57	31	44	79	65
# of Funds in Category	628	679	609	558	423

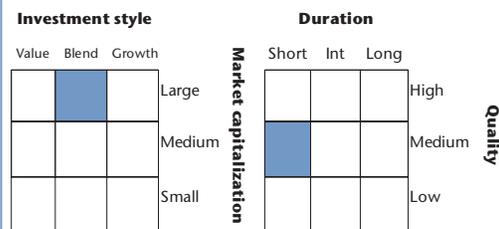
Morningstar percentile rankings are based on total returns.

## Morningstar category

Conservative Allocation

## Morningstar Style Box™

As of 10/31/2009



## Risk and Return Statistics

as of 12/31/2009 Relative to Dow Jones U.S. Moderate Conservative Portfolio Index

	3Yr	5Yr
Alpha	-0.06	-0.48
Beta	0.81	0.79
R-Squared	87.26	86.07
Standard Deviation	8.52	6.70
Mean	2.03	2.95
Sharpe Ratio	0.00	0.02
Excess Return	0.05	-0.58
Excess Risk	3.62	3.04
Information Ratio	0.01	-0.19

## Operations

Total Investment Expense Net	1.41%
Total Investment Expense Gross	1.63%
Contractual Cap Expiration Date	02/28/2010
Waiver Expiration Date	02/28/2010
Inception Date	03/24/1998
Total Net Assets (mil)	\$547.64



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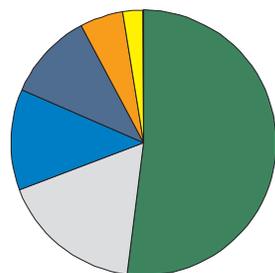
Risk and return statistical data is provided by Markov Processes International (MPI).

# Russell LifePoints® Conservative Strategy Sep Acct-R6

as of 12/31/2009

## Portfolio information†

Composition as of 10/31/2009



Asset Class	% of Assets
U.S. Bonds	51.98
Cash	17.19
Non-U.S. Bonds	12.39
U.S. Stocks	10.63
Non-U.S. Stocks	5.22
Other	2.43
Preferred	0.09
Convertibles	0.06

## Top ten holdings

Rank	Top ten holdings	% of net assets
1.	Russell Strategic Bond Y	60.32
2.	Russell Short Duration Bond Y	20.14
3.	Russell US Core Equity Y	5.84
4.	Russell US Quantitative Equity Y	4.89
5.	Russell International Developed Mkts Y	3.89
6.	Russell Real Estate Secs Y	2.96
7.	Russell Global Equity Y	1.95
% of net assets in top ten holdings*		100.00

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	7
GeoAvgCap (mil)	\$20,435.92
Turnover Ratio	86%
P/C Ratio	5.54
P/E Ratio	15.99
P/B Ratio	1.69

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.17	Healthcare	9.12	Consumer Goods	9.86
Hardware	8.02	Consumer Services	8.11	Industrial Materials	9.23
Media	1.98	Business Services	3.78	Energy	8.75
Telecom	4.97	Financial Services	31.71	Utilities	2.29

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

Dow Jones U.S. Moderate Conservative Portfolio Index is a total returns index that is a time-varying weighted average of stocks, bonds and cash. The DJ 40% U.S. Portfolio Index is the efficient allocation of stocks, bonds and cash in a portfolio whose semi deviation is 40% of the annualized 36 month historic semi deviation of the Dow Jones 100% U.S. Portfolio 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 and 5 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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Formerly Russell LifePoints® Conservative Strategy (D) Separate Account.

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

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

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

The Separate Account invests in a mutual fund only. Performance results and investment expenses shown prior to July 31, 2001, are of the mutual fund only because the Separate Account was not available. Any present or past investment expenses charged by The Principal would have reduced the illustrated performance results. The mutual fund operating expenses for each Russell LifePoints® Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying mutual funds in which each Russell LifePoints® Fund invests. Based on the asset allocation of the Russell LifePoints® Funds outlined in the prospectus dated March 1, 2009, the weighted average operating expenses of the underlying funds are: Conservative Strategy Fund, 0.64%; Moderate Strategy Fund, 0.70%; Balanced Strategy Fund, 0.76%; Growth Strategy Fund, 0.83%; Equity Growth Strategy Fund, 0.89%. 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 Russell LifePoints® Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

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

# Russell LifePoints® Moderate Strategy Separate

## Account-R6 as of 12/31/2009

### Investment Strategy

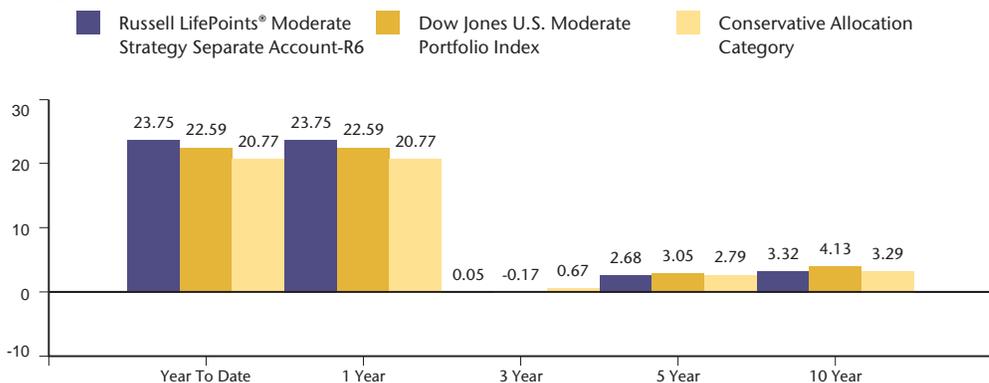
The investment seeks high current income and moderate long term capital appreciation. The fund is a fund of funds that diversifies assets by investing in class Y shares of several other Russell Investment Company funds. The management may modify the asset allocation and the selection of underlying funds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



Portfolio managers

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

### Long-term returns % as of 12/31/2009



### Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit [www.principal.com](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 %	23.75	23.75	0.05	2.68	3.32
Dow Jones U.S. Moderate Portfolio Index %	22.59	22.59	-0.17	3.05	4.13
Conservative Allocation Category %	20.77	20.77	0.67	2.79	3.29
Morningstar Percentile Rankings	-	26	67	62	49
# of Funds in Category	628	628	522	343	151

Annual Returns	2009	2008	2007	2006	2005
Total Return %	23.75	-23.75	6.15	9.28	4.26
Dow Jones U.S. Moderate Portfolio Index %	22.59	-22.60	4.87	10.19	5.99
Conservative Allocation Category %	20.77	-18.61	4.53	8.16	2.97
Morningstar Percentile Rankings	26	78	26	25	26
# of Funds in Category	628	679	609	558	423

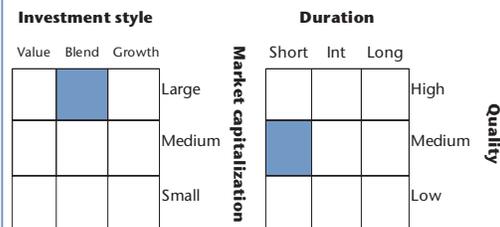
Morningstar percentile rankings are based on total returns.

### Morningstar category

Conservative Allocation

### Morningstar Style Box™

As of 10/31/2009



### Risk and Return Statistics

as of 12/31/2009 Relative to Dow Jones U.S. Moderate Portfolio Index

	3Yr	5Yr
Alpha	-1.64	-0.80
Beta	1.19	1.17
R-Squared	92.28	91.27
Standard Deviation	12.28	9.74
Mean	0.06	2.68
Sharpe Ratio	-0.13	0.01
Excess Return	-1.91	-0.85
Excess Risk	3.95	3.21
Information Ratio	-0.48	-0.27

### Operations

Total Investment Expense Net	1.47%
Total Investment Expense Gross	1.67%
Contractual Cap Expiration Date	02/28/2010
Waiver Expiration Date	02/28/2010
Inception Date	03/24/1998
Total Net Assets (mil)	\$1,005.11



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Risk and return statistical data is provided by Markov Processes International (MPI).

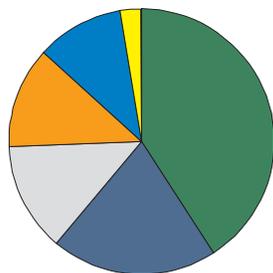
# Russell LifePoints® Moderate Strategy Separate

## Account-R6 as of 12/31/2009

### Portfolio information†

Composition as of  
10/31/2009

	% of Assets
U.S. Bonds	40.91
U.S. Stocks	20.22
Cash	13.20
Non-U.S. Stocks	12.41
Non-U.S. Bonds	10.67
Other	2.49
Convertibles	0.06
Preferred	0.06



### Top ten holdings

	% of net assets
1. Russell Strategic Bond Y	60.92
2. Russell US Quantitative Equity Y	9.84
3. Russell US Core Equity Y	9.75
4. Russell International Developed Mkts Y	8.74
5. Russell Real Estate Secs Y	2.96
6. Russell Global Equity Y	2.95
7. Russell US Small & Mid Cap Y	2.86
8. Russell Emerging Markets Y	1.97
% of net assets in top ten holdings*	100.00

### Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	8
GeoAvgCap (mil)	\$18,115.55
Turnover Ratio	86%
P/C Ratio	5.13
P/E Ratio	15.22
P/B Ratio	1.66

### Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.65	Healthcare	9.43	Consumer Goods	10.69
Hardware	8.63	Consumer Services	8.72	Industrial Materials	10.45
Media	1.97	Business Services	4.52	Energy	9.49
Telecom	5.46	Financial Services	25.43	Utilities	2.57

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

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

Dow Jones U.S. Moderate Portfolio Index is a benchmark designed for asset allocation strategists (portfolio builders) who are willing to take 60% of the risk of the U.S. securities market. It is a total returns index that is a time-varying weighted average of stocks, bonds and cash. The DJ 60% U.S. Portfolio Index is the efficient allocation of stocks, bonds and cash in a portfolio whose semi deviation is 60% of the annualized 36 month historic semi deviation of the Dow Jones 100% U.S. Portfolio Index.

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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.

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# Russell LifePoints® Balanced Strategy Separate Account-R6

as of 12/31/2009

## Investment Strategy

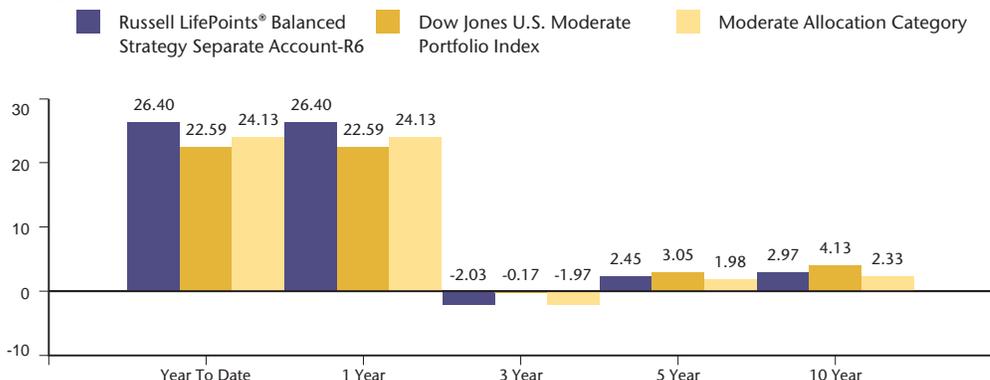
The investment seeks to provide above-average capital appreciation and a moderate level of current income. The fund is a fund of funds that diversifies assets by investing in class Y shares of several other Russell Investment Company funds. The management may modify the asset allocation and the selection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



Portfolio managers

Jill F Johnson Since 05/31/2004.

## Long-term returns % as of 12/31/2009



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	26.40	26.40	-2.03	2.45	2.97
Dow Jones U.S. Moderate Portfolio Index %	22.59	22.59	-0.17	3.05	4.13
Moderate Allocation Category %	24.13	24.13	-1.97	1.98	2.33
Morningstar Percentile Rankings	-	36	55	40	36
# of Funds in Category	1177	1177	953	786	441

Annual Returns	2009	2008	2007	2006	2005
Total Return %	26.40	-30.10	6.42	12.66	6.55
Dow Jones U.S. Moderate Portfolio Index %	22.59	-22.60	4.87	10.19	5.99
Moderate Allocation Category %	24.13	-28.00	5.99	11.29	5.13
Morningstar Percentile Rankings	36	65	44	23	24
# of Funds in Category	1177	1206	1103	1041	985

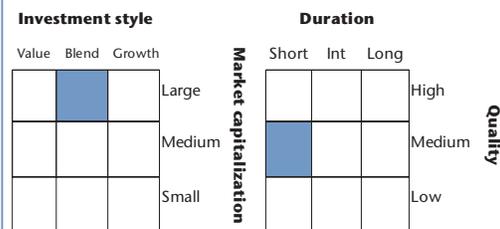
Morningstar percentile rankings are based on total returns.

## Morningstar category

Moderate Allocation

## Morningstar Style Box™

As of 10/31/2009



## Risk and Return Statistics

as of 12/31/2009 Relative to Dow Jones U.S. Moderate Portfolio Index

	3Yr	5Yr
Alpha	-1.50	-0.38
Beta	1.10	1.08
R-Squared	95.51	94.48
Standard Deviation	15.90	12.75
Mean	-2.03	2.45
Sharpe Ratio	-0.20	0.02
Excess Return	-1.90	-0.51
Excess Risk	3.67	3.13
Information Ratio	-0.52	-0.16

## Operations

Total Investment Expense Net	1.53%
Total Investment Expense Gross	1.72%
Contractual Cap Expiration Date	02/28/2010
Waiver Expiration Date	02/28/2010
Inception Date	03/24/1998
Total Net Assets (mil)	\$4,329.06



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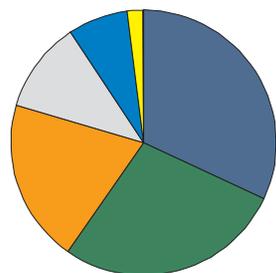
Risk and return statistical data is provided by Markov Processes International (MPI).

# Russell LifePoints® Balanced Strategy Separate Account-R6

as of 12/31/2009

## Portfolio information†

Composition as of 10/31/2009



Asset Class	% of Assets
U.S. Stocks	31.95
U.S. Bonds	27.70
Non-U.S. Stocks	19.99
Cash	11.09
Non-U.S. Bonds	7.23
Other	1.95
Preferred	0.06
Convertibles	0.04

## Top ten holdings

Top ten holdings	% of net assets
1. Russell Strategic Bond Y	39.89
2. Russell US Quantitative Equity Y	15.03
3. Russell US Core Equity Y	14.98
4. Russell International Developed Mkts Y	13.96
5. Russell Real Estate Secs Y	5.14
6. Russell Global Equity Y	4.03
7. Russell US Small & Mid Cap Y	3.91
8. Russell Emerging Markets Y	3.07
% of net assets in top ten holdings*	100.00

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	8
GeoAvgCap (mil)	\$18,206.56
Turnover Ratio	18%
P/C Ratio	5.17
P/E Ratio	15.31
P/B Ratio	1.66

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.57	Healthcare	9.32	Consumer Goods	10.65
Hardware	8.48	Consumer Services	8.56	Industrial Materials	10.32
Media	1.96	Business Services	4.42	Energy	9.42
Telecom	5.43	Financial Services	26.33	Utilities	2.53

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Dow Jones U.S. Moderate Portfolio Index is a benchmark designed for asset allocation strategists (portfolio builders) who are willing to take 60% of the risk of the U.S. securities market. It is a total returns index that is a time-varying weighted average of stocks, bonds and cash. The DJ 60% U.S. Portfolio Index is the efficient allocation of stocks, bonds and cash in a portfolio whose semi deviation is 60% of the annualized 36 month historic semi deviation of the Dow Jones 100% U.S. Portfolio Index.

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# Russell LifePoints® Growth Strategy Separate Account-R6

as of 12/31/2009

## Investment Strategy

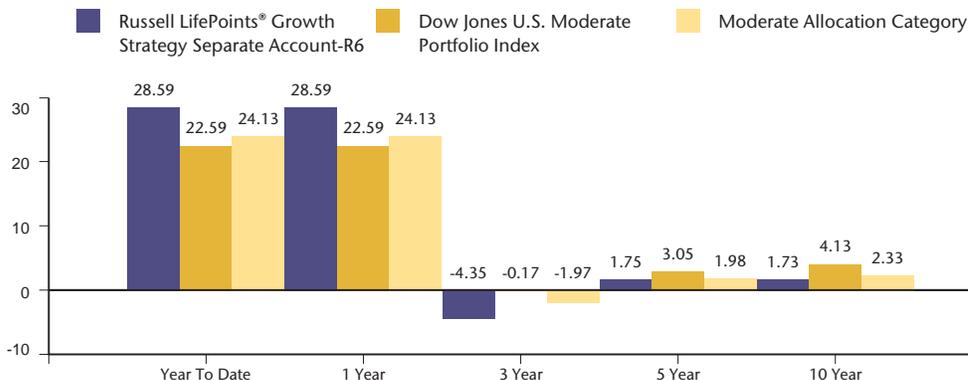
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Portfolio managers

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

## Long-term returns % as of 12/31/2009



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	28.59	28.59	-4.35	1.75	1.73
Dow Jones U.S. Moderate Portfolio Index %	22.59	22.59	-0.17	3.05	4.13
Moderate Allocation Category %	24.13	24.13	-1.97	1.98	2.33
Morningstar Percentile Rankings	-	21	86	60	60
# of Funds in Category	1177	1177	953	786	441

Annual Returns	2009	2008	2007	2006	2005
Total Return %	28.59	-36.25	6.76	15.27	8.09
Dow Jones U.S. Moderate Portfolio Index %	22.59	-22.60	4.87	10.19	5.99
Moderate Allocation Category %	24.13	-28.00	5.99	11.29	5.13
Morningstar Percentile Rankings	21	93	38	6	7
# of Funds in Category	1177	1206	1103	1041	985

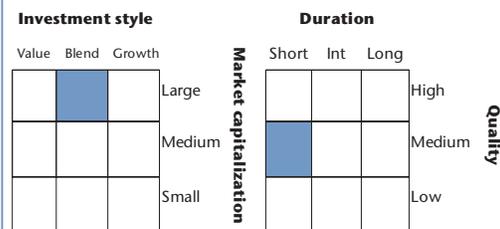
Morningstar percentile rankings are based on total returns.

## Morningstar category

Moderate Allocation

## Morningstar Style Box™

As of 10/31/2009



## Risk and Return Statistics

as of 12/31/2009 Relative to Dow Jones U.S. Moderate Portfolio Index

	3Yr	5Yr
Alpha	-2.84	-0.78
Beta	1.35	1.33
R-Squared	96.16	95.04
Standard Deviation	19.51	15.72
Mean	-4.34	1.76
Sharpe Ratio	-0.25	0.00
Excess Return	-4.21	-1.20
Excess Risk	6.31	5.18
Information Ratio	-0.67	-0.23

## Operations

Total Investment Expense Net	1.60%
Total Investment Expense Gross	1.79%
Contractual Cap Expiration Date	02/28/2010
Waiver Expiration Date	02/28/2010
Inception Date	03/24/1998
Total Net Assets (mil)	\$2,984.51



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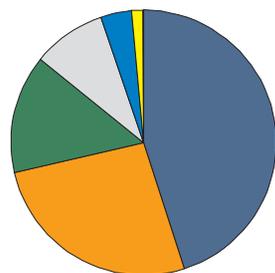
Risk and return statistical data is provided by Markov Processes International (MPI).

# Russell LifePoints® Growth Strategy Separate Account-R6

as of 12/31/2009

## Portfolio information†

Composition as of 10/31/2009



Asset Class	% of Assets
U.S. Stocks	44.99
Non-U.S. Stocks	26.33
U.S. Bonds	14.47
Cash	8.96
Non-U.S. Bonds	3.78
Other	1.39
Preferred	0.05
Convertibles	0.03

## Top ten holdings

Top ten holdings	% of net assets
1. Russell US Core Equity Y	20.97
2. Russell US Quantitative Equity Y	20.12
3. Russell Strategic Bond Y	20.12
4. Russell International Developed Mkts Y	16.87
5. Russell Real Estate Secs Y	6.04
6. Russell Global Equity Y	6.03
7. Russell US Small & Mid Cap Y	5.83
8. Russell Emerging Markets Y	4.02
% of net assets in top ten holdings*	100.00

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	8
GeoAvgCap (mil)	\$18,187.38
Turnover Ratio	12%
P/C Ratio	5.12
P/E Ratio	15.23
P/B Ratio	1.67

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.64	Healthcare	9.45	Consumer Goods	10.57
Hardware	8.78	Consumer Services	8.78	Industrial Materials	10.44
Media	1.96	Business Services	4.53	Energy	9.48
Telecom	5.44	Financial Services	25.39	Utilities	2.55

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

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

Dow Jones U.S. Moderate Portfolio Index is a benchmark designed for asset allocation strategists (portfolio builders) who are willing to take 60% of the risk of the U.S. securities market. It is a total returns index that is a time-varying weighted average of stocks, bonds and cash. The DJ 60% U.S. Portfolio Index is the efficient allocation of stocks, bonds and cash in a portfolio whose semi deviation is 60% of the annualized 36 month historic semi deviation of the Dow Jones 100% U.S. Portfolio 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 and 5 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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Formerly Russell LifePoints® Aggressive Strategy (D) Separate Account.

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

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

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

The Separate Account invests in a mutual fund only. Performance results and investment expenses shown prior to July 31, 2001, are of the mutual fund only because the Separate Account was not available. Any present or past investment expenses charged by The Principal would have reduced the illustrated performance results. The mutual fund operating expenses for each Russell LifePoints® Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying mutual funds in which each Russell LifePoints® Fund invests. Based on the asset allocation of the Russell LifePoints® Funds outlined in the prospectus dated March 1, 2009, the weighted average operating expenses of the underlying funds are: Conservative Strategy Fund, 0.64%; Moderate Strategy Fund, 0.70%; Balanced Strategy Fund, 0.76%; Growth Strategy Fund, 0.83%; Equity Growth Strategy Fund, 0.89%. 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 Russell LifePoints® Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

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

# Russell LifePoints® Equity Growth Strategy Sep Acct-R6

as of 12/31/2009

## Investment Strategy

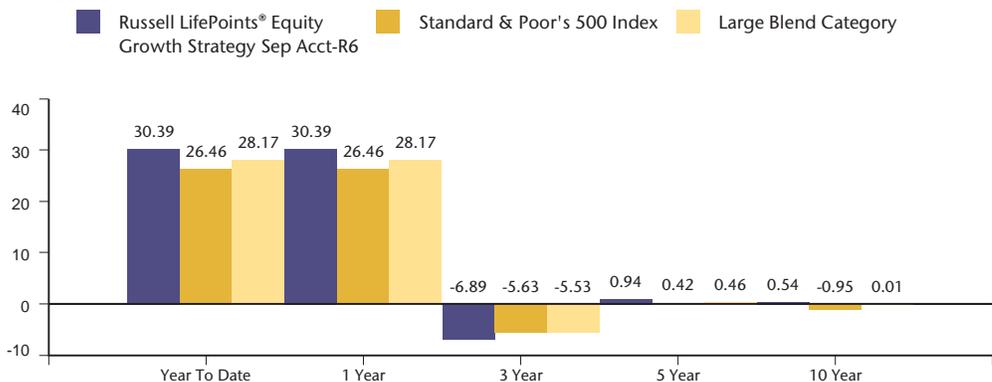
The investment seeks high long-term capital appreciation. The fund is a fund of funds that diversifies assets by investing in class Y shares of several other Russell Investment Company funds. It normally invests at least 80% of assets in shares of equity underlying funds. The management may modify the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



Portfolio managers

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

## Long-term returns % as of 12/31/2009



## Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit [www.principal.com](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 %	30.39	30.39	-6.89	0.94	0.54
Standard & Poor's 500 Index %	26.46	26.46	-5.63	0.42	-0.95
Large Blend Category %	28.17	28.17	-5.53	0.46	0.01
Morningstar Percentile Rankings	-	31	77	38	36
# of Funds in Category	2027	2027	1757	1376	710

Annual Returns	2009	2008	2007	2006	2005
Total Return %	30.39	-42.21	7.11	18.27	9.77
Standard & Poor's 500 Index %	26.46	-37.00	5.49	15.79	4.91
Large Blend Category %	28.17	-37.79	6.16	14.17	5.88
Morningstar Percentile Rankings	31	85	35	6	10
# of Funds in Category	2027	2086	2090	1980	1743

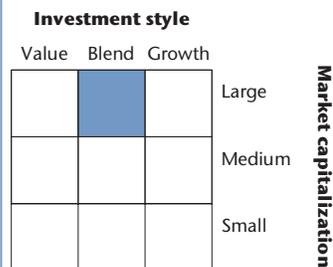
Morningstar percentile rankings are based on total returns.

## Morningstar category

Large Blend

## Morningstar Style Box™

As of 10/31/2009



## Risk and Return Statistics

as of 12/31/2009 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	0.27	1.20
Beta	1.14	1.14
R-Squared	96.34	95.69
Standard Deviation	23.17	18.77
Mean	-6.89	0.94
Sharpe Ratio	-0.29	-0.01
Excess Return	-1.27	0.52
Excess Risk	5.28	4.54
Information Ratio	-0.24	0.11

## Operations

Total Investment Expense Net	1.66%
Total Investment Expense Gross	1.86%
Contractual Cap Expiration Date	02/28/2010
Waiver Expiration Date	02/28/2010
Inception Date	03/24/1998
Total Net Assets (mil)	\$1,406.94



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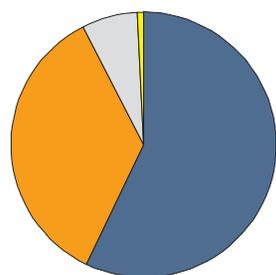
Risk and return statistical data is provided by Markov Processes International (MPI).

# Russell LifePoints® Equity Growth Strategy Sep Acct-R6

as of 12/31/2009

## Portfolio information†

Composition as of 10/31/2009



Asset Class	% of Assets
U.S. Stocks	57.10
Non-U.S. Stocks	35.30
Cash	6.76
Other	0.78
Preferred	0.05

## Top ten holdings

Rank	Top ten holdings	% of net assets
1.	Russell US Core Equity Y	26.03
2.	Russell US Quantitative Equity Y	25.27
3.	Russell International Developed Mkts Y	22.82
4.	Russell Real Estate Secs Y	7.07
5.	Russell Global Equity Y	7.03
6.	Russell US Small & Mid Cap Y	6.82
7.	Russell Emerging Markets Y	4.95
% of net assets in top ten holdings*		100.00

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	7
GeoAvgCap (mil)	\$18,588.35
Turnover Ratio	9%
P/C Ratio	5.12
P/E Ratio	15.18
P/B Ratio	1.67

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.62	Healthcare	9.50	Consumer Goods	10.76
Hardware	8.71	Consumer Services	8.75	Industrial Materials	10.50
Media	1.99	Business Services	4.51	Energy	9.56
Telecom	5.50	Financial Services	25.04	Utilities	2.56

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

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 and 5 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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\* Values may exceed 100% if both long and short positions are included in the portfolio.

# Stable Value Sig Fund as of 12/31/2009

## Investment Strategy

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

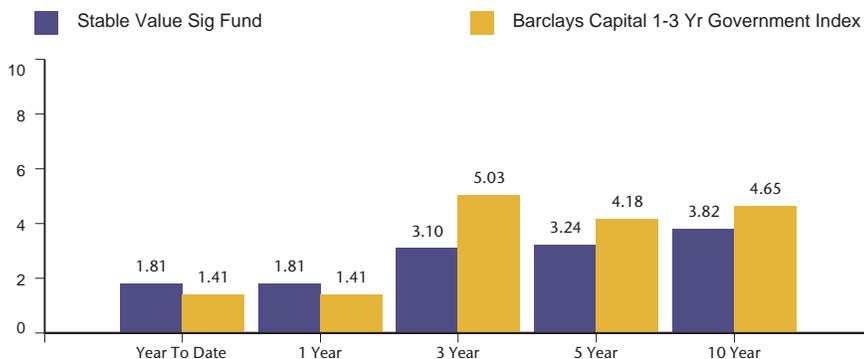
## MORLEY FINANCIAL

SERVICES, INC.

### Portfolio managers

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

## Long-term returns % as of 12/31/2009



## Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including most recent month-end performance, visit [www.principal.com](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 %	1.81	1.81	3.10	3.24	3.82
Barclays Capital 1-3 Yr Government Index %	1.41	1.41	5.03	4.18	4.65

Annual Returns	2009	2008	2007	2006	2005
Total Return %	1.81	3.58	3.92	3.62	3.27



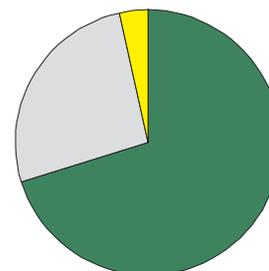
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## Operations

Total Investment Expense Net	0.85%
Total Investment Expense Gross	0.85%
Inception Date	01/09/1997
Total Net Assets (mil)	\$3,242.38

## Portfolio information

Composition as of 09/30/2009



### % of Assets

U.S. Bonds	70.10
Cash	26.30
Other	3.50

## Portfolio composition

### Top ten issuers

	% of net assets
State Street Multi Asset	12.80
JP Morgan Chase Wrap Multi Asset	11.80
Bank of America Wrap Multi Asset	11.80
AIG Wrap Multi Asset	8.50
NATIXIS Wrap PGI	8.50
Rabobank Wrap Multi Asset	8.30
UBS Wrap Multi Asset	5.10
New York Life Insurance Co	3.50
AIG Wrap UBT Actively Managed Fund	3.20

% of net assets in top ten holdings\* 73.50%

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

### Diversification

Maturity	% of assets
Less than 1 Yr	25.00
1-2 Yrs	21.60
2-3 Yrs	17.40
3-4 Yrs	16.60
Over 4 Yrs	19.40

### Statistics

# of Issuers	8
Avg Eff Duration (Yrs)	1.85
Avg Eff Maturity (Yrs)	1.96
7-Day Yield %	1.78
Avg Credit Quality	AA+/Aa1

# Stable Value Sig Fund as of 12/31/2009

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

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

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

# Bond and Mortgage Separate Account-R3 as of 12/31/2009

## Investment Strategy

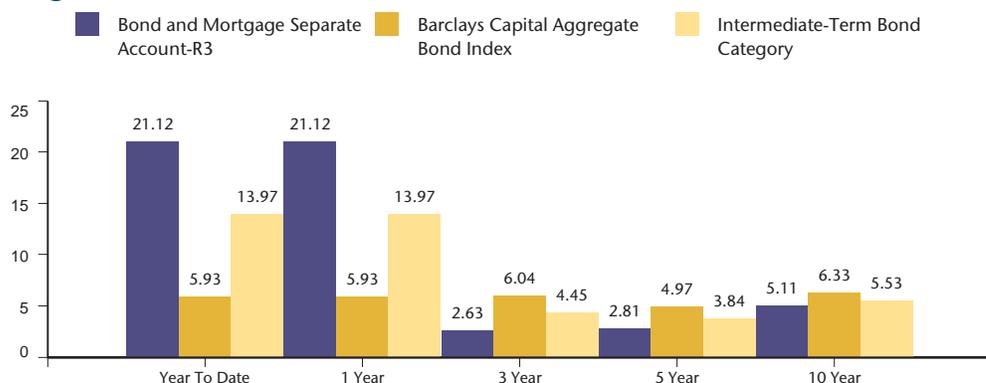
The investment option invests primarily in intermediate-term, fixed-income investments such as public and private corporate bonds, commercial and residential mortgages, asset-backed securities, and US government and agency-backed securities. Value is added primarily through sector allocation and security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



## Portfolio managers

**William C. Armstrong**, CFA. Since 01/01/1997. M.B.A., University of Iowa  
**Timothy R. Warrick**, CFA. Since 06/01/2002. M.B.A., Drake University  
**L. Phillip Jacoby IV** Since 11/07/2005. B.S., Boston University  
**Bernard M. Sussman** Since 11/07/2005. M.B.A., Cornell University  
**Mark A. Lieb** Since 07/01/2009. M.B.A., University of Hartford

## Long-term returns % as of 12/31/2009



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	21.12	21.12	2.63	2.81	5.11
Barclays Capital Aggregate Bond Index %	5.93	5.93	6.04	4.97	6.33
Intermediate-Term Bond Category %	13.97	13.97	4.45	3.84	5.53
Morningstar Percentile Rankings	-	12	81	80	74
# of Funds in Category	1123	1123	978	866	496

Annual Returns	2009	2008	2007	2006	2005
Total Return %	21.12	-13.55	3.24	4.13	2.06
Barclays Capital Aggregate Bond Index %	5.93	5.24	6.97	4.33	2.43
Intermediate-Term Bond Category %	13.97	-4.70	4.70	4.15	1.80
Morningstar Percentile Rankings	12	89	84	42	37
# of Funds in Category	1123	1135	1097	1092	1043

*Morningstar percentile rankings are based on total returns.*

Morningstar category  
Intermediate-Term Bond

Morningstar Style Box™  
As of 11/30/2009

Duration			Quality	
Short	Int	Long		
				High
				Medium
			Low	

## Risk and Return Statistics

as of 12/31/2009 Relative to  
Barclays Capital Aggregate Bond Index

	3Yr	5Yr
Alpha	-3.28	-2.00
Beta	1.05	1.01
R-Squared	35.19	39.91
Standard Deviation	7.28	5.87
Mean	2.63	2.81
Sharpe Ratio	0.06	-0.01
Excess Risk	5.98	4.63
Information Ratio	-0.57	-0.47

## Operations

Total Investment Expense Net	1.12%
Total Investment Expense Gross	1.12%
Inception Date	02/01/1983
Total Net Assets (mil)	\$4,226.46



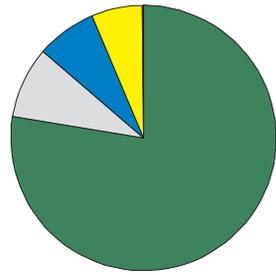
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Risk and return statistical data is provided by Markov Processes International (MPI).

# Bond and Mortgage Separate Account-R3 as of 12/31/2009

## Portfolio information<sup>†</sup>

Composition as of 11/30/2009



Asset Class	% of Assets
U.S. Bonds	77.63
Cash	8.71
Non-U.S. Bonds	7.29
Other	6.17
Convertibles	0.16
Preferred	0.04

### Top ten holdings

Rank	Top ten holdings	% of net assets
1.	FHLMC	4.24
2.	US Treasury Bond 6.25%	2.77
3.	FNMA	2.74
4.	FNMA	2.67
5.	FHLMC	2.20
6.	GNMA	1.80
7.	Wells Fargo Co Mtn Be 3.75%	1.71
8.	US Treasury Note 2%	1.61
9.	BlackRock FFI Government	1.37
10.	Morgan Stanley Re-Remic Tr 2009-Io	1.35
% of net assets in top ten holdings*		22.45

### Analysis

# of Stock Hldgs	0
# of Bond Hldgs	1081
# of Other Hldgs	151
Turnover Ratio	422%

### Credit Analysis

As of 11/30/2009

Rating	% Bonds
AAA	54.72
AA	7.08
A	10.65
BBB	16.71
BB	5.78
B	2.60
Below B	2.29
Not Rated	0.17

### Statistics

Avg Eff Duration (Yrs)	4.21
Avg Eff Maturity (Yrs)	6.73
Avg Credit Quality	AA
Avg Weighted Price	100.14

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

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

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 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 investment options are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. government.

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

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

# U.S. Property Separate Account-R2 as of 12/31/2009

## Investment Strategy

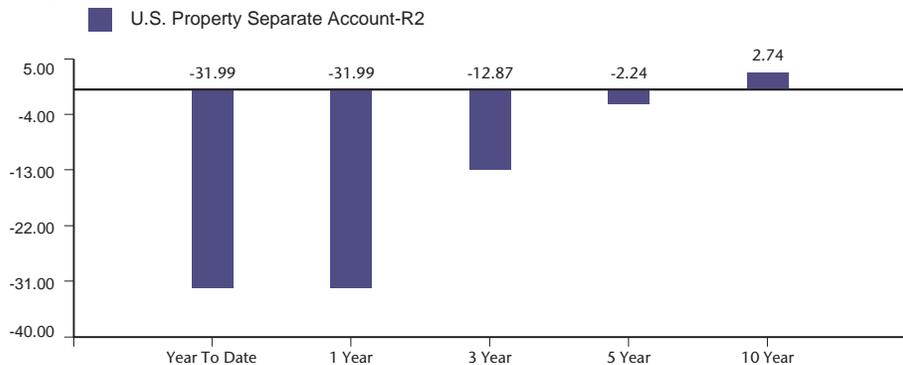
The investment invests the majority of assets on commercial real estate holdings. It focuses on properties that return both lease income and appreciation of the buildings' marketable value. The property holdings usually contain real estate from the multi-family, office, warehouse/manufacturing, and retail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

## Principal Real Estate Investors

### Portfolio managers

**John Berg** Since 12/01/2003. M.B.A., University of Iowa

## Long-term returns % as of 12/31/2009



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-31.99	-31.99	-12.87	-2.24	2.74

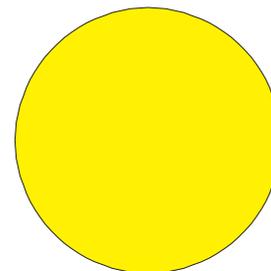
Annual Returns	2009	2008	2007	2006	2005
Total Return %	-31.99	-13.74	12.75	14.47	17.91

## Operations

Total Investment Expense Net	1.74%
Total Investment Expense Gross	1.74%
Inception Date	01/01/1982
Total Net Assets (mil)	\$3,528.37

## Portfolio information

Composition as of 11/30/2009



### % of Assets

Other	100.00
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### Analysis

Total Number of Hldgs	133
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## Portfolio composition

### Top ten holdings % of net assets

Office San Francisco, CA	7.10
Office New York, NY	4.60
Office Seattle, WA	3.70
Retail Los Angeles, CA	3.10
Hotel San Antonio, TX	2.60
Multi-family/Retail Cambridge, MA	2.30
Office Phoenix, AZ	2.20
Multi-family Seattle, WA	2.10
Office Cambridge, MA	2.00
Office/Retail San Diego, CA	2.00

% of net assets in top ten holdings\* 31.70%

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

## Geographical diversity

	% of properties
West	49.00
East	20.00
South	20.00
Midwest	11.00

## Property type

	% of account
Office	40.00
Retail	22.00
Apartments	19.00
Industrial Park	17.00
Other	2.00

# U.S. Property Separate Account-R2 as of 12/31/2009

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

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

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

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

# LargeCap S&P 500 Index Separate Account-R2 as of 12/31/2009

## 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., University of Iowa

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

## Long-term returns % as of 12/31/2009



## Performance disclosure

*Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit [www.principal.com](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 %	25.34	25.34	-6.42	-0.44	-1.85
Standard & Poor's 500 Index %	26.46	26.46	-5.63	0.42	-0.95
Large Blend Category %	28.17	28.17	-5.53	0.46	0.01
Morningstar Percentile Rankings	-	66	70	74	82
# of Funds in Category	2027	2027	1757	1376	710

Annual Returns	2009	2008	2007	2006	2005
Total Return %	25.34	-37.47	4.56	14.78	3.97
Standard & Poor's 500 Index %	26.46	-37.00	5.49	15.79	4.91
Large Blend Category %	28.17	-37.79	6.16	14.17	5.88
Morningstar Percentile Rankings	66	50	65	42	74
# of Funds in Category	2027	2086	2090	1980	1743

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Blend

## Morningstar Style Box™

As of 11/30/2009

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2009 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	-0.87	-0.87
Beta	1.00	1.00
R-Squared	100.00	100.00
Standard Deviation	19.84	16.00
Mean	-6.42	-0.44
Sharpe Ratio	-0.35	-0.13
Excess Return	-0.79	-0.86
Excess Risk	0.08	0.07
Information Ratio	-9.89	-13.14

## Operations

Total Investment Expense Net	0.90%
Total Investment Expense Gross	0.90%
Inception Date	01/01/1990
Total Net Assets (mil)	\$5,250.20



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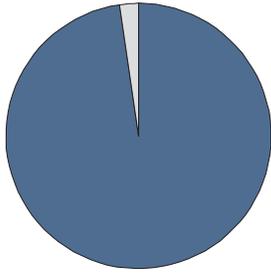
Risk and return statistical data is provided by Markov Processes International (MPI).

# LargeCap S&P 500 Index Separate Account-R2 as of 12/31/2009

## Portfolio information<sup>†</sup>

Composition as of  
11/30/2009

% of Assets	
■ U.S. Stocks	97.66
■ Cash	2.34



## Top ten holdings

	% of net assets
1. ExxonMobil Corporation	3.65
2. Microsoft Corporation	2.31
3. Procter & Gamble Company	1.84
4. Apple, Inc.	1.81
5. Johnson & Johnson	1.75
6. General Electric Company	1.72
7. J.P. Morgan Chase & Co.	1.69
8. International Business Machines Corp	1.68
9. AT&T, Inc.	1.61
10. Chevron Corporation	1.58
% of net assets in top ten holdings*	19.65

## Analysis

# of Stock Hldgs	499
# of Bond Hldgs	0
# of Other Hldgs	1
GeoAvgCap (mil)	\$44,229.28
Turnover Ratio	4%
P/C Ratio	6.25
P/E Ratio	16.68
P/B Ratio	2.15

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	4.65	Healthcare	12.13	Consumer Goods	11.12
Hardware	10.97	Consumer Services	8.87	Industrial Materials	10.85
Media	2.46	Business Services	3.42	Energy	12.14
Telecom	5.69	Financial Services	14.11	Utilities	3.57

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

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

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

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 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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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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Formerly known as Large-Cap Stock Index Separate Account.

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

# LargeCap Blend II Separate Account-R3 as of 12/31/2009

## Investment Strategy

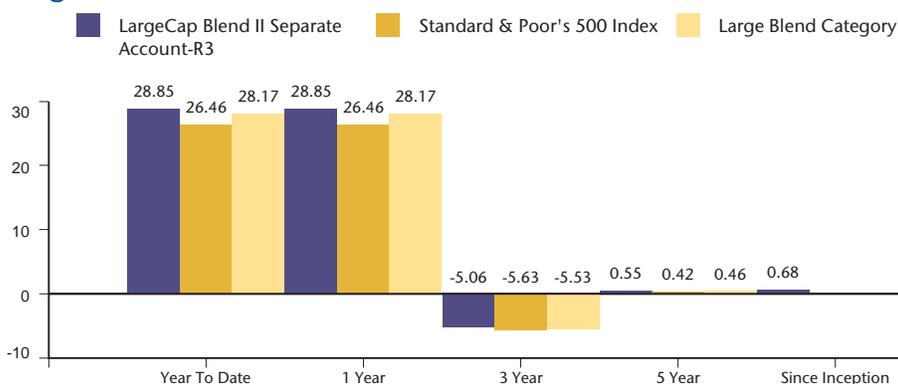
The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets in common stocks of companies with large market capitalizations (those with market capitalizations within the range of companies in the S&P 500 index) at the time of purchase. It generally remains fully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



## Portfolio managers

**Anna M. Dopkin**, CFA. Since 04/01/2007. B.A., University of Pennsylvania (Wharton)  
**Anne M. Holcomb**, CFA. Since 03/02/2009. M.S., Loyola College, Maryland  
**Mariateresa Monaco** Since 06/02/2009. M.B.A., Massachusetts Institute of Technology  
**Scott Glasser** Since 10/01/2009. M.B.A., Pennsylvania State University  
**Michael Kagan** Since 10/01/2009. B.A., Harvard College

## Long-term returns % as of 12/31/2009



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	28.85	28.85	-5.06	0.55	0.68
Standard & Poor's 500 Index %	26.46	26.46	-5.63	0.42	-
Large Blend Category %	28.17	28.17	-5.53	0.46	-
Morningstar Percentile Rankings	-	39	40	46	-
# of Funds in Category	2027	2027	1757	1376	-

Annual Returns	2009	2008	2007	2006	2005
Total Return %	28.85	-36.85	5.17	15.28	4.20
Standard & Poor's 500 Index %	26.46	-37.00	5.49	15.79	4.91
Large Blend Category %	28.17	-37.79	6.16	14.17	5.88
Morningstar Percentile Rankings	39	35	56	34	71
# of Funds in Category	2027	2086	2090	1980	1743

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Blend

## Morningstar Style Box™

As of 11/30/2009

### Investment style

	Value	Blend	Growth	
				Large
				Medium
				Small

Market capitalization

## Risk and Return Statistics

as of 12/31/2009 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	0.61	0.14
Beta	1.00	1.00
R-Squared	99.63	99.54
Standard Deviation	19.97	16.08
Mean	-5.06	0.55
Sharpe Ratio	-0.28	-0.07
Excess Return	0.56	0.13
Excess Risk	1.22	1.09
Information Ratio	0.46	0.12

## Operations

Total Investment Expense Net	1.32%
Total Investment Expense Gross	1.34%
Contractual Cap Expiration Date	02/28/2011
Inception Date	12/29/2000
Total Net Assets (mil)	\$723.09



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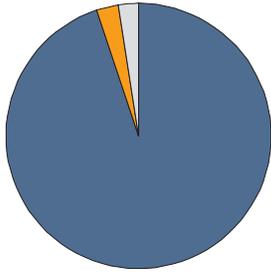
Risk and return statistical data is provided by Markov Processes International (MPI).

# LargeCap Blend II Separate Account-R3 as of 12/31/2009

## Portfolio information<sup>†</sup>

Composition as of  
11/30/2009

% of Assets	
U.S. Stocks	94.85
Non-U.S. Stocks	2.67
Cash	2.49



### Top ten holdings

	% of net assets
1. ExxonMobil Corporation	3.20
2. Microsoft Corporation	2.91
3. S&P FUTURE - DEC 09	2.33
4. J.P. Morgan Chase & Co.	2.29
5. Apple, Inc.	2.12
6. Wells Fargo Company	1.98
7. Procter & Gamble Company	1.94
8. General Electric Company	1.80
9. Johnson & Johnson	1.77
10. Bank of America Corporation	1.66
% of net assets in top ten holdings*	22.00

### Analysis

# of Stock Hldgs	481
# of Bond Hldgs	0
# of Other Hldgs	6
GeoAvgCap (mil)	\$42,149.23
Turnover Ratio	60%
P/C Ratio	6.83
P/E Ratio	17.03
P/B Ratio	2.25

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	4.71	Healthcare	11.91	Consumer Goods	11.26
Hardware	11.16	Consumer Services	8.35	Industrial Materials	12.48
Media	2.65	Business Services	3.20	Energy	12.12
Telecom	5.09	Financial Services	14.09	Utilities	2.99

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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.

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

Formerly known as Large-Cap Blend Separate Account.

This Separate Account invests solely in the Institutional class share of a mutual fund (Fund) from Principal Funds, Inc. The manager of the Fund, Principal Management Corporation, invests between 10% and 40% of the Fund's assets in common stocks in an attempt to match or exceed the performance of the Fund's benchmark index for performance.

Effective October 1, 2009, ClearBridge Advisors was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

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

# LargeCap Value III Separate Account-R3 as of 12/31/2009

## Investment Strategy

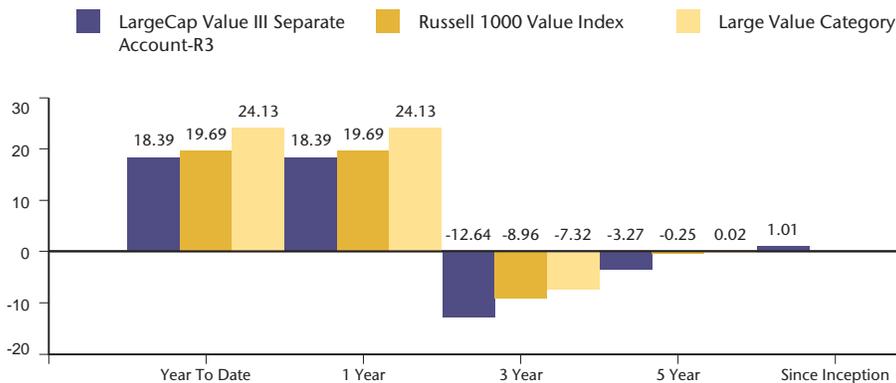
The investment seeks long-term growth of capital. The fund generally invests at least 80% of assets in companies with large market capitalizations (those with market capitalizations similar to companies in the Russell 1000 Value index) at the time of purchase. The fund may invest up to 25% of assets in securities of foreign companies.



## Portfolio managers

**Marilyn G. Fedak**, CFA. Since 12/29/2000. M.B.A., Harvard Business School  
**John D. Phillips Jr.**, CFA. Since 11/01/2002. M.B.A., Harvard University  
**Susan M. Byrne** Since 07/15/2008. , University of California, Berkeley  
**Mark R. Freeman**, CFA. Since 07/15/2008. M.S., Louisiana State University  
**Mariateresa Monaco** Since 06/02/2009. M.B.A., Massachusetts Institute of Technology

## Long-term returns % as of 12/31/2009



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	18.39	18.39	-12.64	-3.27	1.01
Russell 1000 Value Index %	19.69	19.69	-8.96	-0.25	-
Large Value Category %	24.13	24.13	-7.32	0.02	-
Morningstar Percentile Rankings	-	77	95	94	-
# of Funds in Category	1272	1272	1104	912	-

Annual Returns	2009	2008	2007	2006	2005
Total Return %	18.39	-41.15	-4.31	21.22	4.75
Russell 1000 Value Index %	19.69	-36.85	-0.17	22.25	7.05
Large Value Category %	24.13	-37.09	1.42	18.15	5.95
Morningstar Percentile Rankings	77	81	86	13	62
# of Funds in Category	1272	1433	1432	1371	1296

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Value

## Morningstar Style Box™

As of 11/30/2009

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2009 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	-4.42	-3.14
Beta	0.98	0.98
R-Squared	98.97	98.83
Standard Deviation	20.97	17.11
Mean	-12.65	-3.29
Sharpe Ratio	-0.65	-0.28
Excess Return	-3.69	-3.04
Excess Risk	2.20	1.87
Information Ratio	-1.67	-1.62

## Operations

Total Investment Expense Net	1.34%
Total Investment Expense Gross	1.35%
Contractual Cap Expiration Date	02/28/2011
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,995.56



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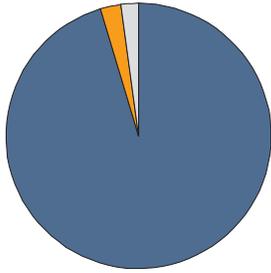
Risk and return statistical data is provided by Markov Processes International (MPI).

# LargeCap Value III Separate Account-R3 as of 12/31/2009

## Portfolio information†

Composition as of  
11/30/2009

% of Assets	
U.S. Stocks	95.35
Non-U.S. Stocks	2.47
Cash	2.17



### Top ten holdings

	% of net assets
1. ExxonMobil Corporation	3.65
2. AT&T, Inc.	3.37
3. Pfizer Inc.	3.02
4. J.P. Morgan Chase & Co.	2.70
5. Chevron Corporation	2.70
6. General Electric Company	2.67
7. Wells Fargo Company	2.31
8. S&P FUTURE - DEC 09	2.07
9. ConocoPhillips	1.93
10. Merck & Co., Inc.	1.86
% of net assets in top ten holdings*	26.29

### Analysis

# of Stock Hldgs	517
# of Bond Hldgs	0
# of Other Hldgs	6
GeoAvgCap (mil)	\$37,676.48
Turnover Ratio	55%
P/C Ratio	4.47
P/E Ratio	14.66
P/B Ratio	1.62

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	20.52	Healthcare	38.23	Consumer Goods	41.25
Hardware	2.28	Consumer Services	9.01	Industrial Materials	7.08
Media	5.04	Business Services	6.40	Energy	13.22
Telecom	4.91	Financial Services	2.52	Utilities	16.92
	8.29		20.30		4.03

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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.

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

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

Formerly known as Large-Cap Value Separate Account.

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

This Separate Account invests solely in the Institutional class share of a mutual fund (Fund) from Principal Funds, Inc. The manager of the Fund, Principal Management Corporation, invests between 10% and 40% of the Fund's assets in common stocks in an attempt to match or exceed the performance of the Fund's benchmark index for performance.

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# LargeCap Growth I Separate Account-R3 as of 12/31/2009

## Investment Strategy

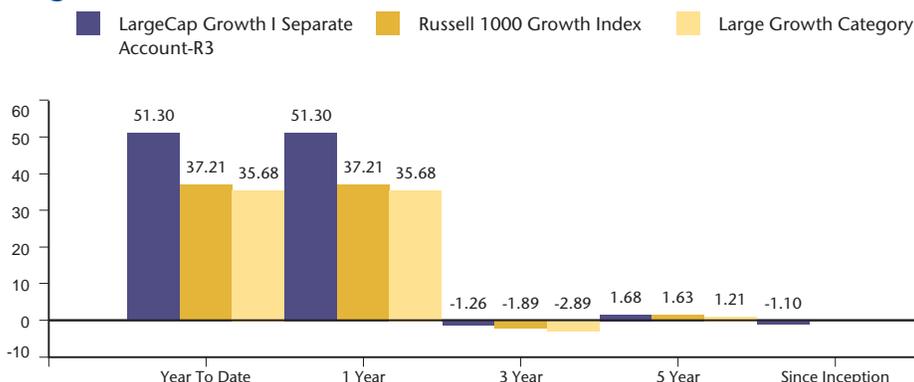
The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets in equity securities of companies with market capitalizations within the range of companies in the Russell 1000 Growth index at the time of purchase. It invests less than 25% of total assets in foreign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



## Portfolio managers

**Robert W. Sharps**, CPA, CFA. Since 08/19/2004. M.B.A., University of Pennsylvania  
**Mariateresa Monaco** Since 06/02/2009. M.B.A., Massachusetts Institute of Technology  
**Kenneth Stuzin**, CFA. Since 07/14/2009. M.B.A., Columbia University

## Long-term returns % as of 12/31/2009



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	51.30	51.30	-1.26	1.68	-1.10
Russell 1000 Growth Index %	37.21	37.21	-1.89	1.63	-
Large Growth Category %	35.68	35.68	-2.89	1.21	-
Morningstar Percentile Rankings	-	6	28	37	-
# of Funds in Category	1796	1796	1548	1276	-

Annual Returns	2009	2008	2007	2006	2005
Total Return %	51.30	-40.93	7.74	5.49	7.00
Russell 1000 Growth Index %	37.21	-38.44	11.81	9.07	5.26
Large Growth Category %	35.68	-40.67	13.35	7.05	6.71
Morningstar Percentile Rankings	6	54	78	67	43
# of Funds in Category	1796	1809	1748	1642	1495

Morningstar percentile rankings are based on total returns.

## Morningstar category

Large Growth

## Morningstar Style Box™

As of 11/30/2009

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2009 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	1.29	0.35
Beta	1.09	1.08
R-Squared	95.72	93.99
Standard Deviation	22.20	18.13
Mean	-1.26	1.67
Sharpe Ratio	-0.05	0.02
Excess Return	0.63	0.04
Excess Risk	4.95	4.66
Information Ratio	0.13	0.01

## Operations

Total Investment Expense Net	1.29%
Total Investment Expense Gross	1.31%
Contractual Cap Expiration Date	02/28/2011
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,667.92



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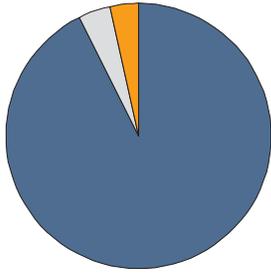
Risk and return statistical data is provided by Markov Processes International (MPI).

# LargeCap Growth I Separate Account-R3 as of 12/31/2009

## Portfolio information†

Composition as of  
11/30/2009

% of Assets	
U.S. Stocks	92.61
Cash	3.87
Non-U.S. Stocks	3.52



## Top ten holdings

	% of net assets
1. Apple, Inc.	4.20
2. Google, Inc.	3.89
3. S&P FUTURE - DEC 09	3.16
4. Qualcomm, Inc.	2.73
5. Accenture PLC	2.54
6. Danaher Corporation	2.44
7. Schlumberger, Ltd.	2.33
8. MasterCard Incorporated A	2.12
9. Microsoft Corporation	2.05
10. Allergan, Inc.	1.96
% of net assets in top ten holdings*	27.41

## Analysis

# of Stock Hldgs	462
# of Bond Hldgs	0
# of Other Hldgs	5
GeoAvgCap (mil)	\$26,212.03
Turnover Ratio	65%
P/C Ratio	7.02
P/E Ratio	20.79
P/B Ratio	3.26

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	7.62	Healthcare	12.76	Consumer Goods	6.72
Hardware	19.49	Consumer Services	14.46	Industrial Materials	9.80
Media	0.68	Business Services	8.20	Energy	6.92
Telecom	6.46	Financial Services	6.57	Utilities	0.32

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

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

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

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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

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

This Separate Account invests solely in the Institutional class share of a mutual fund (Fund) from Principal Funds, Inc. The manager of the Fund, Principal Management Corporation, invests between 10% and 40% of the Fund's assets in common stocks in an attempt to match or exceed the performance of the Fund's benchmark index for performance.

Effective July 14, 2009, Brown Advisory 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.

# American Century Equity Income A Fund as of 12/31/2009

## 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. The portfolio managers also look for equity securities of companies that they believe are undervalued and have the potential for an increase in price. It seeks to receive dividend payments that provide a yield that exceeds the yield of the stocks comprising the S&P 500 Index.



American Century  
Investments

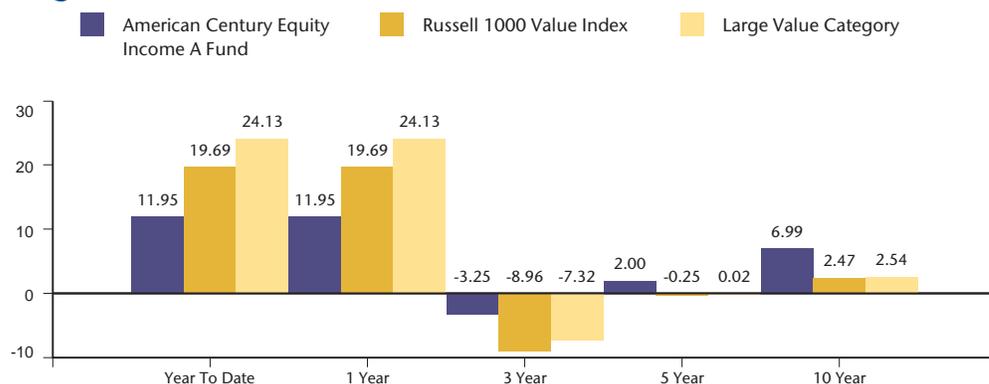
## Portfolio managers

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

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

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

## Long-term returns % as of 12/31/2009



## Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit [www.principal.com](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 %	11.95	11.95	-3.25	2.00	6.99
Russell 1000 Value Index %	19.69	19.69	-8.96	-0.25	2.47
Large Value Category %	24.13	24.13	-7.32	0.02	2.54
Morningstar Percentile Rankings	-	96	9	15	2
# of Funds in Category	1272	1272	1104	912	459

Annual Returns	2009	2008	2007	2006	2005
Total Return %	11.95	-20.25	1.43	19.30	2.20
Russell 1000 Value Index %	19.69	-36.85	-0.17	22.25	7.05
Large Value Category %	24.13	-37.09	1.42	18.15	5.95
Morningstar Percentile Rankings	96	1	53	35	89
# of Funds in Category	1272	1433	1432	1371	1296

Morningstar percentile rankings are based on total returns.

## Morningstar category

Large Value

## Morningstar Style Box™

As of 09/30/2009

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2009 Relative to  
Russell 1000 Value Index

	3Yr	5Yr
Alpha	0.97	0.67
Beta	0.61	0.61
R-Squared	91.73	91.43
Standard Deviation	13.57	11.10
Mean	-3.25	2.00
Sharpe Ratio	-0.35	-0.03
Excess Return	5.71	2.25
Excess Risk	9.27	7.41
Information Ratio	0.62	0.30

## Operations

Total Investment Expense Net	1.24%
Total Investment Expense Gross	1.24%
Inception Date	03/07/1997
Total Net Assets (mil)	\$5,948.86
12b-1 Fees	0.25%
Ticker	TWEAX



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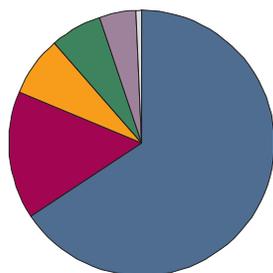
Risk and return statistical data is provided by Markov Processes International (MPI).

# American Century Equity Income A Fund as of 12/31/2009

## Portfolio information

Composition as of  
09/30/2009

### % of Assets



U.S. Stocks	65.69
Convertibles	15.64
Non-U.S. Stocks	7.28
U.S. Bonds	6.20
Preferred	4.50
Cash	0.69

### Top ten holdings

% of net  
assets

### Analysis

1. ExxonMobil Corporation	5.49
2. Wyeth	4.98
3. AT&T, Inc.	3.87
4. Kimberly-Clark Corporation	3.81
5. Marsh & McLennan Companies	3.65
6. Bk Amer Pfd	3.55
7. Total SA	3.24
8. Chevron Corporation	3.13
9. Wal-Mart Stores, Inc.	2.95
10. Johnson & Johnson	2.91
% of net assets in top ten holdings*	37.57

# of Stock Hldgs	57
# of Bond Hldgs	7
# of Other Hldgs	19
GeoAvgCap (mil)	\$32,607.98
Turnover Ratio	296%
P/C Ratio	6.36
P/E Ratio	14.43
P/B Ratio	2.08

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	0.00	Healthcare	14.55	Consumer Goods	15.12
Hardware	1.26	Consumer Services	7.27	Industrial Materials	3.96
Media	0.00	Business Services	4.12	Energy	17.71
Telecom	8.44	Financial Services	17.81	Utilities	9.77

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 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.

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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.

# American Funds Growth Fund of America R3 Fund

as of 12/31/2009

## Investment Strategy

The investment seeks capital growth by investing in common stocks. The fund invests primarily in common stocks and seeks to invest in companies that appear to offer superior opportunities for growth of capital. It may also hold cash or money market instruments. The fund may invest up to 15% of its assets in securities of issuers domiciled outside the United States and Canada and not included in Standard & Poor's 500 Composite Index.



## Portfolio managers

**James E. Drasdo** Since 11/01/1985.

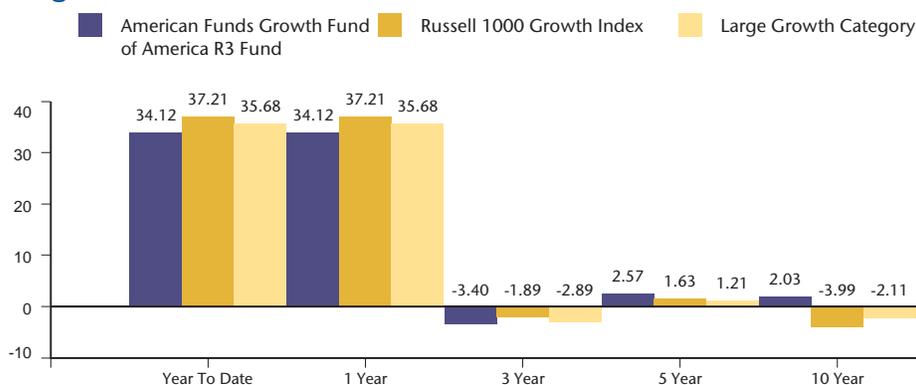
**James F. Rothenberg**, CFA. Since 11/01/1988. M.B.A., Harvard University

**Gordon Crawford**, CFA. Since 11/01/1991. B.A., University of Westleyan

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

**Gregg E. Ireland** Since 11/01/2004.

## Long-term returns % as of 12/31/2009



## Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit [www.principal.com](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 %	34.12	34.12	-3.40	2.57	2.03
Russell 1000 Growth Index %	37.21	37.21	-1.89	1.63	-3.99
Large Growth Category %	35.68	35.68	-2.89	1.21	-2.11
Morningstar Percentile Rankings	-	51	57	23	9
# of Funds in Category	1796	1796	1548	1276	698

Annual Returns	2009	2008	2007	2006	2005
Total Return %	34.12	-39.24	10.59	10.62	13.87
Russell 1000 Growth Index %	37.21	-38.44	11.81	9.07	5.26
Large Growth Category %	35.68	-40.67	13.35	7.05	6.71
Morningstar Percentile Rankings	51	40	66	19	9
# of Funds in Category	1796	1809	1748	1642	1495

Morningstar percentile rankings are based on total returns.

## Morningstar category

Large Growth

## Morningstar Style Box™

As of 09/30/2009

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2009 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	-1.69	0.91
Beta	0.97	0.97
R-Squared	97.87	94.59
Standard Deviation	19.65	16.24
Mean	-3.40	2.57
Sharpe Ratio	-0.20	0.06
Excess Return	-1.52	0.94
Excess Risk	2.94	3.82
Information Ratio	-0.52	0.25

## Operations

Total Investment Expense Net	0.99%
Total Investment Expense Gross	0.99%
Inception Date	05/21/2002
Extended Performance	
Inception Date#	01/01/1959
Total Net Assets (mil)	\$152,608.80
12b-1 Fees	0.50%
Ticker	RGACX



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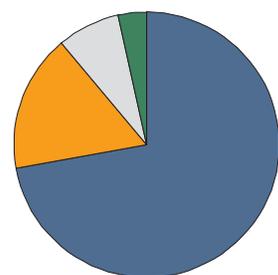
Risk and return statistical data is provided by Markov Processes International (MPI).

# American Funds Growth Fund of America R3 Fund

as of 12/31/2009

## Portfolio information

Composition as of  
09/30/2009



Asset Class	% of Assets
U.S. Stocks	72.14
Non-U.S. Stocks	16.75
Cash	7.65
U.S. Bonds	3.39
Non-U.S. Bonds	0.06
Preferred	0.01

## Top ten holdings

Top ten holdings	% of net assets
1. Microsoft Corporation	3.49
2. Google, Inc.	3.06
3. Oracle Corporation	2.53
4. Apple, Inc.	2.04
5. Cisco Systems, Inc.	1.80
6. Bank of America Corporation	1.51
7. Coca-Cola Company	1.43
8. Philip Morris International Inc	1.32
9. J.P. Morgan Chase & Co.	1.30
10. Medtronic, Inc.	1.28
% of net assets in top ten holdings*	19.77

## Analysis

# of Stock Hldgs	285
# of Bond Hldgs	59
# of Other Hldgs	103
GeoAvgCap (mil)	\$40,145.19
Turnover Ratio	38%
P/C Ratio	7.41
P/E Ratio	17.58
P/B Ratio	2.20

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	8.30	Healthcare	12.94	Consumer Goods	8.12
Hardware	12.35	Consumer Services	5.93	Industrial Materials	11.59
Media	3.68	Business Services	6.12	Energy	10.65
Telecom	6.97	Financial Services	12.40	Utilities	0.93

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

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

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# MidCap Growth III Separate Account-R3 as of 12/31/2009

## Investment Strategy

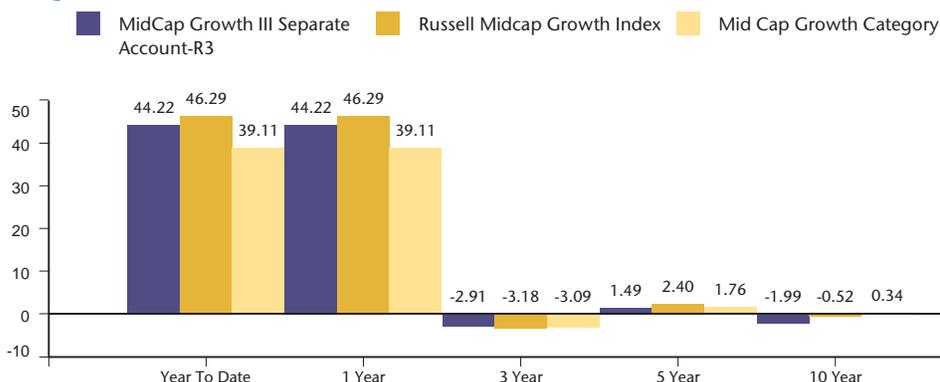
The investment seeks long-term growth of capital. The fund invests primarily in common stocks and other equity securities of U.S. companies with strong earnings growth potential. It normally invests at least 80% of assets in companies with market capitalizations similar to those of companies in the Russell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



## Portfolio managers

**Christopher K. McHugh** Since 12/06/2000. M.B.A., St. Joseph's University  
**Adam T. Logan**, CFA. Since 11/21/2008. M.B.A., University of Pittsburgh  
**Bruce I. Jacobs** Since 05/01/2009. Ph.D., University of Pennsylvania (Wharton)  
**Mariateresa Monaco** Since 06/02/2009. M.B.A., Massachusetts Institute of Technology  
**Ronald P. Gala**, CFA. Since 06/24/2009. M.B.A., University of Pittsburgh

## Long-term returns % as of 12/31/2009



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	44.22	44.22	-2.91	1.49	-1.99
Russell Midcap Growth Index %	46.29	46.29	-3.18	2.40	-0.52
Mid Cap Growth Category %	39.11	39.11	-3.09	1.76	0.34
Morningstar Percentile Rankings	-	33	50	58	73
# of Funds in Category	812	812	727	631	338

Annual Returns	2009	2008	2007	2006	2005
Total Return %	44.22	-48.77	23.89	5.83	11.13
Russell Midcap Growth Index %	46.29	-44.32	11.43	10.66	12.10
Mid Cap Growth Category %	39.11	-43.77	15.09	9.00	9.84
Morningstar Percentile Rankings	33	82	13	73	42
# of Funds in Category	812	934	967	994	936

Morningstar percentile rankings are based on total returns.

## Morningstar category

Mid Cap Growth

## Morningstar Style Box™

As of 11/30/2009

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2009 Relative to Russell Midcap Growth Index

	3Yr	5Yr
Alpha	0.55	-0.71
Beta	1.02	1.04
R-Squared	96.88	95.89
Standard Deviation	25.26	21.30
Mean	-2.90	1.49
Sharpe Ratio	-0.08	0.04
Excess Return	0.28	-0.91
Excess Risk	4.51	4.39
Information Ratio	0.06	-0.21

## Operations

Total Investment Expense Net	1.56%
Total Investment Expense Gross	1.58%
Contractual Cap Expiration Date	02/28/2011
Inception Date	10/28/1999
Total Net Assets (mil)	\$1,286.94



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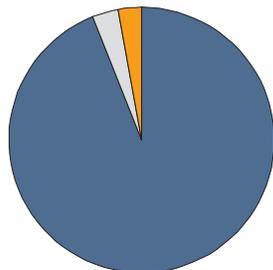
Risk and return statistical data is provided by Markov Processes International (MPI).

# MidCap Growth III Separate Account-R3 as of 12/31/2009

## Portfolio information†

Composition as of 11/30/2009

% of Assets	
U.S. Stocks	93.96
Cash	3.17
Non-U.S. Stocks	2.87



## Top ten holdings

Top ten holdings	% of net assets
1. S&P MID 400 EMINI DEC09	3.06
2. NetApp, Inc.	1.31
3. Avon Products	1.28
4. F5 Networks, Inc.	1.23
5. Priceline.com, Inc.	1.15
6. Coach, Inc.	1.08
7. T Rowe Price Group	1.06
8. Precision Castparts Corp.	1.01
9. Urban Outfitters Inc.	1.00
10. Salesforce.com, Inc.	0.94
% of net assets in top ten holdings*	13.11

## Analysis

# of Stock Hldgs	480
# of Bond Hldgs	0
# of Other Hldgs	6
GeoAvgCap (mil)	\$4,997.55
Turnover Ratio	167%
P/C Ratio	4.80
P/E Ratio	18.95
P/B Ratio	2.46

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	24.03	Healthcare	45.08	Consumer Goods	30.88
Hardware	6.78	Consumer Services	12.27	Industrial Materials	10.18
Media	14.20	Business Services	15.32	Energy	12.18
Telecom	1.43	Financial Services	7.33	Utilities	6.43
	1.62		10.16		2.09

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

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

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

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 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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Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

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

Formerly known as Mid-Cap Growth Separate Account.

This Separate Account invests solely in the Institutional class share of a mutual fund (Fund) from Principal Funds, Inc. The manager of the Fund, Principal Management Corporation, invests between 10% and 40% of the Fund's assets in common stocks in an attempt to match or exceed the performance of the Fund's benchmark index for performance.

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

# MidCap Value I Separate Account-R2 as of 12/31/2009

## Investment Strategy

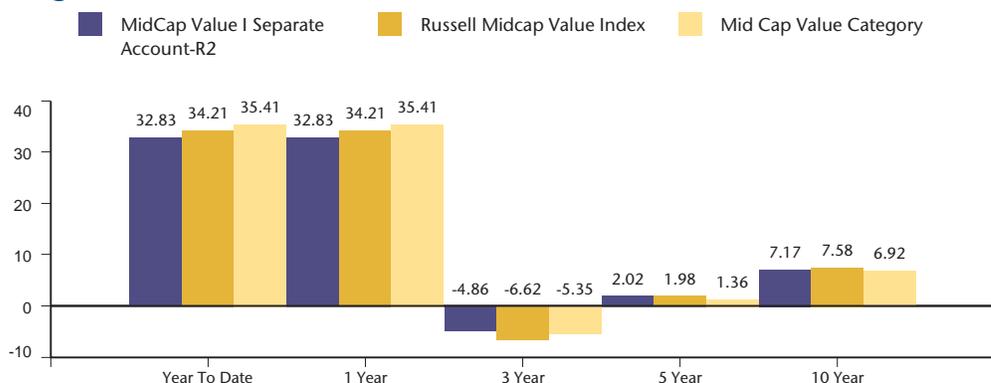
The investment seeks long term growth of capital. The fund invests at least 80% of assets in a diversified portfolio of equity investments in mid-cap issuers with a medium market capitalization (those with market capitalizations similar to companies in the Russell MidCap Value index) at the time of purchase. 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., University of Michigan  
**Christine M. Kugler** Since 10/03/2005. B.A., University of California  
**Stuart K. Matsuda** Since 10/03/2005. M.B.A., California State University Northridge  
**Hal W. Reynolds**, CFA. Since 10/03/2005. M.B.A., University of Pittsburgh  
**Thomas D. Stevens**, CFA. Since 10/03/2005. M.B.A., University of Wisconsin

## Long-term returns % as of 12/31/2009



## Performance disclosure

*Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit [www.principal.com](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 %	32.83	32.83	-4.86	2.02	7.17
Russell Midcap Value Index %	34.21	34.21	-6.62	1.98	7.58
Mid Cap Value Category %	35.41	35.41	-5.35	1.36	6.92
Morningstar Percentile Rankings	-	57	44	39	55
# of Funds in Category	416	416	356	250	84

Annual Returns	2009	2008	2007	2006	2005
Total Return %	32.83	-36.26	1.72	14.95	11.65
Russell Midcap Value Index %	34.21	-38.44	-1.42	20.22	12.65
Mid Cap Value Category %	35.41	-36.77	0.83	15.87	8.82
Morningstar Percentile Rankings	57	45	46	61	24
# of Funds in Category	416	442	405	375	310

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Mid Cap Value

## Morningstar Style Box™

As of 11/30/2009

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2009 Relative to Russell Midcap Value Index

	3Yr	5Yr
Alpha	0.46	-0.24
Beta	0.88	0.89
R-Squared	97.58	96.96
Standard Deviation	22.62	18.41
Mean	-4.87	2.02
Sharpe Ratio	-0.21	0.04
Excess Return	1.75	0.04
Excess Risk	4.65	3.92
Information Ratio	0.38	0.01

## Operations

Total Investment Expense Net	1.77%
Total Investment Expense Gross	1.79%
Contractual Cap Expiration Date	02/28/2011
Inception Date	07/01/1999
Total Net Assets (mil)	\$1,274.52



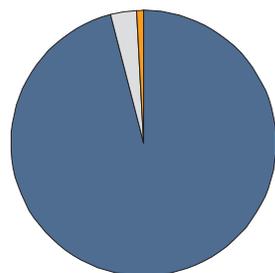
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Risk and return statistical data is provided by Markov Processes International (MPI).

# MidCap Value I Separate Account-R2 as of 12/31/2009

## Portfolio information†

Composition as of  
11/30/2009



% of Assets	
U.S. Stocks	95.97
Cash	3.12
Non-U.S. Stocks	0.91

### Top ten holdings

Top ten holdings	% of net assets
1. S&P MID 400 EMINI DEC09	2.93
2. Invesco Ltd	1.47
3. Newfield Exploration Company	1.31
4. Hartford Financial Services Group, Inc.	1.03
5. DISH Network Corporation Class A	0.96
6. W.R. Berkley Corporation	0.92
7. SunTrust Banks, Inc.	0.88
8. Progressive Corporation	0.88
9. CBS Corporation B	0.82
10. Marsh & McLennan Companies	0.81
% of net assets in top ten holdings*	12.01

### Analysis

# of Stock Hldgs	602
# of Bond Hldgs	0
# of Other Hldgs	6
GeoAvgCap (mil)	\$4,786.28
Turnover Ratio	89%
P/C Ratio	4.27
P/E Ratio	16.04
P/B Ratio	1.31

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	1.82	Healthcare	5.21	Consumer Goods	10.81
Hardware	3.41	Consumer Services	7.61	Industrial Materials	13.27
Media	4.10	Business Services	3.25	Energy	9.45
Telecom	3.31	Financial Services	27.64	Utilities	10.13

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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.

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

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

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

# SmallCap Growth II Separate Account-R3 as of 12/31/2009

## Investment Strategy

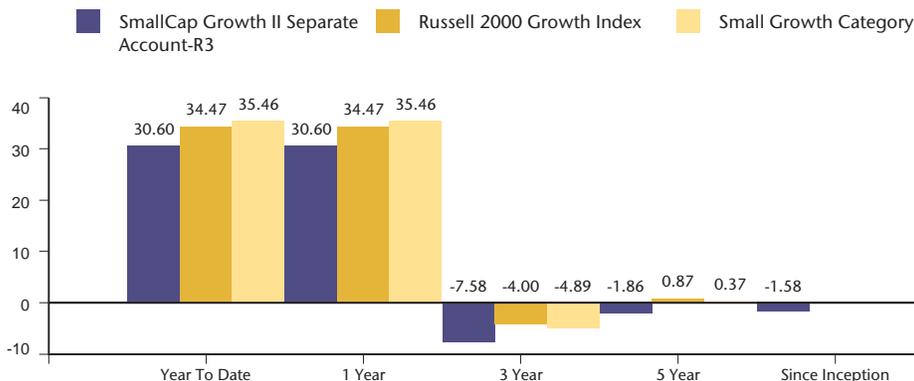
The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets in common stocks of companies with small market capitalizations (those with market capitalizations equal to or smaller than the greater of \$2.5 billion or the highest market capitalization of the companies in the Russell 2000 Growth Index) at the time of purchase. It may invest up to 25% of assets in securities of foreign companies.



## Portfolio managers

**Kenneth G. Mertz II, CFA.** Since 09/01/2004. B.A., Millersville University  
**Stacey Sears** Since 09/01/2004. M.B.A., Villanova University  
**Joseph W. Garner** Since 03/01/2006. M.B.A., University of Pittsburgh  
**Nancy B. Prial, CFA.** Since 06/30/2006. M.B.A., Harvard University  
**Mariateresa Monaco** Since 06/02/2009. M.B.A., Massachusetts Institute of Technology

## Long-term returns % as of 12/31/2009



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	30.60	30.60	-7.58	-1.86	-1.58
Russell 2000 Growth Index %	34.47	34.47	-4.00	0.87	-
Small Growth Category %	35.46	35.46	-4.89	0.37	-
Morningstar Percentile Rankings	-	68	81	80	-
# of Funds in Category	778	778	669	563	-

Annual Returns	2009	2008	2007	2006	2005
Total Return %	30.60	-42.55	5.21	8.35	6.45
Russell 2000 Growth Index %	34.47	-38.54	7.05	13.35	4.15
Small Growth Category %	35.46	-41.55	7.59	10.81	6.02
Morningstar Percentile Rankings	68	60	59	68	44
# of Funds in Category	778	834	829	763	723

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Small Growth

## Morningstar Style Box™

As of 11/30/2009

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2009 Relative to Russell 2000 Growth Index

	3Yr	5Yr
Alpha	-3.96	-2.86
Beta	0.97	0.95
R-Squared	97.70	97.51
Standard Deviation	24.67	21.00
Mean	-7.58	-1.86
Sharpe Ratio	-0.29	-0.12
Excess Return	-3.58	-2.74
Excess Risk	3.85	3.48
Information Ratio	-0.93	-0.79

## Operations

Total Investment Expense Net	1.58%
Total Investment Expense Gross	1.60%
Contractual Cap Expiration Date	02/28/2011
Inception Date	12/29/2000
Total Net Assets (mil)	\$371.91



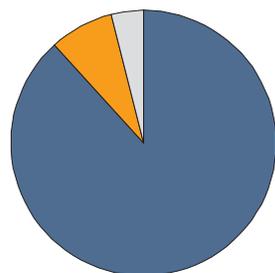
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Risk and return statistical data is provided by Markov Processes International (MPI).

# SmallCap Growth II Separate Account-R3 as of 12/31/2009

## Portfolio information†

Composition as of 11/30/2009



% of Assets	
U.S. Stocks	88.28
Non-U.S. Stocks	7.74
Cash	3.97

### Top ten holdings

1. Russell 2000 Mini Dec09	4.04
2. GSI Commerce, Inc.	1.64
3. Thoratec Laboratories Corporation	1.30
4. Chiquita Brands International	1.07
5. Bio-Reference Labs, Inc.	1.07
6. MicroStrategy, Inc.	1.03
7. Tupperware Brands Corporation	0.99
8. NutriSystem, Inc.	0.98
9. Catalyst Health Solutions, Inc.	0.97
10. Blackboard, Inc.	0.96
% of net assets in top ten holdings*	

% of net assets

### Analysis

# of Stock Hldgs	1024
# of Bond Hldgs	0
# of Other Hldgs	6
GeoAvgCap (mil)	\$742.94
Turnover Ratio	78%
P/C Ratio	6.42
P/E Ratio	20.21
P/B Ratio	2.12

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	12.18	Healthcare	20.19	Consumer Goods	10.98
Hardware	13.41	Consumer Services	9.91	Industrial Materials	8.10
Media	0.81	Business Services	8.15	Energy	2.91
Telecom	6.89	Financial Services	6.42	Utilities	0.05

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

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

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Effective June 26, 2009, this portfolio is sub-advised by Emerald Advisors and Essex. Prior to June 26, 2009, the portfolio was sub-advised by UBS Global Asset Management, Emerald Advisors and Essex. The portfolio has had various sub-advisors since its inception. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

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

# SmallCap Value I Separate Account-R3 as of 12/31/2009

## Investment Strategy

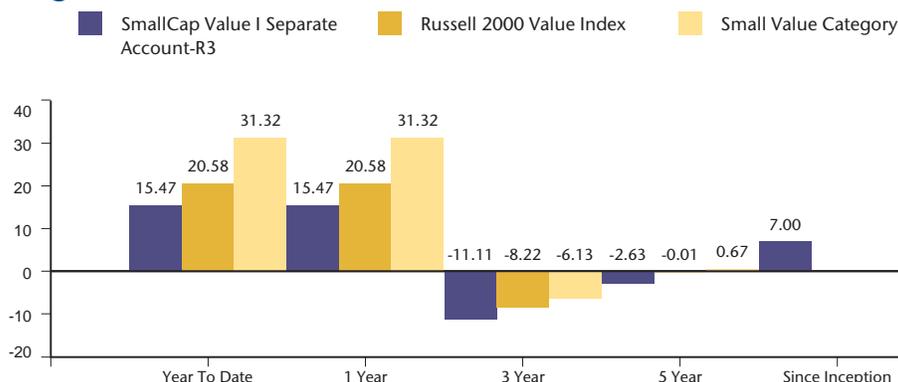
The investment seeks long-term growth of capital. The fund invests primarily in a diversified group of equity securities of U.S. companies with small market capitalizations (those with market capitalizations similar to companies in the Russell 2000 Value index) at the time of purchase. It normally invests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



## Portfolio managers

**Christopher T. Blum**, CFA. Since 12/31/2002. B.B.A., CUNY, Baruch College (Zicklin)  
**Dennis S. Ruhl**, CFA. Since 03/01/2005. M.S., Massachusetts Institute of Technology  
**Ronald P. Gala**, CFA. Since 08/08/2005. M.B.A., University of Pittsburgh  
**Peter D. Goslin**, CFA. Since 08/08/2005. M.B.A., University of Notre Dame  
**Mariateresa Monaco** Since 06/02/2009. M.B.A., Massachusetts Institute of Technology

## Long-term returns % as of 12/31/2009



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	15.47	15.47	-11.11	-2.63	7.00
Russell 2000 Value Index %	20.58	20.58	-8.22	-0.01	-
Small Value Category %	31.32	31.32	-6.13	0.67	-
Morningstar Percentile Rankings	-	94	91	87	-
# of Funds in Category	370	370	310	245	-

Annual Returns	2009	2008	2007	2006	2005
Total Return %	15.47	-32.52	-9.87	17.71	5.88
Russell 2000 Value Index %	20.58	-28.92	-9.78	23.48	4.71
Small Value Category %	31.32	-32.24	-6.08	16.27	6.40
Morningstar Percentile Rankings	94	58	78	44	61
# of Funds in Category	370	438	438	389	348

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Small Value

## Morningstar Style Box™

As of 11/30/2009

### Investment style

	Value	Blend	Growth	
				Large
				Medium
				Small

Market capitalization

## Risk and Return Statistics

as of 12/31/2009 Relative to Russell 2000 Value Index

	3Yr	5Yr
Alpha	-3.67	-2.78
Beta	0.96	0.97
R-Squared	99.38	99.15
Standard Deviation	25.08	21.06
Mean	-11.11	-2.62
Sharpe Ratio	-0.43	-0.16
Excess Return	-2.89	-2.61
Excess Risk	2.21	2.05
Information Ratio	-1.31	-1.27

## Operations

Total Investment Expense Net	1.61%
Total Investment Expense Gross	1.63%
Contractual Cap Expiration Date	02/28/2011
Inception Date	12/31/2002
Total Net Assets (mil)	\$251.07



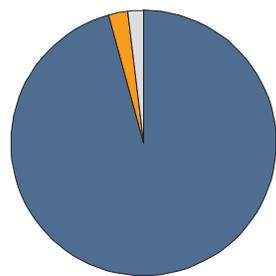
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# SmallCap Value I Separate Account-R3 as of 12/31/2009

## Portfolio information†

Composition as of 11/30/2009



% of Assets	
U.S. Stocks	95.75
Non-U.S. Stocks	2.27
Cash	1.94
Other	0.03

### Top ten holdings

Rank	Company	% of net assets
1.	Russell 2000 Mini Dec09	1.72
2.	EMCOR Group, Inc.	0.80
3.	National Retail Properties, Inc.	0.62
4.	UniSource Energy Corporation	0.60
5.	New Jersey Resources Corporation	0.59
6.	Cash America International, Inc.	0.58
7.	Platinum Underwriters Holdings, Ltd.	0.58
8.	Rent-A-Center, Inc.	0.58
9.	Assured Guaranty, Ltd.	0.55
10.	Chiquita Brands International	0.54
% of net assets in top ten holdings*		7.15

% of net assets

### Analysis

# of Stock Hldgs	1265
# of Bond Hldgs	0
# of Other Hldgs	7
GeoAvgCap (mil)	\$740.20
Turnover Ratio	56%
P/C Ratio	2.83
P/E Ratio	12.67
P/B Ratio	1.11

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.86	Healthcare	5.08	Consumer Goods	9.38
Hardware	4.58	Consumer Services	7.69	Industrial Materials	13.22
Media	1.08	Business Services	9.17	Energy	4.85
Telecom	2.67	Financial Services	33.47	Utilities	5.96

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

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

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

This Separate Account invests solely in the Institutional class share of a mutual fund (Fund) from Principal Funds, Inc. The manager of the Fund, Principal Management Corporation, invests between 10% and 40% of the Fund's assets in common stocks in an attempt to match or exceed the performance of the Fund's benchmark index for performance.

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

# International Growth Separate Account-R2 as of 12/31/2009

## Investment Strategy

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

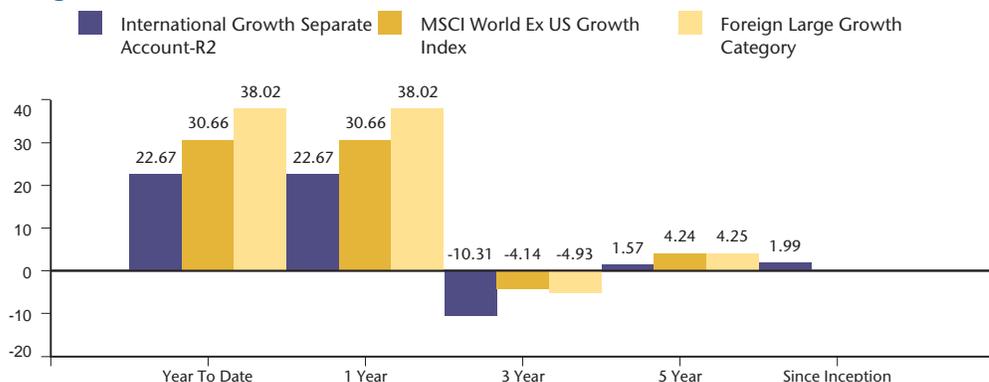


## Portfolio managers

**Steve Larson**, CFA. Since 03/01/2004. M.B.A., University of Minnesota

**John Pihlblad**, CFA. Since 03/01/2005. B.A., College of Westminister

## Long-term returns % as of 12/31/2009



## Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit [www.principal.com](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 %	22.67	22.67	-10.31	1.57	1.99
MSCI World Ex US Growth Index %	30.66	30.66	-4.14	4.24	-
Foreign Large Growth Category %	38.02	38.02	-4.93	4.25	-
Morningstar Percentile Rankings	-	92	93	89	-
# of Funds in Category	266	266	206	149	-

Annual Returns	2009	2008	2007	2006	2005
Total Return %	22.67	-47.33	11.66	23.43	21.42
MSCI World Ex US Growth Index %	30.66	-42.88	18.03	22.12	14.41
Foreign Large Growth Category %	38.02	-46.56	16.26	23.95	15.23
Morningstar Percentile Rankings	92	53	85	52	12
# of Funds in Category	266	251	220	243	213

Morningstar percentile rankings are based on total returns.

## Morningstar category

Foreign Large Growth

## Morningstar Style Box™

As of 11/30/2009

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2009 Relative to MSCI World Ex US Growth Index

	3Yr	5Yr
Alpha	-6.18	-2.48
Beta	1.04	1.05
R-Squared	98.28	97.76
Standard Deviation	24.55	20.61
Mean	-10.32	1.57
Sharpe Ratio	-0.41	0.04
Excess Return	-6.18	-2.67
Excess Risk	3.35	3.24
Information Ratio	-1.85	-0.82

## Operations

Total Investment Expense Net	1.77%
Total Investment Expense Gross	1.77%
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,304.14



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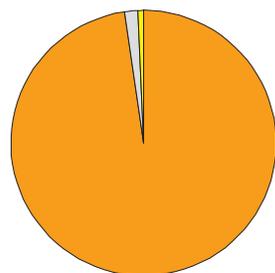
Risk and return statistical data is provided by Markov Processes International (MPI).

# International Growth Separate Account-R2 as of 12/31/2009

## Portfolio information<sup>†</sup>

Composition as of  
11/30/2009

% of Assets	
Non-U.S. Stocks	97.64
Cash	1.62
Other	0.74



Top ten holdings	% of net assets
1. BHP Billiton Limited	2.97
2. Novartis AG	2.83
3. Telefonica, S.A.	2.68
4. Nestle SA	2.67
5. Roche Holding AG	2.35
6. GlaxoSmithKline PLC	2.20
7. Credit Suisse Grp	1.53
8. Rio Tinto PLC	1.51
9. BG Group PLC	1.44
10. British American Tobacco PLC	1.36
% of net assets in top ten holdings*	21.53

Analysis	
# of Stock Hldgs	178
# of Bond Hldgs	0
# of Other Hldgs	9
GeoAvgCap (mil)	\$23,103.66
Turnover Ratio	125%
P/C Ratio	3.93
P/E Ratio	14.57
P/B Ratio	1.29

### Top 5 Countries

	% of net assets
United Kingdom	21.07
Japan	19.79
Switzerland	14.12
Canada	7.24
Australia	6.01

### Regional exposure

	% of net assets
Europe	60.54
Japan	19.79
Pacific Rim	12.45
Other	7.25

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

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

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

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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.

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

# American Funds EuroPacific Growth R3 Fund as of 12/31/2009

## Investment Strategy

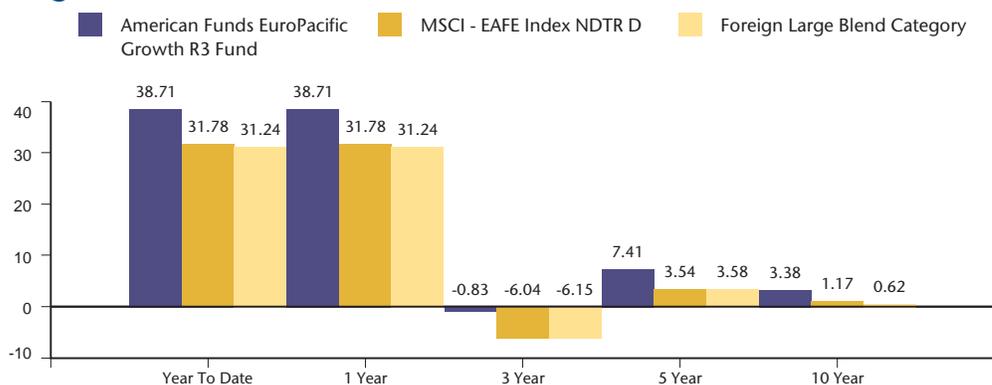
The fund normally invests at least 80% of net assets in securities of issuers in Europe and the Pacific Basin that the investment adviser believes have the potential for growth. Growth stocks are stocks that the investment adviser believes have the potential for above-average capital appreciation.



## Portfolio managers

**Stephen E. Beppler**, CFA. Since 04/16/1984. , Columbia University  
**Mark E. Denning** Since 06/01/1990. B.S., London School of Economics  
**Robert W. Lovelace**, CFA. Since 06/01/1994. A.B., Princeton University  
**Carl M. Kawaja** Since 06/01/2001. M.B.A., Columbia University  
**Jonathan Knowles** Since 07/30/2008.

## Long-term returns % as of 12/31/2009



## Performance disclosure

*Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit [www.principal.com](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 %	38.71	38.71	-0.83	7.41	3.38
MSCI - EAFE Index NDTR D %	31.78	31.78	-6.04	3.54	1.17
Foreign Large Blend Category %	31.24	31.24	-6.15	3.58	0.62
Morningstar Percentile Rankings	-	16	5	9	11
# of Funds in Category	823	823	635	462	249

Annual Returns	2009	2008	2007	2006	2005
Total Return %	38.71	-40.71	18.58	21.43	20.73
MSCI - EAFE Index NDTR D %	31.78	-43.38	11.17	26.34	13.54
Foreign Large Blend Category %	31.24	-43.99	12.71	24.77	14.72
Morningstar Percentile Rankings	16	15	11	86	8
# of Funds in Category	823	778	743	657	608

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Foreign Large Blend

## Morningstar Style Box™

As of 09/30/2009

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2009 Relative to MSCI - EAFE Index NDTR D

	3Yr	5Yr
Alpha	4.76	3.69
Beta	0.94	0.94
R-Squared	95.77	95.17
Standard Deviation	22.88	18.96
Mean	-0.83	7.41
Sharpe Ratio	-0.03	0.32
Excess Return	5.21	3.87
Excess Risk	4.97	4.33
Information Ratio	1.05	0.90

## Operations

Total Investment Expense Net	1.11%
Total Investment Expense Gross	1.11%
Inception Date	05/21/2002
Extended Performance	
Inception Date <sup>#</sup>	04/16/1984
Total Net Assets (mil)	\$98,245.83
12b-1 Fees	0.50%
Ticker	RERCX



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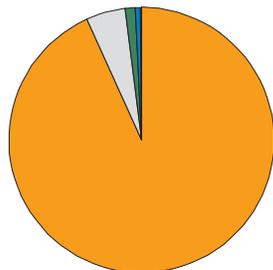
# American Funds EuroPacific Growth R3 Fund as of 12/31/2009

## Portfolio information

Composition as of  
09/30/2009

### % of Assets

Non-U.S. Stocks	93.25
Cash	4.73
U.S. Bonds	1.25
Non-U.S. Bonds	0.57
U.S. Stocks	0.17
Preferred	0.03



### Top ten holdings

1. Bayer AG	2.64
2. America Movil S.A.B. de C.V. ADR L	2.25
3. Anheuser-Busch InBev SA	2.05
4. Roche Holding AG	1.92
5. Banco Santander SA	1.89
6. Novartis	1.85
7. Telefonica, S.A.	1.72
8. Gazprom OAO (EDR)	1.57
9. Novo Nordisk A/S	1.51
10. Samsung Electronics	1.39
% of net assets in top ten holdings*	18.80

### % of net assets

### Analysis

# of Stock Hldgs	270
# of Bond Hldgs	32
# of Other Hldgs	104
GeoAvgCap (mil)	\$37,369.73
Turnover Ratio	41%
P/C Ratio	6.84
P/E Ratio	15.93
P/B Ratio	1.64

### Top 5 Countries

### % of net assets

Germany	11.15
United Kingdom	10.23
France	10.06
Switzerland	8.37
Japan	7.20

### Regional exposure

### % of net assets

Europe	60.73
Pacific Rim	16.19
Other	8.66
Japan	7.32
Latin America	6.93
United States	0.18

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

*Before investing in mutual funds, investors should carefully consider the investment objectives, risks, charges and expenses of the funds. This and other information is contained in the free prospectus, which can be obtained from your local representative, by visiting [www.principal.com](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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#These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect a portion of the fees and expenses of this share class. Please see the fund's prospectus for more information on specific expenses, and the fund's most recent shareholder report for actual date of first sale. Expenses are deducted from income earned by the fund. As a result, dividends and investment results will differ for each share class.

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

**STATISTICAL SECTION**  
**(UNAUDITED)**

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

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

401(a)  
 Basic Plan

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10-YEAR TOTALS
<b>ADDITIONS</b>											
Investment Income	(\$45,877)	(\$78,369)	(\$298,339)	\$643,368	\$460,486	\$339,933	\$715,655	\$397,280	(\$2,236,217)	\$1,334,564	\$1,232,484
Less investment management fees	(9,739)	(13,437)	(14,162)	(16,394)	(16,597)	(19,262)	(10,660)	(11,577)	(10,218)	(8,961)	(131,007)
Net investment income	(55,616)	(91,806)	(312,501)	626,974	443,889	320,671	704,995	385,703	(2,246,435)	1,325,603	1,101,477
Contributions:											
Participant	265,884	285,856	295,051	303,707	314,814	313,385	309,674	321,024	323,826	327,100	3,060,321
Employer	218,748	230,495	237,946	244,926	255,937	252,012	250,170	257,292	260,984	263,792	2,472,302
Total additions	429,016	424,545	220,496	1,175,607	1,014,640	886,068	1,264,839	964,019	(1,661,625)	1,916,495	6,634,100
<b>DEDUCTIONS</b>											
Benefits paid to participants	(237,865)	(119,282)	(237,346)	(162,764)	(121,847)	(530,300)	(272,881)	(400,802)	(451,899)	(136,404)	(2,671,390)
<b>CHANGES IN NET ASSETS</b>	191,151	305,263	(16,850)	1,012,843	892,793	355,768	991,958	563,217	(2,113,524)	1,780,091	
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	2,417,470	2,608,621	2,913,884	2,897,034	3,909,877	4,802,670	5,158,438	6,150,396	6,713,613	4,600,089	
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	\$2,608,621	\$2,913,884	\$2,897,034	\$3,909,877	\$4,802,670	\$5,158,438	\$6,150,396	\$6,713,613	\$4,600,089	\$6,380,180	
<b>AVERAGE INVESTMENT RETURNS *</b>	-2.21%	-3.32%	-10.76%	18.42%	10.19%	6.44%	12.47%	6.00%	-39.71%	24.15%	

\* Calculated as net investment income divided by the average net asset balance for the year.

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

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

401(a)  
 Supplemental Plan

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10-YEAR TOTALS
<b>ADDITIONS</b>											
Investment Income	(\$231,083)	(\$236,182)	(\$373,152)	\$420,643	\$250,442	\$183,925	\$382,901	\$237,927	(\$1,329,029)	\$723,265	\$29,657
Less investment management fees	(8,272)	(6,505)	(5,450)	(5,034)							(25,261)
<b>Net investment income</b>	<b>(239,355)</b>	<b>(242,687)</b>	<b>(378,602)</b>	<b>415,609</b>	<b>250,442</b>	<b>183,925</b>	<b>382,901</b>	<b>237,927</b>	<b>(1,329,029)</b>	<b>723,265</b>	<b>4,396</b>
<b>Contributions:</b>											
Participant	748	190,953	200,259	11,120	11,928	310,377	11,928	3,698	953	18,973	47,420
Employer	170,623	190,953	200,259	207,411	315,609	310,377	295,718	301,853	314,337	319,334	2,626,474
<b>Total additions</b>	<b>(67,984)</b>	<b>(51,734)</b>	<b>(178,343)</b>	<b>634,140</b>	<b>566,051</b>	<b>494,302</b>	<b>690,547</b>	<b>543,478</b>	<b>(1,013,739)</b>	<b>1,061,572</b>	<b>2,678,290</b>
<b>DEDUCTIONS</b>											
Benefits paid to participants	(301,853)	(59,702)	(117,359)	(87,395)	(57,837)	(254,924)	(128,503)	(193,500)	(144,922)	(129,501)	(1,475,496)
<b>CHANGES IN NET ASSETS</b>	<b>(369,837)</b>	<b>(111,436)</b>	<b>(295,702)</b>	<b>546,745</b>	<b>508,214</b>	<b>239,378</b>	<b>562,044</b>	<b>349,978</b>	<b>(1,158,661)</b>	<b>932,071</b>	
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	2,408,358	2,038,521	1,927,085	1,631,383	2,178,128	2,686,342	2,925,720	3,487,764	3,837,742	2,679,081	
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	\$2,038,521	\$1,927,085	\$1,631,383	\$2,178,128	\$2,686,342	\$2,925,720	\$3,487,764	\$3,837,742	\$2,679,081	\$3,611,152	
<b>AVERAGE INVESTMENT RETURNS *</b>	-10.77%	-12.24%	-21.28%	21.82%	10.30%	6.55%	11.94%	6.50%	-40.79%	23.00%	

\* 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)

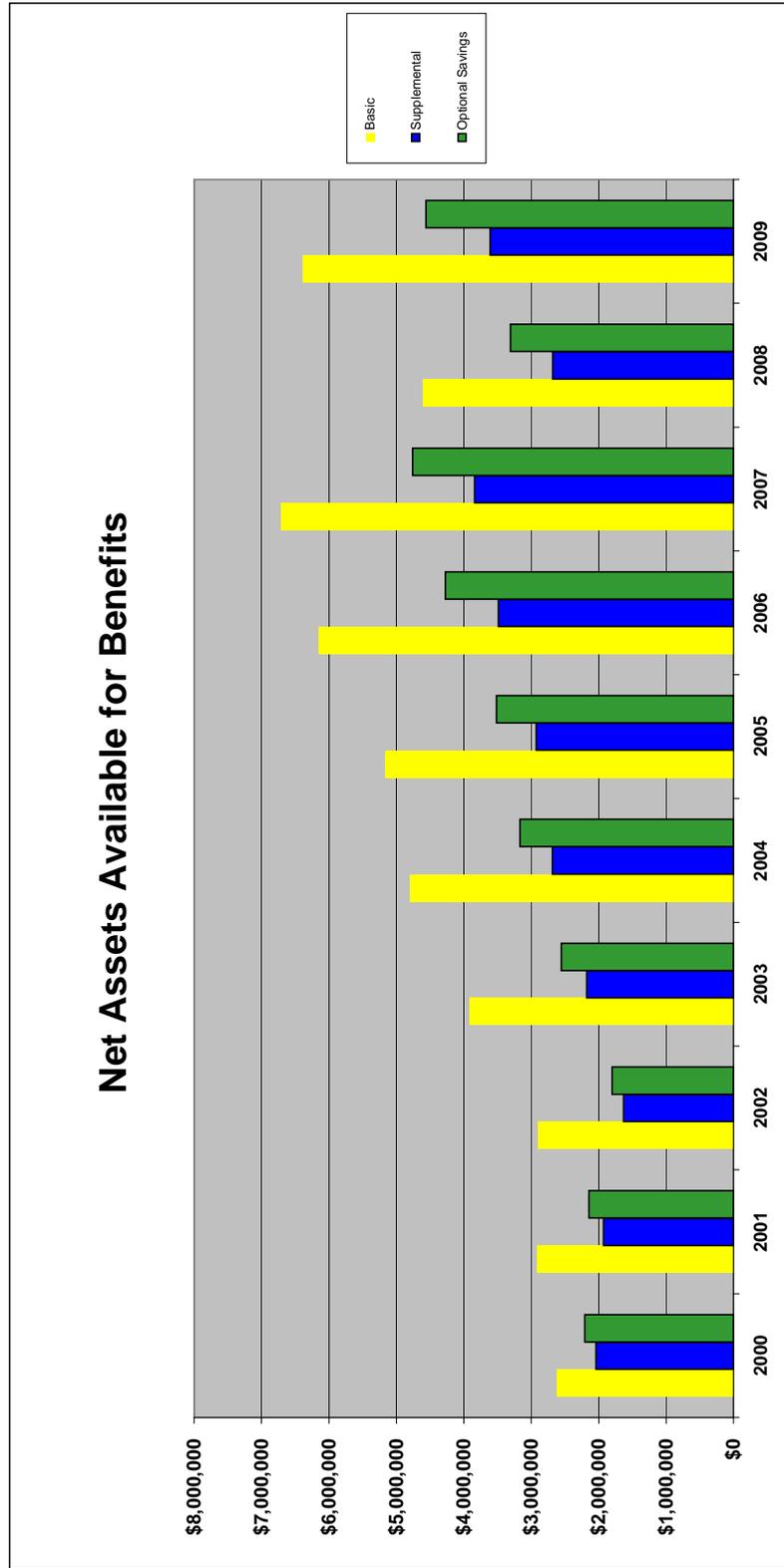
457(b)  
 Optional Savings Plan

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10-YEAR TOTALS
<b>ADDITIONS</b>											
Investment Income	(\$242,077)	(\$266,380)	(\$422,305)	\$498,346	\$302,284	\$229,580	\$463,995	\$300,559	(\$1,642,628)	\$932,255	\$153,629
Less investment management fees	(8,088)	(6,584)	(5,501)	(5,268)							(25,441)
<b>Net investment income</b>	<b>(250,165)</b>	<b>(272,964)</b>	<b>(427,806)</b>	<b>493,078</b>	<b>302,284</b>	<b>229,580</b>	<b>463,995</b>	<b>300,559</b>	<b>(1,642,628)</b>	<b>932,255</b>	<b>128,188</b>
<b>Contributions:</b>											
Participant	189,353	203,833	224,369	218,754	257,406	286,868	313,367	336,897	367,608	336,770	2,735,225
Employer	88,547	96,415	100,862	103,966	111,488	113,261	111,085	117,225	122,485	121,961	1,087,295
<b>Total additions</b>	<b>27,735</b>	<b>27,284</b>	<b>(102,575)</b>	<b>815,798</b>	<b>671,178</b>	<b>629,709</b>	<b>888,447</b>	<b>754,681</b>	<b>(1,152,535)</b>	<b>1,390,986</b>	<b>3,950,708</b>
<b>DEDUCTIONS</b>											
Benefits paid to participants	(155,857)	(90,173)	(237,397)	(65,202)	(59,465)	(278,548)	(131,561)	(268,516)	(296,816)	(140,684)	(1,724,219)
<b>CHANGES IN NET ASSETS</b>											
	(128,122)	(62,869)	(339,872)	750,596	611,713	351,161	756,886	486,165	(1,449,351)	1,250,302	
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	2,333,001	2,204,879	2,141,990	1,802,018	2,552,614	3,164,327	3,515,488	4,272,374	4,758,539	3,309,188	
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	\$2,204,879	\$2,141,990	\$1,802,018	\$2,552,614	\$3,164,327	\$3,515,488	\$4,272,374	\$4,758,539	\$3,309,188	\$4,559,490	
<b>AVERAGE INVESTMENT RETURNS *</b>	-11.03%	-12.56%	-21.69%	22.65%	10.58%	6.87%	11.92%	6.66%	-40.72%	23.70%	

\* Calculated as net investment income divided by the average net asset balance for the year.

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

Financial Trend Information  
 Plan Years Ended December 31 for the Years Shown  
 (Unaudited)



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

Demographic Information- Participation and Deferral Trends  
 Plan Years Ended December 31 for the Years Shown  
 (Unaudited)

401(a) Basic Plan

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Number of Participants</b>	170	175	172	167	179	153	140	138	135	130
<b>Total Annual Participant Deferrals</b>	\$265,884	\$285,856	\$295,051	\$303,707	\$314,814	\$313,385	\$309,674	\$321,024	\$323,826	\$327,100
<b>Net Assets Available for Benefits</b>	\$2,608,621	\$2,913,884	\$2,897,034	\$3,909,877	\$4,802,670	\$5,158,438	\$6,150,396	\$6,713,613	\$4,600,089	\$6,380,180

401(a) Supplemental Plan

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Number of Participants</b>	133	143	141	141	149	120	107	113	107	102
<b>Total Annual Employer Contributions</b>	\$170,623	\$190,953	\$200,259	\$207,411	\$315,609	\$310,377	\$295,718	\$301,853	\$314,337	\$319,334
<b>Net Assets Available for Benefits</b>	\$2,038,521	\$1,927,085	\$1,631,383	\$2,178,128	\$2,686,342	\$2,925,720	\$3,487,764	\$3,837,742	\$2,679,081	\$3,611,152

457(b) Optional Savings Plan

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Number of Participants</b>	128	141	128	132	141	114	106	112	106	99
<b>Total Annual Participant Deferrals</b>	\$189,353	\$203,833	\$224,369	\$218,754	\$257,406	\$286,868	\$313,367	\$336,897	\$367,608	\$336,770
<b>Annual Compensation Corporation Total</b>	\$4,370,325	\$4,706,094	\$4,851,067	\$4,997,706	\$5,190,889	\$5,195,158	\$5,081,568	\$5,269,727	\$5,456,872	\$5,460,432
<b>Average Deferral Percentage</b>	4.33%	4.33%	4.63%	4.38%	4.96%	5.52%	6.17%	6.39%	6.74%	6.17%
<b>Net Assets Available for Benefits</b>	\$2,204,879	\$2,141,990	\$1,802,018	\$2,552,614	\$3,164,327	\$3,515,488	\$4,272,374	\$4,758,539	\$3,309,188	\$4,559,490

**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  
DARYL G. PURPERA, CPA, CFE

May 27, 2010

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, 2009, and have issued our report thereon dated May 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement Plans' internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

## LOUISIANA LOTTERY CORPORATION

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of 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,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

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