



**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, 2010**

**LOUISIANA LOTTERY CORPORATION**  
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**A COMPONENT UNIT OF THE STATE OF LOUISIANA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE PLAN YEAR ENDED DECEMBER 31, 2010**

**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**

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June 30, 2011

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, 2010. 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, 2009. This was the third consecutive year that the Corporation has achieved this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

## **The Retirement Plans**

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

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

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

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

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

Detailed provisions of each plan are included in the notes to the financial statements beginning on page 18. Financial results for the plans are discussed in management's discussion and analysis beginning on page 9 and the remainder of the financial section. Historical financial results and demographic information are 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. But, 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 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 laws and regulations affecting the plans with PLIC and outside counsel
- Monitoring investment performance and management through PLIC's due diligence program and other outside sources
- Reporting of employee termination information to PLIC

- Reconciling 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, 2010, is included in the financial section of this report.

### **Acknowledgements**

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

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

Respectfully submitted,

Employee Benefits Committee  
Louisiana Lottery Corporation



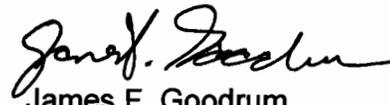
Rose J. Hudson  
President



Karen B. Fournet  
Senior Vice President and  
Secretary Treasurer

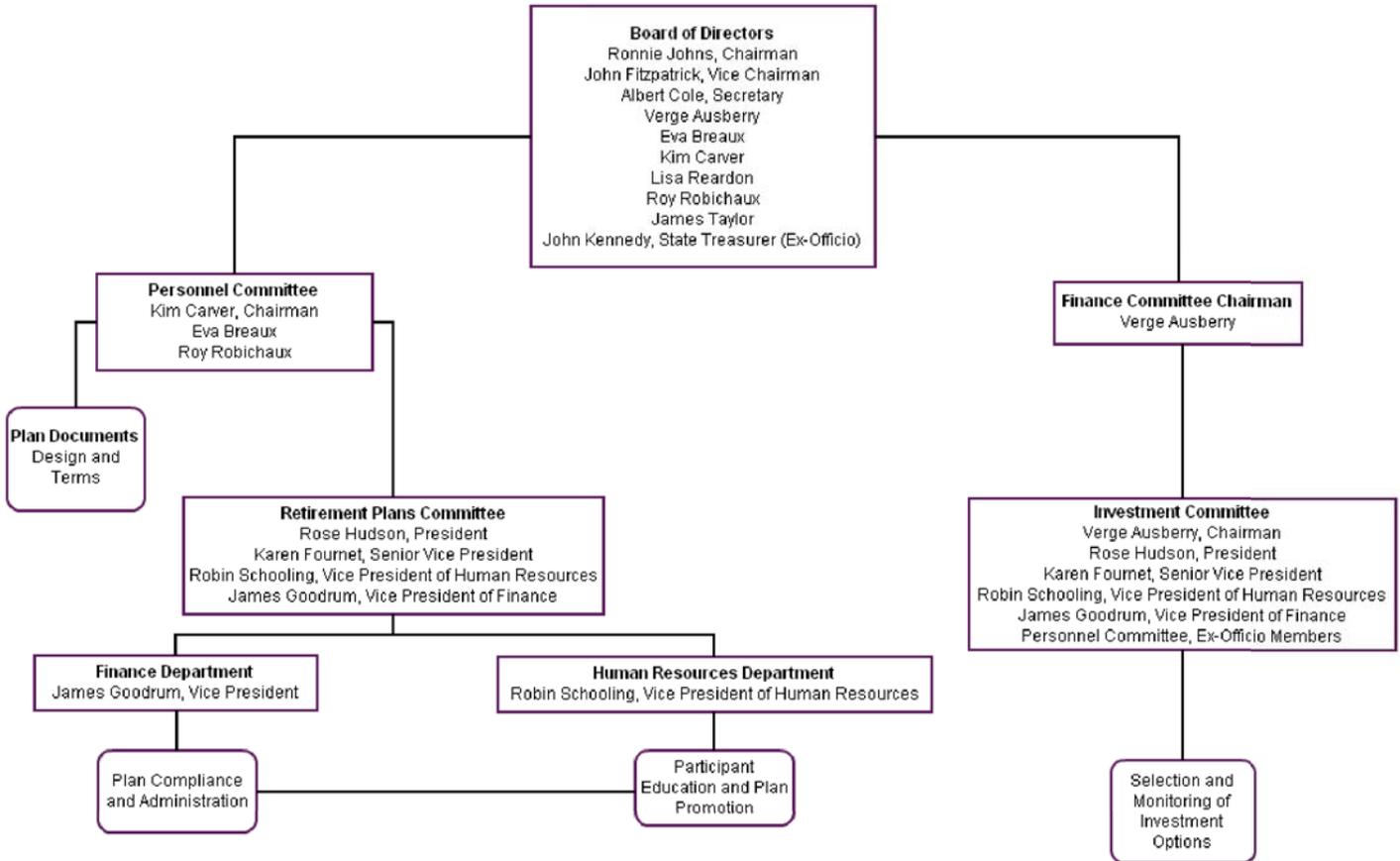


Robin L. Schooling  
Vice President of Human  
Resources



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, 2009

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

June 10, 2011

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, 2010, 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, 2010, 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 June 10, 2011, 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

EBT:AD:BQD:THC:dl

LLCRP 2010



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

**Management's Discussion and Analysis  
For the Year Ended December 31, 2010**

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, 2010. 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, 2010. 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, 2010, 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

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, 2010, and the year ended December 31, 2009, is presented below.

<b>401(a)</b>		
<b>Basic Plan</b>		
<b>Plan Years Ended December 31 for the Years Shown</b>		
	<u>2010</u>	<u>2009</u>
<b>Assets</b>	\$7,128,279	\$6,380,180
<b>Liabilities</b>	NONE	NONE
<b>Net assets available for benefits</b>	<u>\$7,128,279</u>	<u>\$6,380,180</u>
<b>Additions:</b>		
Net investment income	\$840,329	\$1,325,603
Contributions:		
Participant	323,152	327,100
Employer	<u>260,609</u>	<u>263,792</u>
<b>Total additions</b>	1,424,090	1,916,495
<b>Deductions:</b>		
Benefits paid to participants	<u>(675,991)</u>	<u>(136,404)</u>
<b>(Decrease) Increase in net assets</b>	<u>\$748,099</u>	<u>\$1,780,091</u>

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

	<u>2010</u>	<u>2009</u>
<b>Assets</b>	\$4,059,969	\$3,611,152
<b>Liabilities</b>	NONE	NONE
<b>Net assets available for benefits</b>	<u>\$4,059,969</u>	<u>\$3,611,152</u>
<b>Additions:</b>		
Net investment income	\$484,591	\$723,265
Contributions:		
Participant	13,883	18,973
Employer	<u>312,500</u>	<u>319,334</u>
<b>Total additions</b>	810,974	1,061,572
<b>Deductions:</b>		
Benefits paid to participants	<u>(362,157)</u>	<u>(129,501)</u>
<b>(Decrease) Increase in net assets</b>	<u>\$448,817</u>	<u>\$932,071</u>

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

	<u>2010</u>	<u>2009</u>
<b>Assets</b>	\$5,114,772	\$4,559,490
<b>Liabilities</b>	NONE	NONE
<b>Net assets available for benefits</b>	<u>\$5,114,772</u>	<u>\$4,559,490</u>
<b>Additions:</b>		
Net investment income	\$618,697	\$932,255
Contributions:		
Participant	315,143	336,770
Employer	<u>119,748</u>	<u>121,961</u>
<b>Total additions</b>	1,053,588	1,390,986
<b>Deductions:</b>		
Benefits paid to participants	<u>(498,306)</u>	<u>(140,684)</u>
<b>(Decrease) Increase in net assets</b>	<u>\$555,282</u>	<u>\$1,250,302</u>

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>2010</u>	<u>2009</u>
<i>Basic Plan</i>	12.44%	24.15%
<i>Supplemental Plan</i>	12.63%	23.00%
<i>Optional Savings Plan</i>	12.79%	23.70%

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 29. 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.

	<u>2010</u>	<u>2009</u>
<b><u>Economic Indicators:</u></b>		
<i>Gross Domestic Product (GDP)</i>	2.90%	-2.60%
<i>Federal Funds Rate</i>	0.25%	0.25%
<i>Unemployment Rate</i>	9.40%	9.90%
<i>Consumer Price Index (CPI)</i>	1.60%	-0.40%
<b><u>Financial Markets:</u></b>		
<i>Dow Jones Industrial Average (DJIA)</i>	11.02%	18.82%
<i>NASDAQ Composite Index</i>	16.91%	43.89%
<i>Standard and Poor's 500 Index (S&amp;P500)</i>	12.78%	23.45%
<i>10-Year Treasury Note Yield</i>	3.31%	3.84%

The United States and global economies continued an economic recovery that began in the second half of 2009. Gross domestic product was at 2.90% for 2010. The growth has not yet driven inflation significantly higher as evidenced by the 1.60% consumer price index. This has allowed the Federal Reserve to maintain the federal funds rate at exceptionally low levels which may fuel further growth. In addition, the unemployment rate decreased in 2010. Economists are cautiously optimistic that this trend will continue 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 2010 and 2009. Short-term money market fund returns were at zero because of the extremely low federal funds rate. The values of most fixed-income funds increased in 2010 because of the decrease in the ten-year Treasury note yield and the easing of credit-quality concerns from previous years. Commercial real estate investments recovered some of the significant losses from 2009 because of improving employment levels and an increase in credit availability for building sales.

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 approximately \$5.4 million in both 2010 and 2009. Contributions are

calculated as a percentage of wages. In addition, the average deferral percentages for the Optional Savings Plan for plan years 2010 and 2009 were 5.83% and 6.17%, 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.

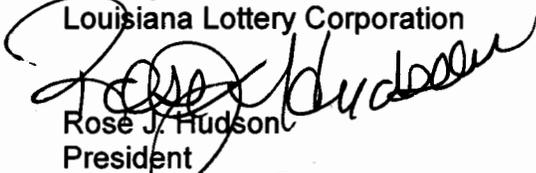
**Benefits paid to participants**

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, 2010. 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, 2010**

	<u>401(a) Plans</u>		<u>457(b) Plan</u>
	<u>Basic</u>	<u>Supplemental</u>	<u>Optional Savings</u>
<b>ASSETS</b>			
Investments (note 3)	\$7,128,279	\$4,059,969	\$5,114,772
<b>LIABILITIES</b>			
	NONE	NONE	NONE
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<u>\$7,128,279</u>	<u>\$4,059,969</u>	<u>\$5,114,772</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, 2010**

	<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	\$845,590	\$484,591	\$618,697
Less investment management fees (note 4)	(5,261)	NONE	NONE
Net investment income	840,329	484,591	618,697
Contributions:			
Participant	323,152	13,883	315,143
Employer	260,609	312,500	119,748
Total additions	1,424,090	810,974	1,053,588
<b>DEDUCTIONS</b>			
Benefits paid to participants	(675,991)	(362,157)	(498,306)
Net increase	748,099	448,817	555,282
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>			
	6,380,180	3,611,152	4,559,490
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>			
	\$7,128,279	\$4,059,969	\$5,114,772

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, 2010.

### **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, 2010, there were 124 participants in the Basic Plan, 100 participants in the Supplemental Plan, and 97 participants in the Optional Savings Plan.

### **A. BASIC RETIREMENT PLAN**

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

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

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

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

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

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

#### **B. SUPPLEMENTAL RETIREMENT PLAN**

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

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

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

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

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

### **C. OPTIONAL SAVINGS PLAN**

The Optional Savings Plan is a voluntary deferred compensation plan adopted under the provisions of IRC Section 457(b). Under the terms of the Plan, an employee is eligible to participate in the Plan as of the entry date that coincides with or immediately follows the date on which the employee completes a 90-day employment period. For the plan year, the sum of compensation deferred by a participant and the Corporation's matching contributions made on behalf of such participant shall not exceed the lesser of such participant's compensation or \$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, 2010, 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, 2010, investments are composed of the following:

	<i>401(a)</i>		<i>457(b)</i>
	<u>Plans</u>		<u>Plan</u>
	<u>Basic</u>	<u>Supplemental</u>	<u>Optional Savings</u>
<b>Principal Stable Value Signature Fund</b> (Union Bond & Trust Company - Trustee)		\$162,436	\$196,679
<b>PLIC Flexible Investment Annuity Group Contract</b> <b>Separate Accounts:</b>			
<b>Principal Proprietary Funds R2 Rate Level:</b>			
U.S. Property		12,207	19,003
LargeCap S&P 500 Index		165,969	204,303
MidCap Value I		13,613	18,431
International Growth (1)		50,821	29,701
<b>Principal Proprietary Funds R3 Rate Level:</b>			
Bond & Mortgage		87,002	60,356
LargeCap Blend II		64,296	99,908
LargeCap Growth I		34,494	68,049
LargeCap Value III		48,983	44,991
MidCap Growth III		99,490	182,854
SmallCap Growth II		66,678	122,675
SmallCap Value II		81,904	109,152
<b>Principal Proprietary Funds R6 Level:</b>			
<b>Principal LifeTime:</b>			
LifeTime Strategic Income (1)	\$17,089		
LifeTime 2010 (1)	156,429	53,197	257,528
LifeTime 2020 (1)	280,505	170,420	138,997
LifeTime 2030 (1)	556,050	83,514	81,804
LifeTime 2040 (1)	254,071	56,791	44,554
LifeTime 2050 (1)	30,384	14,124	5,250
<b>Nonproprietary Funds R6 Level:</b>			
<b>Russell LifePoints:</b>			
Conservative Strategy (1)	237,306	114,034	260,800
Moderate Strategy (1)	208,922	116,124	318,513
Balanced Strategy (1)	2,653,293	1,026,509	877,116
Growth Strategy (1)	2,019,078	1,217,282	1,450,445
Equity Growth Strategy (1)	715,152	134,356	284,360
<b>Mutual Fund Investments</b> <b>(Principal Trust Company - Trustee):</b>			
American Century Equity Income A Fund		43,529	51,889
American Funds Growth Fund of America R3 Fund (1)		32,326	44,574
American Funds Europacific Growth R3 Fund (1)		109,870	142,840
<b>Total</b>	<u>\$7,128,279</u>	<u>\$4,059,969</u>	<u>\$5,114,772</u>

(1) At December 31, 2010, funds contain investments in international securities. In the Principal LifeTime funds, approximately 10% of Strategic Income, 17% of LifeTime 2010, 20% of LifeTime 2020, 23% of LifeTime 2030, 26% of LifeTime 2040, and 27% of LifeTime 2050 are invested in international securities. In the Russell LifePoints funds,

approximately 17% of Conservative, 24% of Moderate, 29% of Balanced, 33% of Growth, and 36% of Equity Growth are invested in international securities. In the Principal Proprietary funds, approximately 11% of the Bond & Mortgage, 8% of the SmallCap Growth II, and 7% of the SmallCap Value II are invested in international securities. The American Funds Growth Fund of America R3 Fund contains approximately 14% 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 fund's holdings invested in bonds at December 31, 2010, the average credit quality ratings, the average effective duration, and the percentage of bond holdings invested in mortgage-backed securities are presented for each fund in the chart below.

	Bond %	Average Credit Quality	Average Effective Duration (Years)	Mortgage- Backed Securities Exposure %
Principal Stable Value Signature Fund	80	*	2.46	-
Principal Bond & Mortgage	98	BB	4.84	48.14
<b>Principal LifeTime:</b>				
LifeTime Strategic Income	75	BBB	5.01	24.24
LifeTime 2010	44	BB	5.00	28.89
LifeTime 2020	31	BB	5.04	30.84
LifeTime 2030	21	BB	4.95	25.22
LifeTime 2040	13	BB	4.84	18.09
LifeTime 2050	9	B	4.67	9.45
<b>Russell LifePoints:</b>				
Conservative Strategy	60	BB	3.73	43.40
Moderate Strategy	47	BB	4.15	45.26
Balanced Strategy	33	BB	3.93	44.70
Growth Strategy	17	BB	3.93	44.70

\* Fund credit quality is not rated

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

An asset-based fee 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. The rate was .20% through April 21, 2010. A reduced fee of .05% is effective as of April 22, 2010. During the year ended December 31, 2010, investment management fees were \$5,261.

#### **5. FORFEITURES**

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

At December 31, 2010, forfeiture account balances of \$17,795 and \$6,080 remain in the Supplemental Plan and Optional Savings Plan, respectively. These funds represent forfeited nonvested accounts for the 2008, 2009, and 2010 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, 2010.

## **11. SUBSEQUENT EVENTS**

The Plans were restated effective January 1, 2011 to combine all prior amendments into the Plans' documents. These restatements were adopted to prepare the Basic and Supplemental Plans' documents for submission to the IRS for qualified status determination. The applications for determination were submitted prior to the January 31, 2011 deadline for governmental plans. The IRS review is currently in progress. The Optional Savings Plan was restated for administrative purposes only.

In addition, several amendments were adopted for the Supplemental and Optional Savings Plans with an effective date of January 1, 2011. The name of the Optional Savings Plan was changed to the 457(b) Retirement Plan. Also, the waiting periods for eligibility and vesting were eliminated for both plans. New employees participate and vest immediately.

## 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, 2010.

**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, 2010**

	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	\$28,841	\$1,622	(\$14)	\$3,812	\$3,075	(\$20,247)		\$17,089
LifeTime 2010	66,065	20,178	(82)	10,624	8,568	(23,948)	\$75,024	156,429
LifeTime 2020	238,985	34,572	(228)	25,678	20,708	(39,210)		280,505
LifeTime 2030	383,976	70,358	(408)	57,443	46,325	(1,644)		556,050
LifeTime 2040	140,485	33,219	(162)	31,618	25,499	(6,013)	29,425	254,071
LifeTime 2050	3,231	2,235	(7)	8,256	6,658		10,011	30,384
<b>Nonproprietary Funds R6 Rate Level:</b>								
<b>Russell LifePoints:</b>								
Conservative Strategy	257,335	22,513	(236)	13,529	10,911	(66,746)		237,306
Moderate Strategy	165,102	21,149	(168)	12,643	10,196			208,922
Balanced Strategy	2,772,024	315,206	(1,907)	48,834	39,382	(446,998)	(73,248)	2,653,293
Growth Strategy	1,750,468	239,870	(1,482)	78,387	63,216	(60,180)	(31,201)	2,019,078
Equity Growth Strategy	593,668	84,668	(567)	32,328	26,071	(11,005)	(10,011)	715,152
<b>Total</b>	<b>\$6,380,180</b>	<b>\$845,590</b>	<b>(\$5,261)</b>	<b>\$323,152</b>	<b>\$260,609</b>	<b>(\$675,991)</b>	<b>NONE</b>	<b>\$7,128,279</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, 2010**

	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>	\$202,192	\$3,700		\$17,097	(\$61,921)	\$1,368	\$162,436
<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	1,369		1,082		3,063	12,207
LargeCap S&P 500 Index	153,660	20,264		3,303	(\$22,563)	11,305	165,969
MidCap Value I	10,649	2,571		1,240		(847)	13,613
International Growth	43,994	5,220		1,753		(146)	50,821
<b>Principal Proprietary Funds R3 Rate Level:</b>							
Bond & Mortgage	81,853	9,065		3,720	(7,251)	(385)	87,002
LargeCap Blend II	61,007	7,169		3,178	(6,472)	(586)	64,296
LargeCap Growth I	34,918	5,655		497	(6,603)	27	34,494
LargeCap Value III	39,369	5,321		4,492	(5)	(194)	48,983
MidCap Growth III	84,738	21,313		4,246	(8,911)	(1,896)	99,490
SmallCap Growth II	46,104	14,193		4,383	(13)	2,011	66,678
SmallCap Value I	65,162	10,253		4,630	(3,866)	(76,179)	0
SmallCap Value II		6,661		540		74,703	81,904
<b>Principal Proprietary Funds R6 Rate Level:</b>							
<b>Principal LifeTime:</b>							
LifeTime 2010	71,310	11,160		2,938	(78,639)	46,428	53,197
LifeTime 2020	120,832	21,301	\$12,922	15,365			170,420
LifeTime 2030	52,278	10,514		20,722			83,514
LifeTime 2040	17,316	7,441	961	16,506		14,567	56,791
LifeTime 2050	3,803	1,681		8,640			14,124
<b>Nonproprietary Funds R6 Rate Level:</b>							
<b>Russell LifePoints:</b>							
Conservative Strategy	130,440	11,136		7,550	(34,471)	(621)	114,034
Moderate Strategy	107,178	12,502		12,365	(15,317)	(604)	116,124
Balanced Strategy	944,247	120,011		59,646	(91,722)	(5,673)	1,026,509
Growth Strategy	1,051,054	143,487		89,913	(15,204)	(51,968)	1,217,282
Equity Growth Strategy	129,489	15,176		13,645	(9,194)	(14,760)	134,356
<b>Mutual Fund Investments</b>							
<b>(Principal Trust Company - Trustee):</b>							
American Century Equity Income A Fund	34,216	4,825		4,056		432	43,529
American Funds Growth Fund of America R3 Fund	24,779	3,403		3,974	(5)	175	32,326
American Funds Europacific Growth R3 Fund	93,871	9,200		7,019		(220)	109,870
<b>Total</b>	<b>\$3,611,152</b>	<b>\$484,591</b>	<b>\$13,883</b>	<b>\$312,500</b>	<b>(\$362,157)</b>	<b>NONE</b>	<b>\$4,059,969</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, 2010**

	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>	\$153,011	\$3,343	\$32,676	\$6,408		\$1,241	\$196,679
<b>PLIC Flexible Investment Annuity Group Contract Separate Accounts:</b>							
<b>Principal Proprietary Funds R2 Rate Level:</b>							
U.S. Property	12,816	2,266	1,012	650		2,259	19,003
LargeCap S&P 500 Index	188,282	24,741	3,946	1,052	(\$13,741)	23	204,303
MidCap Value I	14,844	3,497	828	467		(1,205)	18,431
International Growth	22,714	3,042	802	414		2,729	29,701
<b>Principal Proprietary Funds R3 Rate Level:</b>							
Bond & Mortgage	51,247	5,838	4,387	1,178	(2,670)	376	60,356
LargeCap Blend II	86,361	11,163	5,541	1,230	(4,344)	(43)	99,908
LargeCap Growth I	81,213	11,351	414	233	(25,114)	(48)	68,049
LargeCap Value III	36,010	4,862	2,650	1,218		251	44,991
MidCap Growth III	144,568	38,164	6,326	1,974	(6,686)	(1,492)	182,854
SmallCap Growth II	87,442	25,991	2,882	1,066	(4)	5,298	122,675
SmallCap Value I	83,996	13,410	\$4,356	1,632	(2,969)	(100,425)	0
SmallCap Value II		8,854	\$665	259		99,374	109,152
<b>Principal Proprietary Funds R6 Rate Level:</b>							
<b>Principal LifeTime:</b>							
LifeTime 2010	198,199	52,421	10,814	1,126	(232,129)	227,097	257,528
LifeTime 2020	105,607	17,024	10,230	6,136			138,997
LifeTime 2030	40,073	9,683	19,590	12,673	(215)		81,804
LifeTime 2040	15,738	5,670	9,098	6,328	(923)	8,643	44,554
LifeTime 2050	530	540	2,090	2,090			5,250
<b>Nonproprietary Funds R6 Rate Level:</b>							
<b>Russell LifePoints:</b>							
Conservative Strategy	257,635	24,068	8,014	2,890	(31,807)		260,800
Moderate Strategy	271,972	33,370	14,882	5,340	(8,853)	1,802	318,513
Balanced Strategy	822,670	100,844	40,020	15,778	(92,196)	(10,000)	877,116
Growth Strategy	1,469,369	163,894	83,090	33,410	(63,579)	(235,739)	1,450,445
Equity Growth Strategy	218,531	32,317	36,788	9,800	(13,076)		284,360
<b>Mutual Fund Investments (Principal Trust Company - Trustee):</b>							
American Century Equity Income A Fund	40,564	5,698	4,197	1,918	(488)		51,889
American Funds Growth Fund of America R3 Fund	36,257	4,659	2,187	1,449	22		44,574
American Funds Europacific Growth R3 Fund	119,841	11,987	7,658	3,029	325		142,840
<b>Total</b>	<b>\$4,559,490</b>	<b>\$618,697</b>	<b>\$315,143</b>	<b>\$119,748</b>	<b>(\$498,306)</b>	<b>NONE</b>	<b>\$5,114,772</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, 2010
- **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 36-87)
  - 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><u>Lifecycle (Age-Based) Funds:</u></b>				
<b>Completely "Do-it-for-me" Investors</b>				
<b>Principal LifeTime Portfolios: (1)</b>				
<i>Target Date Portfolios</i>				
Principal LifeTime Strategic Income	Asset Allocation	√	√	√
Principal LifeTime 2010	Asset Allocation	√	√	√
Principal LifeTime 2020	Asset Allocation	√	√	√
Principal LifeTime 2030	Asset Allocation	√	√	√
Principal LifeTime 2040	Asset Allocation	√	√	√
Principal LifeTime 2050	Asset Allocation	√	√	√
Principal LifeTime (Future Date Portfolios)	Asset Allocation	√	√	√
<b><u>Lifestyle (Risk-Based) Funds:</u></b>				
<b>Almost "Do-it-for-me" Investors</b>				
<b>Russell LifePoints 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><u>Individual Separate Accounts and Funds:</u></b>				
<b>"Do-it-myself" Investors</b>				
Principal Stable Value Signature Fund	Stable Value or Cash Equivalent		√	√
Principal Bond & Mortgage	Domestic Fixed Income		√	√
U.S. Property Separate Account	Core Real Estate Property		√	√
Principal 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 II 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
<b>Large U.S. Equity</b>		
LargeCap Value III Separate Account 	LargeCap S&P 500 Index Separate Account 	LargeCap Growth I Separate Account 
American Century Equity Income A Fund 	LargeCap Blend II Separate Account 	American Funds Growth Fund of America R3 Fund 
<b>Small/Mid U.S. Equity</b>		
MidCap Value I Separate Account 		MidCap Growth III Separate Account 
SmallCap Value II Separate Account 		SmallCap Growth II Separate Account 
<b>Other Investment Styles</b>		
<b>Short-Term Fixed Income</b> Principal Stable Value Signature Fund 	<b>Fixed Income</b> Bond & Mortgage Separate Account 	<b>Asset Allocation</b> Russell LifePoints Separate Accounts 
	U.S. Property Separate Account Principal Real Estate Investors	Principal LifeTime Separate Accounts 
	<b>International Equity</b> International Growth Separate Account 	
	American Funds Europacific Growth R3 Fund 	

Risk Spectrum Low Risk/Return < > High Risk/Return

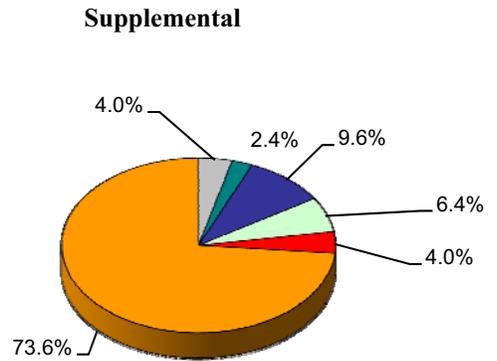
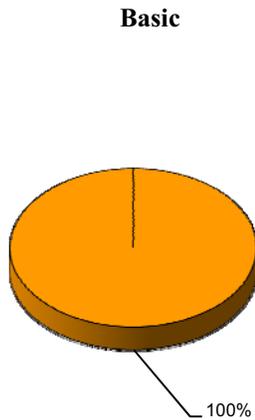
Short-Term Fixed Income	Fixed Income	Asset Allocation	Large U.S. Equity	Small/Mid U.S. Equity	International Equity
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# Asset Allocation

Source: Investment Committee

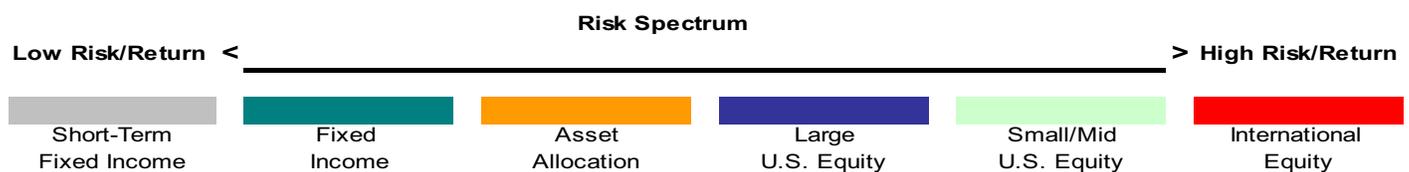
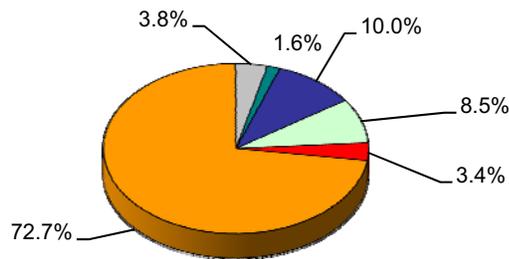
This chart reflects that the majority of participants prefer investing in the asset allocation funds offered in the investment menu for the Plans. The Basic Plan only allows investments into these lifestyle and lifecycle funds while the Supplemental and Optional Savings Plans offer the full menu of options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

## 401(a) Plans



## 457(b) Plan

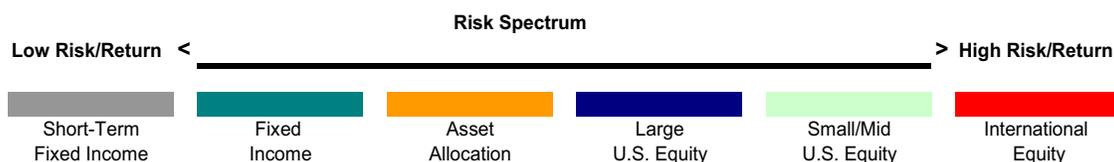
### Optional Savings



## 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	
	2010	%	2010	%	2010	%
<b><u>Lifecycle (Age-Based) Funds:</u></b>						
<b>Principal LifeTime Portfolios:</b>						
<i>Target Date Portfolios</i>						
Principal LifeTime Strategic Income	\$17,089	0.24%				
Principal LifeTime 2010	156,429	2.19%	\$53,197	1.31%	\$257,528	5.03%
Principal LifeTime 2020	280,505	3.94%	170,420	4.20%	138,997	2.72%
Principal LifeTime 2030	556,050	7.80%	83,514	2.06%	81,804	1.60%
Principal LifeTime 2040	254,071	3.56%	56,791	1.40%	44,554	0.87%
Principal LifeTime 2050	30,384	0.43%	14,124	0.35%	5,250	0.10%
<b><u>Lifestyle (Risk-Based) Funds:</u></b>						
<b>Russell LifePoints Portfolios:</b>						
<i>Target Risk Portfolio Series</i>						
Conservative Strategy	237,306	3.33%	114,034	2.81%	260,800	5.10%
Moderate Strategy	208,922	2.93%	116,124	2.86%	318,513	6.23%
Balanced Strategy	2,653,293	37.22%	1,026,509	25.28%	877,116	17.15%
Growth Strategy	2,019,078	28.32%	1,217,282	29.98%	1,450,445	28.36%
Equity Growth Strategy	715,152	10.04%	134,356	3.31%	284,360	5.56%
<b><u>Individual Separate Accounts and Funds:</u></b>						
Principal Stable Value Signature Fund			162,436	3.96%	196,679	3.84%
Principal Bond & Mortgage Separate Account			87,002	2.14%	60,356	1.20%
U.S. Property Separate Account			12,207	0.30%	19,003	0.37%
Principal LargeCap S&P 500 Index Separate Account			165,969	4.09%	204,303	3.99%
LargeCap Blend II Separate Account			64,296	1.58%	99,908	1.95%
LargeCap Value III Separate Account			48,983	1.21%	44,991	0.88%
LargeCap Growth I Separate Account			34,494	0.85%	68,049	1.33%
American Century Equity Income A Fund			43,529	1.07%	51,889	1.01%
American Funds Growth Fund of America R3 Fund			32,326	0.80%	44,574	0.87%
MidCap Growth III Separate Account			99,490	2.45%	182,854	3.58%
MidCap Value I Separate Account			13,613	0.34%	18,431	0.36%
SmallCap Growth II Separate Account			66,678	1.64%	122,675	2.40%
SmallCapValue II Separate Account			81,904	2.02%	109,152	2.13%
International Growth Separate Account			50,821	1.25%	29,701	0.58%
American Funds Europacific Growth R3 Fund			109,870	2.74%	142,840	2.79%
	\$7,128,279	100.00%	\$4,059,969	100.00%	\$5,114,772	100.00%



## Investment Performance

Source: Principal Financial Group

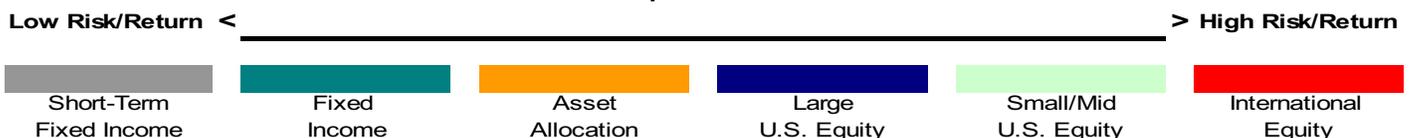
Comparisons to benchmarks and peer groups included in fund fact sheets beginning on page 36

### % Rates of Return Through December 31, 2010

	<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	11.01	0.64	2.44	0.78
Principal LifeTime 2010	13.73	-0.42	2.70	0.89
Principal LifeTime 2020	14.68	-1.15	2.96	0.92
Principal LifeTime 2030	13.04	-1.90	2.89	0.95
Principal LifeTime 2040	15.66	-2.60	2.64	0.98
Principal LifeTime 2050	15.83	-2.98	2.53	1.00
<b><u>Lifestyle (Risk-Based) Funds:</u></b>				
<b>Russell LifePoints Portfolios:</b>				
<i>Target Risk Portfolio Series</i>				
Conservative Strategy	9.91	3.55	4.38	1.25
Moderate Strategy	11.89	1.83	4.14	1.34
Balanced Strategy	13.06	-0.03	3.67	1.43
Growth Strategy	13.73	-2.30	2.79	1.50
Equity Growth Strategy	13.52	-5.07	1.62	1.54
<b><u>Individual Separate Accounts and Funds:</u></b>				
Principal Stable Value Signature Fund	1.94	2.44	2.97	0.85
Principal Bond & Mortgage Separate Account	11.13	5.18	4.58	1.12
U.S. Property Separate Account	15.25	-12.23	-2.69	1.74
Principal LargeCap S&P 500 Index Separate Account	14.01	-3.68	1.41	0.90
LargeCap Blend II Separate Account	12.73	-2.84	2.15	1.33
LargeCap Value III Separate Account	12.36	-7.83	-1.91	1.34
LargeCap Growth I Separate Account	19.23	2.14	3.90	1.20
American Century Equity Income A Fund	13.01	0.29	4.07	1.22
American Funds Growth Fund of America R3 Fund	11.95	-3.01	2.22	0.97
MidCap Growth III Separate Account	26.75	-2.16	4.19	1.54
MidCap Value I Separate Account	23.38	1.47	4.08	1.75
SmallCap Growth II Separate Account	27.24	-1.54	1.70	1.57
SmallCap Value I Separate Account	26.74	1.45	2.52	1.64
International Growth Separate Account	11.41	-10.38	-0.16	1.76
American Funds Europacific Growth R3 Fund	9.07	-3.56	5.25	1.15

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

#### Risk Spectrum



## **Fund Fact Sheets**

*Source: Reprinted with permission from Principal Financial Group*

# Principal LifeTime Strategic Income Separate Account-R6

as of 12/31/2010

## Investment Strategy

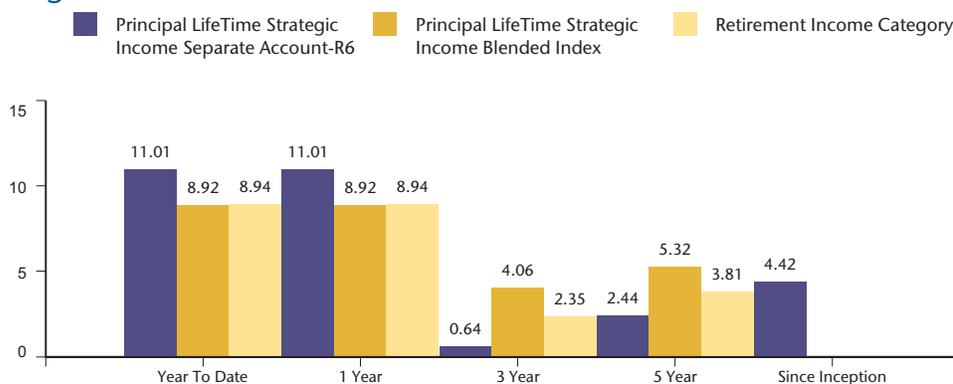
The investment seeks current income and, as a secondary objective, capital appreciation. The fund invests in underlying fixed-income funds, but also invests in underlying equity and hybrid funds according to an asset allocation strategy designed for investors seeking current income from their investment. 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 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 12/31/2010



## 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 [principal.com](http://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.

The target date is the approximate date that the investor plans to start withdrawing their money. The investment options automatically become more conservative as retirement approaches. Over time, the investment options shift from focusing on asset accumulation to generating a high level of current income as investors near their target retirement dates. The principal value of an investment in the fund(s) is not guaranteed at any time, including at the target date.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	11.01	11.01	0.64	2.44	4.42
Principal LifeTime Strategic Income Blended Index %	8.92	8.92	4.06	5.32	-
Retirement Income Category %	8.94	8.94	2.35	3.81	-
Morningstar Percentile Rankings	-	12	78	76	-
# of Funds in Category	162	162	104	74	-
Annual Returns	2010	2009	2008	2007	2006
Total Return %	11.01	18.34	-22.42	1.57	8.95
Principal LifeTime Strategic Income Blended Index %	8.92	11.80	-6.49	7.10	6.90
Retirement Income Category %	8.94	18.36	-18.06	4.46	7.34
Morningstar Percentile Rankings	12	46	69	90	19
# of Funds in Category	162	134	122	107	84

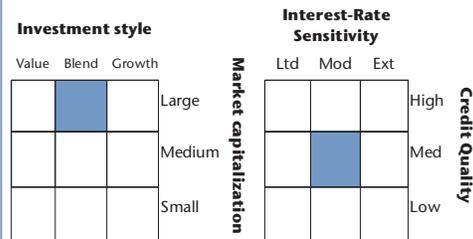
Morningstar percentile rankings are based on total returns.

## Morningstar category

Retirement Income

## Morningstar Style Box™\*\*

As of 11/30/2010



## Risk and Return Statistics

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

	3Yr	5Yr
Alpha	-4.31	-3.62
Beta	1.37	1.35
R-Squared	85.79	84.63
Standard Deviation	10.79	8.57
Mean	0.64	2.44
Sharpe Ratio	0.04	0.04
Excess Return	-3.42	-2.88
Excess Risk	4.96	3.98
Information Ratio	-0.69	-0.72

## Operations

Total Investment Expense Net	0.78%
Total Investment Expense Gross	0.78%
Inception Date	03/30/2001
Total Net Assets (mil)	\$655.88



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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 12/31/2010

## Portfolio information†

Composition as of 11/30/2010

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Bonds	71.67	1.62	73.29
	U.S. Stocks	16.52	0.00	16.52
	Non-U.S. Stocks	6.40	0.00	6.40
	Non-U.S. Bonds	3.18	5.38	8.56
	Preferred	2.01	0.00	2.01
	Cash	0.95	22.26	23.21
	Convertibles	0.12	0.00	0.12
	Other	-0.85	1.39	0.54

## Top ten holdings

Top ten holdings	% of net assets
1. Principal Bond & Mtg Securities Inst	17.60
2. Principal Core Plus Bond I Institutional	17.28
3. Principal Inflation Protection Inst	12.69
4. Principal Short-Term Income Inst	11.23
5. Principal Global Div Inc Instl	6.27
6. Principal Bond Market Index Instl	4.82
7. Principal Diversified Real Asset Inst	4.68
8. Principal High Yield I Inst	3.13
9. Principal Preferred Securities Inst	2.97
10. Principal Large Cap Growth I Inst	2.96
% of net assets in top ten holdings*	83.63

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	25
GeoAvgCap (mil)	\$17,094.18
Turnover Ratio	36%
P/C Ratio	5.50
P/E Ratio	15.62
P/B Ratio	1.96

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.23	Healthcare	8.85	Consumer Goods	8.44
Hardware	6.10	Consumer Services	7.44	Industrial Materials	14.41
Media	1.98	Business Services	3.32	Energy	14.65
Telecom	5.41	Financial Services	23.75	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.

\*\*The Morningstar Style Box™ reveals an investment option's investment strategy.

For equity investment options the vertical axis shows the market capitalization of the stocks owned and the horizontal axis shows investment style (value, blend, or growth).

For fixed-income investment options, the vertical axis shows the credit quality of the bonds owned and the horizontal axis shows interest rate sensitivity as measured by a bond's effective duration.

Morningstar seeks credit rating information from fund companies on a periodic basis (e.g., quarterly). In compiling credit rating information, Morningstar instructs fund companies to only use ratings that have been assigned by a Nationally Recognized Statistical Rating Organization (NRSRO). If two NRSROs have rated a security, fund companies are to report the lowest rating; if three or more NRSROs have rated the same security differently, fund companies are to report the rating that is in the middle. For example, if NRSRO X rates a security AA-, NRSRO Y rates the same security an A and NRSRO Z rates it a BBB+, the fund company should use the credit rating of 'A' in its reporting to Morningstar. PLEASE NOTE: Morningstar, Inc. is not itself an NRSRO nor does it issue a credit rating on the investment option. An NRSRO rating on a fixed-income security can change from time-to-time.

For credit quality, Morningstar combines the credit rating information provided by the fund companies with an average default rate calculation to come up with a weighted-average credit quality. The weighted-average credit quality is currently a letter that roughly corresponds to the scale used by a leading NRSRO. Bond investment options are assigned a style box placement of "low", "medium", or "high" based on their average credit quality. Investment options with a low credit quality are those whose weighted-average credit quality is determined to be less than "BBB-"; medium are those less than "AA-", but greater or equal to "BBB-"; and high are those with a weighted-average credit quality of "AA-" or higher. When classifying a bond portfolio, Morningstar first maps the NRSRO credit ratings of the underlying holdings to their respective default rates (as determined by Morningstar's analysis of actual historical default rates). Morningstar then averages these default rates to determine the average default rate for the entire bond investment option. Finally, Morningstar maps this average default rate to its corresponding credit rating along a convex curve.

For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income investment option's interest-rate sensitivity based on the effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited will be assigned to those investment options whose average effective duration is between 25% to 75% of MCBI's average effective duration; investment options whose average effective duration is between 75% to 125% of the MCBI will be classified as Moderate; and those that are at 125% or greater of the average effective duration of the MCBI will be classified as Extensive.

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

## Investment Strategy

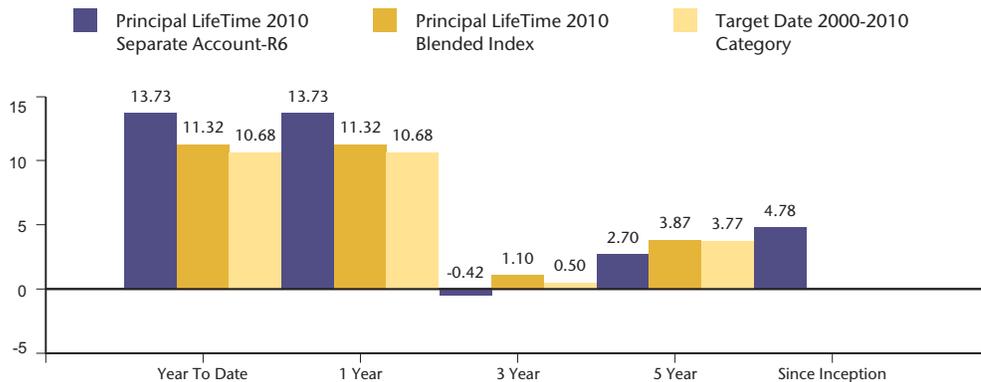
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable 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-advisor's 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 12/31/2010



## 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 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.*

*The target date is the approximate date that the investor plans to start withdrawing their money. The investment options automatically become more conservative as retirement approaches. Over time, the investment options shift from focusing on asset accumulation to generating a high level of current income as investors near their target retirement dates. The principal value of an investment in the fund(s) is not guaranteed at any time, including at the target date.*

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	13.73	13.73	-0.42	2.70	4.78
Principal LifeTime 2010 Blended Index %	11.32	11.32	1.10	3.87	-
Target Date 2000-2010 Category %	10.68	10.68	0.50	3.77	-
Morningstar Percentile Rankings	-	1	67	86	-
# of Funds in Category	179	179	149	88	-
Annual Returns	2010	2009	2008	2007	2006
Total Return %	13.73	24.72	-30.38	3.44	11.84
Principal LifeTime 2010 Blended Index %	11.32	18.41	-20.76	7.02	8.73
Target Date 2000-2010 Category %	10.68	22.42	-22.46	5.22	8.58
Morningstar Percentile Rankings	1	27	91	84	18
# of Funds in Category	179	201	304	266	188

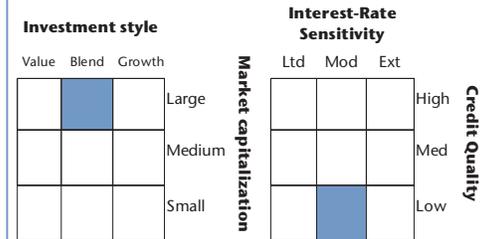
*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target Date 2000-2010

## Morningstar Style Box™\*\*

As of 11/30/2010



## Risk and Return Statistics

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

	3Yr	5Yr
Alpha	-1.31	-1.25
Beta	1.20	1.21
R-Squared	97.39	96.95
Standard Deviation	16.36	13.09
Mean	-0.41	2.70
Sharpe Ratio	0.01	0.09
Excess Return	-1.52	-1.17
Excess Risk	3.83	3.19
Information Ratio	-0.40	-0.37

## Operations

Total Investment Expense Net	0.89%
Total Investment Expense Gross	0.89%
Inception Date	03/30/2001
Total Net Assets (mil)	\$1,726.73



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

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

## Portfolio information†

Composition as of 11/30/2010

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Bonds	41.94	1.06	43.00
	U.S. Stocks	38.40	0.00	38.40
	Non-U.S. Stocks	14.59	0.00	14.59
	Non-U.S. Bonds	2.12	3.52	5.65
	Preferred	2.10	0.00	2.10
	Cash	1.22	14.39	15.61
	Convertibles	0.08	0.00	0.08
	Other	-0.45	0.91	0.46

## Top ten holdings

	% of net assets
1. Principal Bond & Mtg Securities Inst	11.78
2. Principal Core Plus Bond I Institutional	11.32
3. Principal Large Cap Growth I Inst	7.86
4. Principal Large Cap Value I Inst	6.52
5. Principal Large Cap S&P 500 Index Inst	6.17
6. Principal Inflation Protection Inst	4.43
7. Principal Short-Term Income Inst	4.25
8. Principal Global Div Inc Instl	3.78
9. Principal Diversified Real Asset Inst	3.77
10. Principal Large Cap Growth Inst	3.76
<b>% of net assets in top ten holdings*</b>	<b>63.64</b>

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	25
GeoAvgCap (mil)	\$19,356.09
Turnover Ratio	28%
P/C Ratio	5.37
P/E Ratio	15.35
P/B Ratio	1.99

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>18.20</b>	<b>Service</b>	<b>44.98</b>	<b>Manufacturing</b>	<b>36.83</b>
Software	3.42	Healthcare	9.41	Consumer Goods	9.07
Hardware	6.66	Consumer Services	7.95	Industrial Materials	14.43
Media	2.17	Business Services	3.44	Energy	10.81
Telecom	5.95	Financial Services	24.18	Utilities	2.52

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.

\*\*The Morningstar Style Box™ reveals an investment option's investment strategy.

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For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income investment option's interest-rate sensitivity based on the effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited will be assigned to those investment options whose average effective duration is between 25% to 75% of MCBI's average effective duration; investment options whose average effective duration is between 75% to 125% of the MCBI will be classified as Moderate; and those that are at 125% or greater of the average effective duration of the MCBI will be classified as Extensive.

# Principal LifeTime 2020 Separate Account-R6 as of 12/31/2010

## Investment Strategy

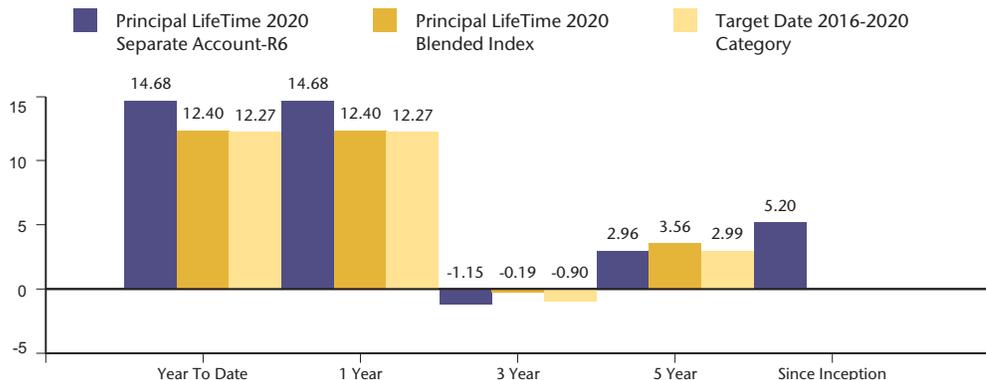
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable 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-advisor's 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 12/31/2010



## Performance disclosure

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*The target date is the approximate date that the investor plans to start withdrawing their money. The investment options automatically become more conservative as retirement approaches. Over time, the investment options shift from focusing on asset accumulation to generating a high level of current income as investors near their target retirement dates. The principal value of an investment in the fund(s) is not guaranteed at any time, including at the target date.*

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	14.68	14.68	-1.15	2.96	5.20
Principal LifeTime 2020 Blended Index %	12.40	12.40	-0.19	3.56	-
Target Date 2016-2020 Category %	12.27	12.27	-0.90	2.99	-
Morningstar Percentile Rankings	-	3	63	50	-
# of Funds in Category	203	203	156	85	-
Annual Returns	2010	2009	2008	2007	2006
Total Return %	14.68	27.25	-33.81	5.08	14.03
Principal LifeTime 2020 Blended Index %	12.40	21.91	-26.44	7.00	11.30
Target Date 2016-2020 Category %	12.27	24.25	-29.46	6.02	11.95
Morningstar Percentile Rankings	3	34	70	67	14
# of Funds in Category	203	212	186	134	91

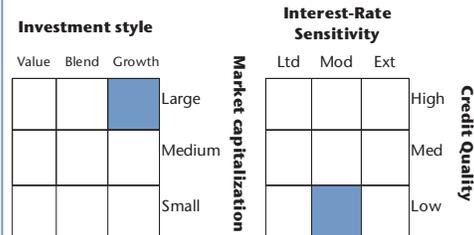
*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target Date 2016-2020

## Morningstar Style Box™\*\*

As of 11/30/2010



## Risk and Return Statistics

as of 12/31/2010 Relative to Principal LifeTime 2020 Blended Index

	3Yr	5Yr
Alpha	-0.59	-0.56
Beta	1.13	1.14
R-Squared	98.68	98.40
Standard Deviation	18.97	15.23
Mean	-1.15	2.96
Sharpe Ratio	-0.01	0.11
Excess Return	-0.96	-0.59
Excess Risk	3.15	2.69
Information Ratio	-0.30	-0.22

## Operations

Total Investment Expense Net	0.92%
Total Investment Expense Gross	0.92%
Inception Date	03/30/2001
Total Net Assets (mil)	\$4,640.50



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

# Principal LifeTime 2020 Separate Account-R6 as of 12/31/2010

## Portfolio information†

Composition as of 11/30/2010

Asset Distribution		Asset Type	Net %	Short %	Long %
		U.S. Stocks	47.68	0.00	47.68
		U.S. Bonds	29.62	0.87	30.48
		Non-U.S. Stocks	19.00	0.00	19.00
		Preferred	1.71	0.00	1.71
		Cash	1.17	11.38	12.55
		Non-U.S. Bonds	1.09	2.88	3.97
		Convertibles	0.07	0.00	0.07
		Other	-0.33	0.75	0.42

## Top ten holdings

	% of net assets
1. Principal Large Cap Growth I Inst	10.45
2. Principal Bond & Mtg Securities Inst	10.18
3. Principal Large Cap Value I Inst	9.39
4. Principal Core Plus Bond I Institutional	9.26
5. Principal Large Cap S&P 500 Index Inst	6.42
6. Principal High Yield I Inst	5.55
7. Principal International Growth Inst	4.91
8. Principal Large Cap Growth Inst	4.90
9. Principal International Value I Instl	4.77
10. Principal Large Cap Value Inst	4.74
<b>% of net assets in top ten holdings*</b>	<b>70.57</b>

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	25
GeoAvgCap (mil)	\$19,549.22
Turnover Ratio	16%
P/C Ratio	5.24
P/E Ratio	15.08
P/B Ratio	1.97

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>18.90</b>	<b>Service</b>	<b>44.38</b>	<b>Manufacturing</b>	<b>36.73</b>
Software	3.60	Healthcare	9.88	Consumer Goods	9.43
Hardware	6.87	Consumer Services	8.24	Industrial Materials	14.92
Media	2.27	Business Services	3.65	Energy	9.83
Telecom	6.16	Financial Services	22.61	Utilities	2.55

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# Principal LifeTime 2030 Separate Account-R6 as of 12/31/2010

## Investment Strategy

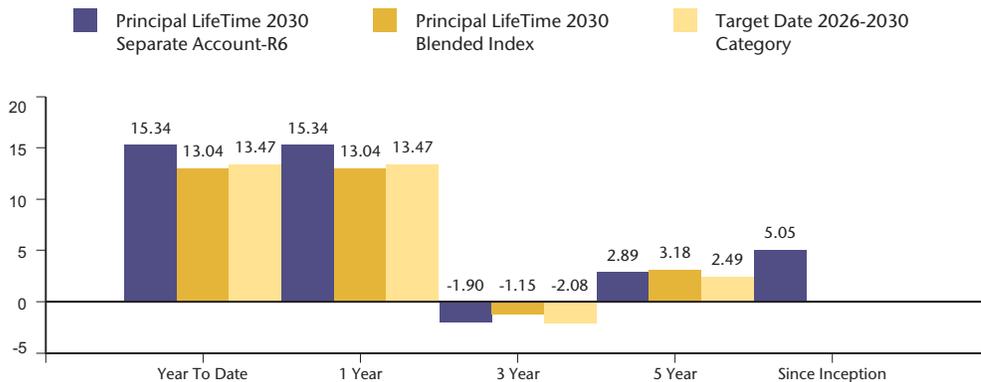
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### Portfolio managers

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## Long-term returns % as of 12/31/2010



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	15.34	15.34	-1.90	2.89	5.05
Principal LifeTime 2030 Blended Index %	13.04	13.04	-1.15	3.18	-
Target Date 2026-2030 Category %	13.47	13.47	-2.08	2.49	-
Morningstar Percentile Rankings	-	12	51	28	-
# of Funds in Category	200	200	153	85	-
Annual Returns	2010	2009	2008	2007	2006
Total Return %	15.34	28.62	-36.36	6.08	15.13
Principal LifeTime 2030 Blended Index %	13.04	24.25	-30.22	6.94	12.72
Target Date 2026-2030 Category %	13.47	28.87	-36.04	6.50	13.60
Morningstar Percentile Rankings	12	52	49	58	23
# of Funds in Category	200	200	169	130	87

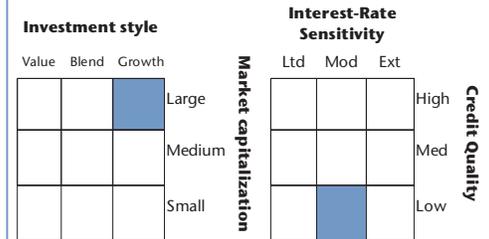
*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target Date 2026-2030

## Morningstar Style Box™\*\*

As of 11/30/2010



## Risk and Return Statistics

as of 12/31/2010 Relative to Principal LifeTime 2030 Blended Index

	3Yr	5Yr
Alpha	-0.33	-0.20
Beta	1.10	1.11
R-Squared	99.03	98.83
Standard Deviation	20.76	16.70
Mean	-1.89	2.89
Sharpe Ratio	-0.03	0.11
Excess Return	-0.74	-0.29
Excess Risk	2.81	2.42
Information Ratio	-0.26	-0.12

## Operations

Total Investment Expense Net	0.95%
Total Investment Expense Gross	0.95%
Inception Date	03/30/2001
Total Net Assets (mil)	\$4,162.45



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# Principal LifeTime 2030 Separate Account-R6 as of 12/31/2010

## Portfolio information†

Composition as of 11/30/2010

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	54.74	0.00	54.74
	Non-U.S. Stocks	21.85	0.00	21.85
	U.S. Bonds	19.57	0.50	20.06
	Preferred	1.62	0.00	1.62
	Cash	1.27	7.36	8.63
	Non-U.S. Bonds	1.02	1.65	2.67
	Convertibles	0.04	0.00	0.04
	Other	-0.11	0.43	0.32

## Top ten holdings

	% of net assets
1. Principal Large Cap Growth I Inst	12.32
2. Principal Large Cap Value I Inst	10.94
3. Principal Large Cap S&P 500 Index Inst	6.96
4. Principal Large Cap Growth Inst	5.82
5. Principal High Yield I Inst	5.66
6. Principal Bond & Mtg Securities Inst	5.61
7. Principal Large Cap Value Inst	5.54
8. Principal International Growth Inst	5.38
9. Principal Core Plus Bond I Institutional	5.29
10. Principal International Value I Instl	5.27
<b>% of net assets in top ten holdings*</b>	<b>68.79</b>

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	23
GeoAvgCap (mil)	\$19,704.13
Turnover Ratio	10%
P/C Ratio	5.23
P/E Ratio	15.07
P/B Ratio	1.97

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>19.10</b>	<b>Service</b>	<b>44.47</b>	<b>Manufacturing</b>	<b>36.42</b>
Software	3.63	Healthcare	9.93	Consumer Goods	9.46
Hardware	6.95	Consumer Services	8.32	Industrial Materials	14.85
Media	2.28	Business Services	3.64	Energy	9.54
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# Principal LifeTime 2040 Separate Account-R6 as of 12/31/2010

## Investment Strategy

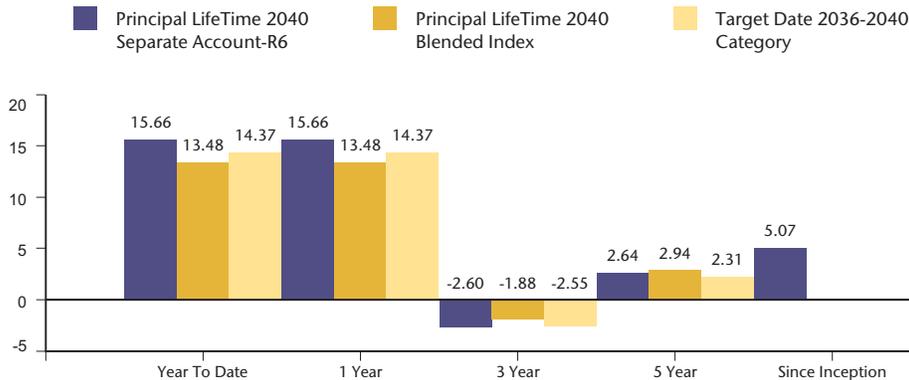
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## Long-term returns % as of 12/31/2010



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	15.66	15.66	-2.60	2.64	5.07
Principal LifeTime 2040 Blended Index %	13.48	13.48	-1.88	2.94	-
Target Date 2036-2040 Category %	14.37	14.37	-2.55	2.31	-
Morningstar Percentile Rankings	-	22	49	30	-
# of Funds in Category	194	194	138	77	-
Annual Returns	2010	2009	2008	2007	2006
Total Return %	15.66	29.26	-38.20	6.80	15.43
Principal LifeTime 2040 Blended Index %	13.48	25.98	-32.87	6.88	14.26
Target Date 2036-2040 Category %	14.37	30.90	-37.94	6.21	14.67
Morningstar Percentile Rankings	22	60	53	41	36
# of Funds in Category	194	193	151	111	77

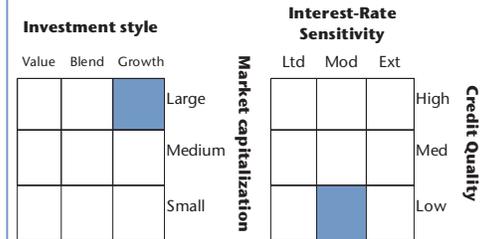
*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target Date 2036-2040

## Morningstar Style Box™\*\*

As of 11/30/2010



## Risk and Return Statistics

as of 12/31/2010 Relative to Principal LifeTime 2040 Blended Index

	3Yr	5Yr
Alpha	-0.33	-0.19
Beta	1.08	1.08
R-Squared	99.25	99.07
Standard Deviation	22.03	17.74
Mean	-2.61	2.64
Sharpe Ratio	-0.04	0.10
Excess Return	-0.73	-0.30
Excess Risk	2.48	2.19
Information Ratio	-0.29	-0.14

## Operations

Total Investment Expense Net	0.98%
Total Investment Expense Gross	0.98%
Inception Date	03/30/2001
Total Net Assets (mil)	\$2,436.38



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

# Principal LifeTime 2040 Separate Account-R6 as of 12/31/2010

## Portfolio information†

Composition as of 11/30/2010

Asset Distribution		Asset Type	Net %	Short %	Long %
		U.S. Stocks	59.47	0.00	59.47
		Non-U.S. Stocks	24.70	0.00	24.70
		U.S. Bonds	12.12	0.23	12.35
		Preferred	1.41	0.00	1.41
		Cash	1.32	4.63	5.95
		Non-U.S. Bonds	0.91	0.78	1.68
		Other	0.05	0.20	0.25
		Convertibles	0.02	0.00	0.02

## Top ten holdings

	% of net assets
1. Principal Large Cap Growth I Inst	13.52
2. Principal Large Cap Value I Inst	12.05
3. Principal Large Cap S&P 500 Index Inst	8.56
4. Principal Large Cap Growth Inst	6.63
5. Principal Large Cap Value Inst	6.16
6. Principal International Growth Inst	6.07
7. Principal International Value I Inst	6.05
8. Principal High Yield I Inst	5.42
9. Principal Intl Emerging Markets Inst	4.66
10. Principal International I Inst	4.14
<b>% of net assets in top ten holdings*</b>	<b>73.26</b>

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	23
GeoAvgCap (mil)	\$20,430.31
Turnover Ratio	6%
P/C Ratio	5.16
P/E Ratio	14.83
P/B Ratio	1.96

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>19.52</b>	<b>Service</b>	<b>43.29</b>	<b>Manufacturing</b>	<b>37.19</b>
Software	3.70	Healthcare	10.14	Consumer Goods	9.73
Hardware	7.11	Consumer Services	8.47	Industrial Materials	15.17
Media	2.33	Business Services	3.71	Energy	9.66
Telecom	6.38	Financial Services	20.97	Utilities	2.63

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.

\*\*The Morningstar Style Box™ reveals an investment option's investment strategy.

For equity investment options the vertical axis shows the market capitalization of the stocks owned and the horizontal axis shows investment style (value, blend, or growth).

For fixed-income investment options, the vertical axis shows the credit quality of the bonds owned and the horizontal axis shows interest rate sensitivity as measured by a bond's effective duration.

Morningstar seeks credit rating information from fund companies on a periodic basis (e.g., quarterly). In compiling credit rating information, Morningstar instructs fund companies to only use ratings that have been assigned by a Nationally Recognized Statistical Rating Organization (NRSRO). If two NRSROs have rated a security, fund companies are to report the lowest rating; if three or more NRSROs have rated the same security differently, fund companies are to report the rating that is in the middle. For example, if NRSRO X rates a security AA-, NRSRO Y rates the same security an A and NRSRO Z rates it a BBB+, the fund company should use the credit rating of 'A' in its reporting to Morningstar. PLEASE NOTE: Morningstar, Inc. is not itself an NRSRO nor does it issue a credit rating on the investment option. An NRSRO rating on a fixed-income security can change from time-to-time.

For credit quality, Morningstar combines the credit rating information provided by the fund companies with an average default rate calculation to come up with a weighted-average credit quality. The weighted-average credit quality is currently a letter that roughly corresponds to the scale used by a leading NRSRO. Bond investment options are assigned a style box placement of "low", "medium", or "high" based on their average credit quality. Investment options with a low credit quality are those whose weighted-average credit quality is determined to be less than "BBB-"; medium are those less than "AA-", but greater or equal to "BBB-"; and high are those with a weighted-average credit quality of "AA-" or higher. When classifying a bond portfolio, Morningstar first maps the NRSRO credit ratings of the underlying holdings to their respective default rates (as determined by Morningstar's analysis of actual historical default rates). Morningstar then averages these default rates to determine the average default rate for the entire bond investment option. Finally, Morningstar maps this average default rate to its corresponding credit rating along a convex curve.

For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income investment option's interest-rate sensitivity based on the effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited will be assigned to those investment options whose average effective duration is between 25% to 75% of MCBI's average effective duration; investment options whose average effective duration is between 75% to 125% of the MCBI will be classified as Moderate; and those that are at 125% or greater of the average effective duration of the MCBI will be classified as Extensive.

# Principal LifeTime 2050 Separate Account-R6 as of 12/31/2010

## Investment Strategy

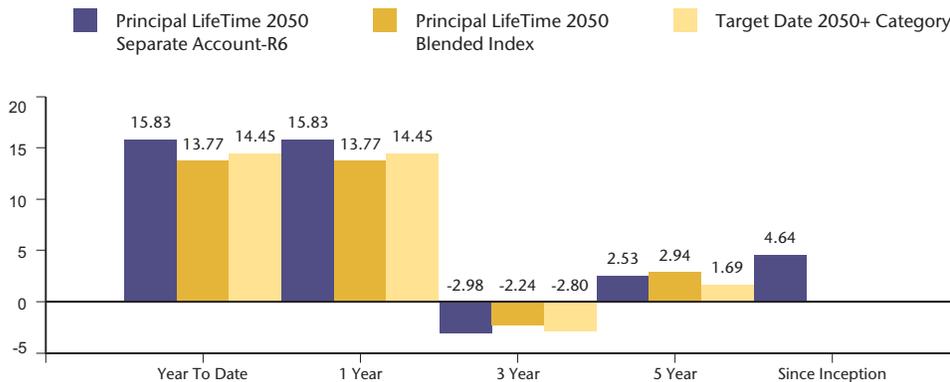
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable 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-advisor's 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 12/31/2010



## 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 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.*

*The target date is the approximate date that the investor plans to start withdrawing their money. The investment options automatically become more conservative as retirement approaches. Over time, the investment options shift from focusing on asset accumulation to generating a high level of current income as investors near their target retirement dates. The principal value of an investment in the fund(s) is not guaranteed at any time, including at the target date.*

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	15.83	15.83	-2.98	2.53	4.64
Principal LifeTime 2050 Blended Index %	13.77	13.77	-2.24	2.94	-
Target Date 2050+ Category %	14.45	14.45	-2.80	1.69	-
Morningstar Percentile Rankings	-	18	44	7	-
# of Funds in Category	175	175	95	16	-
Annual Returns	2010	2009	2008	2007	2006
Total Return %	15.83	29.56	-39.14	6.96	15.96
Principal LifeTime 2050 Blended Index %	13.77	27.10	-34.23	6.89	15.81
Target Date 2050+ Category %	14.45	32.20	-38.86	5.94	15.51
Morningstar Percentile Rankings	18	71	49	34	16
# of Funds in Category	175	159	97	29	16

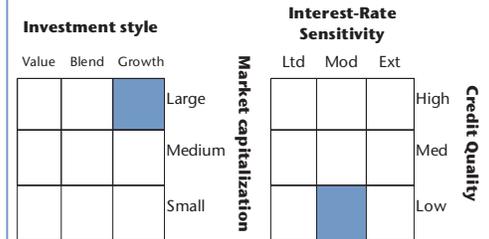
*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target Date 2050+

## Morningstar Style Box™\*\*

As of 11/30/2010



## Risk and Return Statistics

as of 12/31/2010 Relative to Principal LifeTime 2050 Blended Index

	3Yr	5Yr
Alpha	-0.35	-0.30
Beta	1.07	1.07
R-Squared	99.30	99.12
Standard Deviation	22.86	18.43
Mean	-2.97	2.53
Sharpe Ratio	-0.05	0.10
Excess Return	-0.73	-0.41
Excess Risk	2.40	2.13
Information Ratio	-0.31	-0.19

## Operations

Total Investment Expense Net	1.00%
Total Investment Expense Gross	1.00%
Inception Date	03/30/2001
Total Net Assets (mil)	\$1,022.14



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

# Principal LifeTime 2050 Separate Account-R6 as of 12/31/2010

## Portfolio information†

Composition as of 11/30/2010

Asset Distribution		Asset Type	Net %	Short %	Long %
		U.S. Stocks	62.69	0.00	62.69
		Non-U.S. Stocks	26.03	0.00	26.03
		U.S. Bonds	7.85	0.09	7.94
		Cash	1.34	3.13	4.47
		Preferred	1.15	0.00	1.15
		Non-U.S. Bonds	0.80	0.30	1.10
		Other	0.13	0.08	0.21
		Convertibles	0.01	0.00	0.01

## Top ten holdings

	% of net assets
1. Principal Large Cap Growth I Inst	14.28
2. Principal Large Cap Value I Inst	12.56
3. Principal Large Cap S&P 500 Index Inst	8.37
4. Principal Large Cap Growth Inst	7.39
5. Principal Large Cap Value Inst	6.67
6. Principal International Value I Instl	6.65
7. Principal International Growth Inst	6.65
8. Principal High Yield I Inst	5.37
9. Principal Intl Emerging Markets Inst	4.70
10. Principal International I Inst	4.38
% of net assets in top ten holdings*	77.01

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	22
GeoAvgCap (mil)	\$20,295.14
Turnover Ratio	15%
P/C Ratio	5.18
P/E Ratio	14.85
P/B Ratio	1.97

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>19.53</b>	<b>Service</b>	<b>43.37</b>	<b>Manufacturing</b>	<b>37.10</b>
Software	3.71	Healthcare	10.15	Consumer Goods	9.77
Hardware	7.14	Consumer Services	8.53	Industrial Materials	15.19
Media	2.32	Business Services	3.72	Energy	9.52
Telecom	6.36	Financial Services	20.97	Utilities	2.62

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

\*\*The Morningstar Style Box™ reveals an investment option's investment strategy.

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# Russell LifePoints® Conservative Strategy Sep Acct-R6

as of 12/31/2010

## Investment Strategy

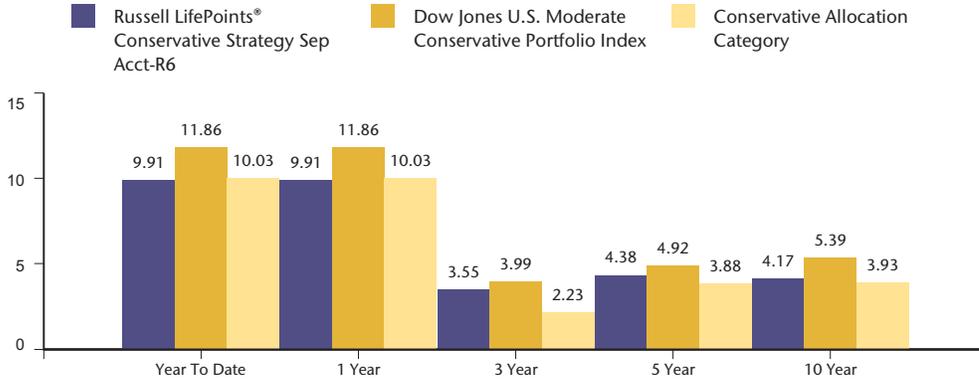
The investment seeks high levels of current income and low long-term capital appreciation. The fund is a fund of funds that invests in a combination of several other Russell Investment Company ("RIC") funds (the "Underlying Funds"). Its approximate target allocation as of March 1, 2010, is 20% to equity underlying funds and 80% to fixed income underlying funds. 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 12/31/2010



## 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 [principal.com](http://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 %	9.91	9.91	3.55	4.38	4.17
Dow Jones U.S. Moderate Conservative Portfolio Index %	11.86	11.86	3.99	4.92	5.39
Conservative Allocation Category %	10.03	10.03	2.23	3.88	3.93
Morningstar Percentile Rankings	-	55	26	40	42
# of Funds in Category	656	656	593	433	162
Annual Returns	2010	2009	2008	2007	2006
Total Return %	9.91	19.82	-15.68	5.10	6.17
Dow Jones U.S. Moderate Conservative Portfolio Index %	11.86	16.65	-13.81	5.23	7.45
Conservative Allocation Category %	10.03	20.77	-18.61	4.53	8.16
Morningstar Percentile Rankings	55	57	32	44	79
# of Funds in Category	656	628	679	609	558

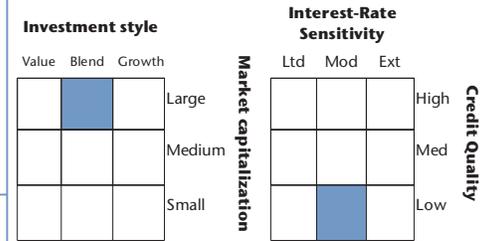
Morningstar percentile rankings are based on total returns.

## Morningstar category

Conservative Allocation

## Morningstar Style Box™\*\*

As of 08/31/2010



## Risk and Return Statistics

as of 12/31/2010 Relative to Dow Jones U.S. Moderate Conservative Portfolio Index

	3Yr	5Yr
Alpha	0.18	-0.05
Beta	0.79	0.78
R-Squared	86.72	85.95
Standard Deviation	8.83	6.94
Mean	3.56	4.39
Sharpe Ratio	0.34	0.30
Excess Return	-0.44	-0.58
Excess Risk	3.92	3.21
Information Ratio	-0.11	-0.18

## Operations

Total Investment Expense Net	1.25%
Total Investment Expense Gross	1.60%
Contractual Cap Expiration Date	02/28/2012
Waiver Expiration Date	02/28/2012
Inception Date	03/24/1998
Total Net Assets (mil)	\$686.23



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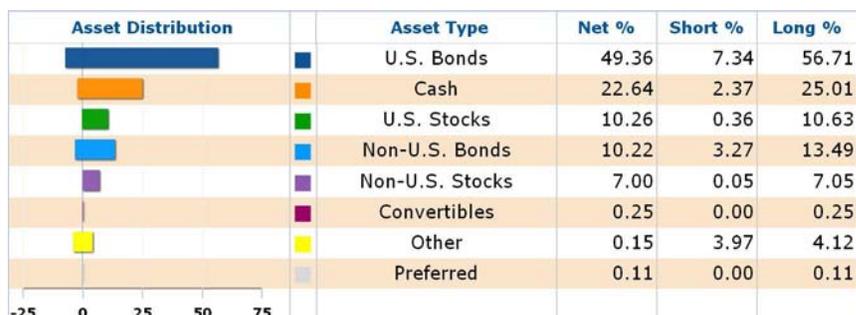
Risk and return statistical data is provided by Markov Processes International (MPI).

# Russell LifePoints® Conservative Strategy Sep Acct-R6

as of 12/31/2010

## Portfolio information†

Composition as of 08/31/2010



## Top ten holdings

Top ten holdings	% of net assets
1. Russell Strategic Bond Y	40.00
2. Russell Investment Grade Bond Y	20.00
3. Russell Short Duration Bond Y	19.97
4. Russell Global Equity Y	4.99
5. Russell International Developed Mkts Y	4.01
6. Russell US Quantitative Equity Y	3.99
7. Russell US Core Equity Y	2.99
8. Russell Global Real Estate Secs Y	2.03
9. Russell Commodity Strategies Y	2.02
% of net assets in top ten holdings*	100.00

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	9
GeoAvgCap (mil)	\$22,019.01
Turnover Ratio	17%
P/C Ratio	4.35
P/E Ratio	13.29
P/B Ratio	1.66

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>18.63</b>	<b>Service</b>	<b>46.44</b>	<b>Manufacturing</b>	<b>34.93</b>
Software	2.70	Healthcare	9.19	Consumer Goods	10.98
Hardware	5.58	Consumer Services	6.51	Industrial Materials	13.47
Media	3.30	Business Services	3.79	Energy	7.90
Telecom	7.05	Financial Services	26.95	Utilities	2.58

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

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For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income investment option's interest-rate sensitivity based on the effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited will be assigned to those investment options whose average effective duration is between 25% to 75% of MCBI's average effective duration; investment options whose average effective duration is between 75% to 125% of the MCBI will be classified as Moderate; and those that are at 125% or greater of the average effective duration of the MCBI will be classified as Extensive.

# Russell LifePoints® Moderate Strategy Separate

## Account-R6 as of 12/31/2010

### Investment Strategy

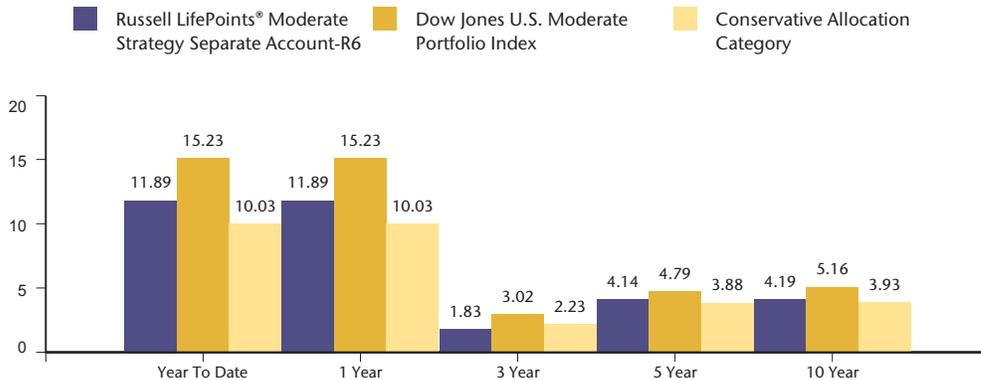
The investment seeks high current income and moderate long term capital appreciation. The fund is a fund of funds that invests in a combination of several other Russell Investment Company ("RIC") funds (the "Underlying Funds"). Its approximate target allocation as of March 1, 2010, is 40% to equity underlying funds and 60% to fixed income underlying funds. 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 12/31/2010



### Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	11.89	11.89	1.83	4.14	4.19
Dow Jones U.S. Moderate Portfolio Index %	15.23	15.23	3.02	4.79	5.16
Conservative Allocation Category %	10.03	10.03	2.23	3.88	3.93
Morningstar Percentile Rankings	-	21	62	50	40
# of Funds in Category	656	656	593	433	162
Annual Returns	2010	2009	2008	2007	2006
Total Return %	11.89	23.75	-23.75	6.15	9.28
Dow Jones U.S. Moderate Portfolio Index %	15.23	22.59	-22.60	4.87	10.19
Conservative Allocation Category %	10.03	20.77	-18.61	4.53	8.16
Morningstar Percentile Rankings	21	26	78	26	25
# of Funds in Category	656	628	679	609	558

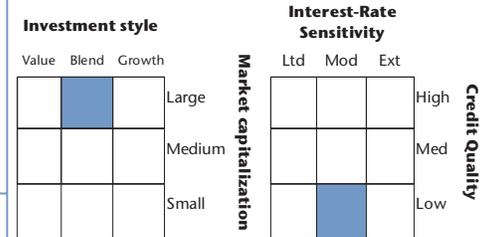
Morningstar percentile rankings are based on total returns.

### Morningstar category

Conservative Allocation

### Morningstar Style Box™\*\*

As of 08/31/2010



### Risk and Return Statistics

as of 12/31/2010 Relative to Dow Jones U.S. Moderate Portfolio Index

	3Yr	5Yr
Alpha	-2.55	-1.15
Beta	1.20	1.19
R-Squared	92.99	92.23
Standard Deviation	12.98	10.29
Mean	1.83	4.14
Sharpe Ratio	0.14	0.21
Excess Return	-2.16	-0.83
Excess Risk	4.09	3.31
Information Ratio	-0.53	-0.25

### Operations

Total Investment Expense Net	1.34%
Total Investment Expense Gross	1.68%
Contractual Cap Expiration Date	02/28/2012
Waiver Expiration Date	02/28/2012
Inception Date	03/24/1998
Total Net Assets (mil)	\$1,106.40



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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 12/31/2010

### Portfolio information†

Composition as of 08/31/2010

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Bonds	38.65	6.12	44.77
	U.S. Stocks	20.16	0.62	20.79
	Cash	16.74	2.23	18.96
	Non-U.S. Stocks	14.86	0.10	14.97
	Non-U.S. Bonds	8.69	1.85	10.54
	Other	0.73	3.21	3.94
	Preferred	0.09	0.00	0.09
	Convertibles	0.08	0.00	0.08

### Top ten holdings

Top ten holdings	% of net assets
1. Russell Strategic Bond Y	40.28
2. Russell Investment Grade Bond Y	20.13
3. Russell International Developed Mkts Y	8.98
4. Russell US Quantitative Equity Y	6.85
5. Russell US Core Equity Y	6.83
6. Russell Global Equity Y	5.93
7. Russell Global Real Estate Secs Y	3.06
8. Russell Commodity Strategies Y	3.01
9. Russell US Small & Mid Cap Y	2.93
10. Russell Emerging Markets Y	2.00
% of net assets in top ten holdings*	100.00

### Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	10
GeoAvgCap (mil)	\$17,858.80
Turnover Ratio	17%
P/C Ratio	4.44
P/E Ratio	13.07
P/B Ratio	1.64

### Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.06	Healthcare	9.21	Consumer Goods	10.86
Hardware	6.01	Consumer Services	6.90	Industrial Materials	13.93
Media	2.89	Business Services	4.11	Energy	8.47
Telecom	6.89	Financial Services	24.95	Utilities	2.73

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

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

\*\*The Morningstar Style Box™ reveals an investment option's investment strategy.

For equity investment options the vertical axis shows the market capitalization of the stocks owned and the horizontal axis shows investment style (value, blend, or growth).

For fixed-income investment options, the vertical axis shows the credit quality of the bonds owned and the horizontal axis shows interest rate sensitivity as measured by a bond's effective duration.

Morningstar seeks credit rating information from fund companies on a periodic basis (e.g., quarterly). In compiling credit rating information, Morningstar instructs fund companies to only use ratings that have been assigned by a Nationally Recognized Statistical Rating Organization (NRSRO). If two NRSROs have rated a security, fund companies are to report the lowest rating; if three or more NRSROs have rated the same security differently, fund companies are to report the rating that is in the middle. For example, if NRSRO X rates a security AA-, NRSRO Y rates the same security an A and NRSRO Z rates it a BBB+, the fund company should use the credit rating of 'A' in its reporting to Morningstar. PLEASE NOTE: Morningstar, Inc. is not itself an NRSRO nor does it issue a credit rating on the investment option. An NRSRO rating on a fixed-income security can change from time-to-time.

For credit quality, Morningstar combines the credit rating information provided by the fund companies with an average default rate calculation to come up with a weighted-average credit quality. The weighted-average credit quality is currently a letter that roughly corresponds to the scale used by a leading NRSRO. Bond investment options are assigned a style box placement of "low", "medium", or "high" based on their average credit quality. Investment options with a low credit quality are those whose weighted-average credit quality is determined to be less than "BBB-"; medium are those less than "AA-", but greater or equal to "BBB-"; and high are those with a weighted-average credit quality of "AA-" or higher. When classifying a bond portfolio, Morningstar first maps the NRSRO credit ratings of the underlying holdings to their respective default rates (as determined by Morningstar's analysis of actual historical default rates). Morningstar then averages these default rates to determine the average default rate for the entire bond investment option. Finally, Morningstar maps this average default rate to its corresponding credit rating along a convex curve.

For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income investment option's interest-rate sensitivity based on the effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited will be assigned to those investment options whose average effective duration is between 25% to 75% of MCBI's average effective duration; investment options whose average effective duration is between 75% to 125% of the MCBI will be classified as Moderate; and those that are at 125% or greater of the average effective duration of the MCBI will be classified as Extensive.

# Russell LifePoints® Balanced Strategy Separate Account-R6

as of 12/31/2010

## Investment Strategy

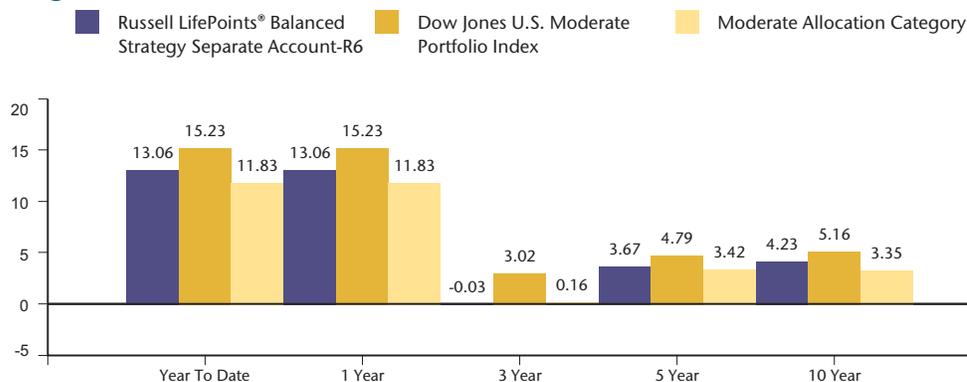
The investment seeks to provide above-average capital appreciation and a moderate level of current income. The fund is a fund of funds that invests in a combination of several other Russell Investment Company ("RIC") funds (the "Underlying Funds"). Its approximate target allocation as of March 1, 2010, is 60% to equity underlying funds and 40% to fixed income underlying funds. 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 12/31/2010



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

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

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	13.06	13.06	-0.03	3.67	4.23
Dow Jones U.S. Moderate Portfolio Index %	15.23	15.23	3.02	4.79	5.16
Moderate Allocation Category %	11.83	11.83	0.16	3.42	3.35
Morningstar Percentile Rankings	-	29	59	46	28
# of Funds in Category	1074	1074	930	736	404
Annual Returns	2010	2009	2008	2007	2006
Total Return %	13.06	26.40	-30.10	6.42	12.66
Dow Jones U.S. Moderate Portfolio Index %	15.23	22.59	-22.60	4.87	10.19
Moderate Allocation Category %	11.83	24.13	-28.00	5.99	11.29
Morningstar Percentile Rankings	29	36	65	44	23
# of Funds in Category	1074	1177	1206	1103	1041

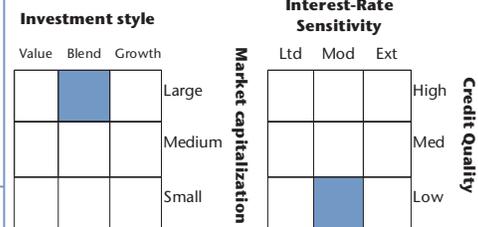
Morningstar percentile rankings are based on total returns.

## Morningstar category

Moderate Allocation

## Morningstar Style Box™\*\*

As of 08/31/2010



## Risk and Return Statistics

as of 12/31/2010 Relative to Dow Jones U.S. Moderate Portfolio Index

	3Yr	5Yr
Alpha	-3.04	-1.03
Beta	1.10	1.09
R-Squared	95.74	94.99
Standard Deviation	17.09	13.67
Mean	-0.03	3.68
Sharpe Ratio	0.04	0.16
Excess Return	-3.05	-0.99
Excess Risk	3.88	3.28
Information Ratio	-0.79	-0.30

## Operations

Total Investment Expense Net	1.43%
Total Investment Expense Gross	1.76%
Contractual Cap Expiration Date	02/28/2012
Waiver Expiration Date	02/28/2012
Inception Date	03/24/1998
Total Net Assets (mil)	\$4,396.33



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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 12/31/2010

## Portfolio information†

Composition as of 08/31/2010

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	30.76	1.08	31.84
	U.S. Bonds	26.72	5.40	32.12
	Non-U.S. Stocks	22.33	0.16	22.49
	Cash	12.60	2.54	15.14
	Non-U.S. Bonds	6.45	1.50	7.95
	Other	1.01	2.74	3.75
	Preferred	0.07	0.00	0.07
	Convertibles	0.07	0.00	0.07

## Top ten holdings

Top ten holdings	% of net assets
1. Russell Strategic Bond Y	40.40
2. Russell International Developed Mkts Y	14.02
3. Russell US Quantitative Equity Y	11.83
4. Russell US Core Equity Y	11.79
5. Russell Global Equity Y	7.94
6. Russell Commodity Strategies Y	4.03
7. Russell US Small & Mid Cap Y	3.93
8. Russell Global Real Estate Secs Y	3.05
9. Russell Emerging Markets Y	3.03
% of net assets in top ten holdings*	100.00

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	9
GeoAvgCap (mil)	\$19,172.83
Turnover Ratio	11%
P/C Ratio	4.35
P/E Ratio	12.77
P/B Ratio	1.64

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>19.58</b>	<b>Service</b>	<b>43.44</b>	<b>Manufacturing</b>	<b>36.98</b>
Software	3.20	Healthcare	9.69	Consumer Goods	11.10
Hardware	6.33	Consumer Services	7.20	Industrial Materials	14.09
Media	2.99	Business Services	4.06	Energy	8.93
Telecom	7.06	Financial Services	22.49	Utilities	2.86

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# Russell LifePoints® Growth Strategy Separate Account-R6

as of 12/31/2010

## Investment Strategy

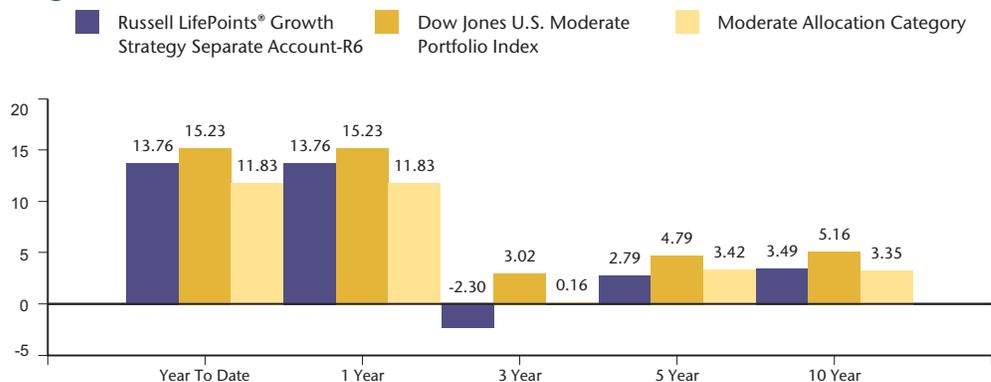
The investment seeks high long-term capital appreciation with low current income. The fund is a fund of funds that invests in a combination of several other Russell Investment Company ("RIC") funds (the "Underlying Funds"). Its approximate target allocation as of March 1, 2010, is 80% to equity underlying funds and 20% to fixed income underlying funds. 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 12/31/2010



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	13.76	13.76	-2.30	2.79	3.49
Dow Jones U.S. Moderate Portfolio Index %	15.23	15.23	3.02	4.79	5.16
Moderate Allocation Category %	11.83	11.83	0.16	3.42	3.35
Morningstar Percentile Rankings	-	16	89	71	46
# of Funds in Category	1074	1074	930	736	404
Annual Returns	2010	2009	2008	2007	2006
Total Return %	13.76	28.59	-36.25	6.76	15.27
Dow Jones U.S. Moderate Portfolio Index %	15.23	22.59	-22.60	4.87	10.19
Moderate Allocation Category %	11.83	24.13	-28.00	5.99	11.29
Morningstar Percentile Rankings	16	41	93	38	6
# of Funds in Category	1074	1177	1206	1103	1041

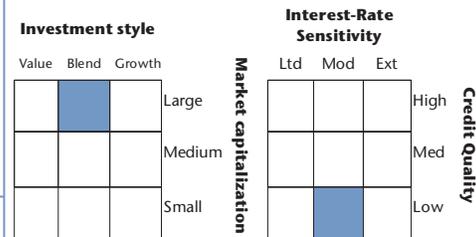
Morningstar percentile rankings are based on total returns.

## Morningstar category

Moderate Allocation

## Morningstar Style Box™\*\*

As of 08/31/2010



## Risk and Return Statistics

as of 12/31/2010 Relative to Dow Jones U.S. Moderate Portfolio Index

	3Yr	5Yr
Alpha	-5.41	-2.13
Beta	1.37	1.36
R-Squared	96.35	95.36
Standard Deviation	21.19	17.04
Mean	-2.29	2.80
Sharpe Ratio	-0.04	0.11
Excess Return	-5.31	-1.87
Excess Risk	6.94	5.77
Information Ratio	-0.77	-0.32

## Operations

Total Investment Expense Net	1.50%
Total Investment Expense Gross	1.83%
Contractual Cap Expiration Date	02/28/2012
Waiver Expiration Date	02/28/2012
Inception Date	03/24/1998
Total Net Assets (mil)	\$2,922.84



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# Russell LifePoints® Growth Strategy Separate Account-R6

as of 12/31/2010

## Portfolio information†

Composition as of 08/31/2010

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	40.58	1.35	41.93
	Non-U.S. Stocks	29.91	0.22	30.13
	U.S. Bonds	13.81	2.70	16.52
	Cash	10.76	2.71	13.47
	Non-U.S. Bonds	3.23	0.75	3.98
	Other	1.61	1.65	3.26
	Preferred	0.06	0.00	0.06
	Convertibles	0.04	0.00	0.04

## Top ten holdings

Top ten holdings	% of net assets
1. Russell Strategic Bond Y	20.21
2. Russell International Developed Mkts Y	19.09
3. Russell US Core Equity Y	15.79
4. Russell US Quantitative Equity Y	14.85
5. Russell Global Equity Y	9.96
6. Russell Commodity Strategies Y	6.07
7. Russell US Small & Mid Cap Y	5.90
8. Russell Global Real Estate Secs Y	4.09
9. Russell Emerging Markets Y	4.04
% of net assets in top ten holdings*	100.00

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	9
GeoAvgCap (mil)	\$18,718.66
Turnover Ratio	9%
P/C Ratio	4.37
P/E Ratio	12.79
P/B Ratio	1.64

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>19.48</b>	<b>Service</b>	<b>43.53</b>	<b>Manufacturing</b>	<b>36.98</b>
Software	3.21	Healthcare	9.66	Consumer Goods	11.09
Hardware	6.30	Consumer Services	7.19	Industrial Materials	14.14
Media	2.95	Business Services	4.11	Energy	8.91
Telecom	7.02	Financial Services	22.57	Utilities	2.84

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For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income investment option's interest-rate sensitivity based on the effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited will be assigned to those investment options whose average effective duration is between 25% to 75% of MCBI's average effective duration; investment options whose average effective duration is between 75% to 125% of the MCBI will be classified as Moderate; and those that are at 125% or greater of the average effective duration of the MCBI will be classified as Extensive.

# Russell LifePoints® Equity Growth Strategy Sep Acct-R6

as of 12/31/2010

## Investment Strategy

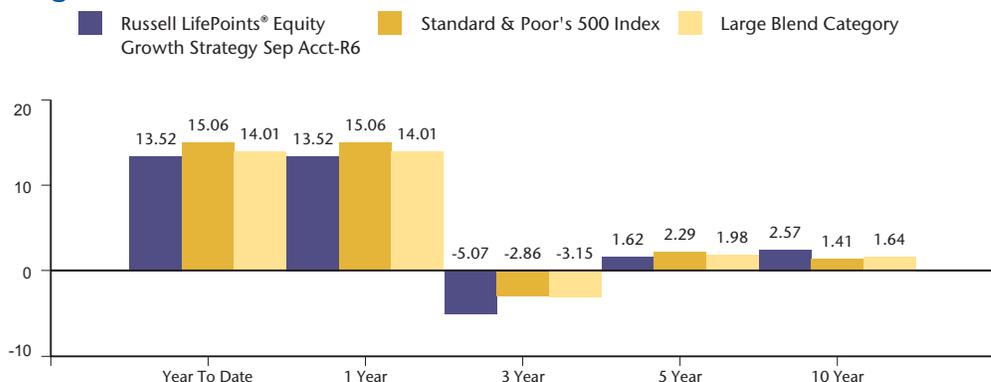
The investment seeks high long-term capital appreciation. The fund is a fund of funds that invests in a combination of several other Russell Investment Company ("RIC") funds (the "Underlying Funds"). Its approximate target allocation as of March 1, 2010, is 100% to equity underlying funds. While the investment is nondiversified, it invests in diversified underlying holdings.



Portfolio managers

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

## Long-term returns % as of 12/31/2010



## Performance disclosure

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Long Term Returns		Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %		13.52	13.52	-5.07	1.62	2.57
Standard & Poor's 500 Index %		15.06	15.06	-2.86	2.29	1.41
Large Blend Category %		14.01	14.01	-3.15	1.98	1.64
Morningstar Percentile Rankings		-	56	84	61	27
# of Funds in Category		2010	2010	1753	1457	802
Annual Returns		2010	2009	2008	2007	2006
Total Return %		13.52	30.39	-42.21	7.11	18.27
Standard & Poor's 500 Index %		15.06	26.46	-37.00	5.49	15.79
Large Blend Category %		14.01	28.17	-37.79	6.16	14.17
Morningstar Percentile Rankings		56	30	85	35	6
# of Funds in Category		2010	2027	2086	2090	1980

Morningstar percentile rankings are based on total returns.

## Morningstar category

Large Blend

## Morningstar Style Box™

As of 08/31/2010

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2010 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	-1.38	-0.32
Beta	1.12	1.12
R-Squared	96.93	96.34
Standard Deviation	25.26	20.41
Mean	-5.07	1.62
Sharpe Ratio	-0.11	0.07
Excess Return	-2.22	-0.67
Excess Risk	5.21	4.50
Information Ratio	-0.42	-0.15

## Operations

Total Investment Expense Net	1.54%
Total Investment Expense Gross	1.88%
Contractual Cap Expiration Date	02/28/2012
Waiver Expiration Date	02/28/2012
Inception Date	03/24/1998
Total Net Assets (mil)	\$1,332.27



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# Russell LifePoints® Equity Growth Strategy Sep Acct-R6

as of 12/31/2010

## Portfolio information†

Composition as of 08/31/2010

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	52.44	1.74	54.18
	Non-U.S. Stocks	36.09	0.32	36.41
	Cash	10.61	3.17	13.78
	Other	0.76	0.41	1.17
	Preferred	0.05	0.00	0.05
	Non-U.S. Bonds	0.04	0.00	0.04
	Convertibles	0.01	0.00	0.01

## Top ten holdings

Top ten holdings	% of net assets
1. Russell International Developed Mkts Y	23.10
2. Russell US Core Equity Y	19.92
3. Russell US Quantitative Equity Y	19.92
4. Russell Global Equity Y	13.01
5. Russell US Small & Mid Cap Y	6.95
6. Russell Global Real Estate Secs Y	6.07
7. Russell Commodity Strategies Y	6.02
8. Russell Emerging Markets Y	5.03
% of net assets in top ten holdings*	100.00

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	8
GeoAvgCap (mil)	\$18,487.03
Turnover Ratio	5%
P/C Ratio	4.29
P/E Ratio	12.75
P/B Ratio	1.62

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>19.65</b>	<b>Service</b>	<b>43.88</b>	<b>Manufacturing</b>	<b>36.48</b>
Software	2.98	Healthcare	9.53	Consumer Goods	12.26
Hardware	8.21	Consumer Services	7.41	Industrial Materials	13.34
Media	2.78	Business Services	3.94	Energy	8.41
Telecom	5.68	Financial Services	23.00	Utilities	2.47

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

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

*Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754.*

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.

† The Portfolio Composition depicts a breakdown of the investment option's portfolio holdings, as of the date listed, into general investment classes. The x-axis represents the percentage each investment group holds, with the y-axis representing a zero value. Values to the right of the y-axis represent long security positions, while values to the left of the y-axis represent short security positions. The table to the right of the bar chart sums these two values to present the net emphasis of each investment group. Due to rounding, the total net position may not equal 100%. Long positions involve buying a security and selling it later, with the hope that the security price rises over time. In contrast, short positions are taken to benefit from anticipated price declines. 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 principal.com.

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

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

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

# Principal Stable Value Sig Fund as of 12/31/2010

## Investment Strategy

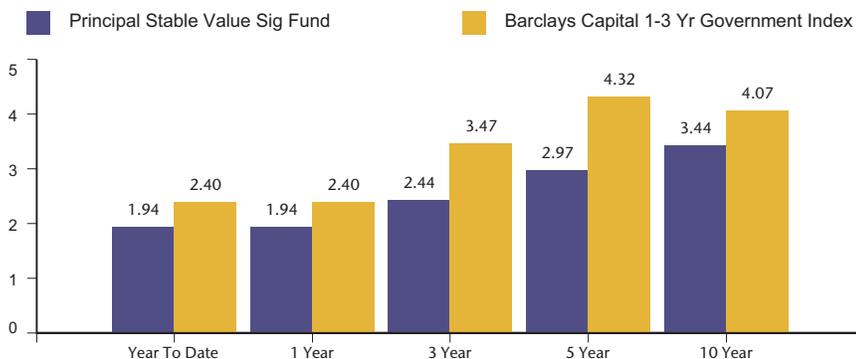
The investment seeks current income by investing primarily in insurance contracts issued by insurance companies, and investments from other financial institutions which offer stability of principal.

**MORLEY FINANCIAL**  
SERVICES, INC.

## Portfolio managers

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

## Long-term returns % as of 12/31/2010



## 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 [principal.com](http://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 %	1.94	1.94	2.44	2.97	3.44
Barclays Capital 1-3 Yr Government Index %	2.40	2.40	3.47	4.32	4.07

Annual Returns	2010	2009	2008	2007	2006
Total Return %	1.94	1.81	3.58	3.92	3.62



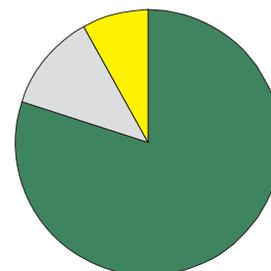
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## Operations

Total Investment Expense Net	0.85%
Total Investment Expense Gross	0.85%
Inception Date	01/09/1997
Total Net Assets (mil)	\$2,929.72

## Portfolio information

Composition as of 12/31/2010



## % of Assets

U.S. Bonds	80.00
Cash	11.90
Other	8.10

## Portfolio composition

### Top ten issuers

	% of net assets
Metropolitan Life Insurance Co	13.70
Bank of America Wrap	9.91
AIG Financial Products Corp Wrap	9.82
State Street Bank&Trust Wrap	9.65
NATIXIS Financial Products Inc. Wrap	9.58
JP Morgan Chase Bank Wrap	9.40
Prudential Insurance Company of America	8.44
New York Life Insurance Co	7.54
Rabobank Nederland Wrap	6.61
Aviva Life&Annuity Wrap	3.43

% of net assets in top ten holdings\* 88.08%

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

## Diversification

### Duration

	% of assets
less than 1 Yr	22.10
1-2 Yrs	19.60
2-3 Yrs	27.60
3-4 Yrs	13.00
4-5 Yrs	6.90
Over 5 Yrs	10.80

## Statistics

# of Issuers	10
Avg Eff Duration (Yrs)	2.46
Avg Eff Maturity (Yrs)	2.52
7-Day Yield %	1.96

# Principal Stable Value Sig Fund as of 12/31/2010

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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 12/31/2010

## Investment Strategy

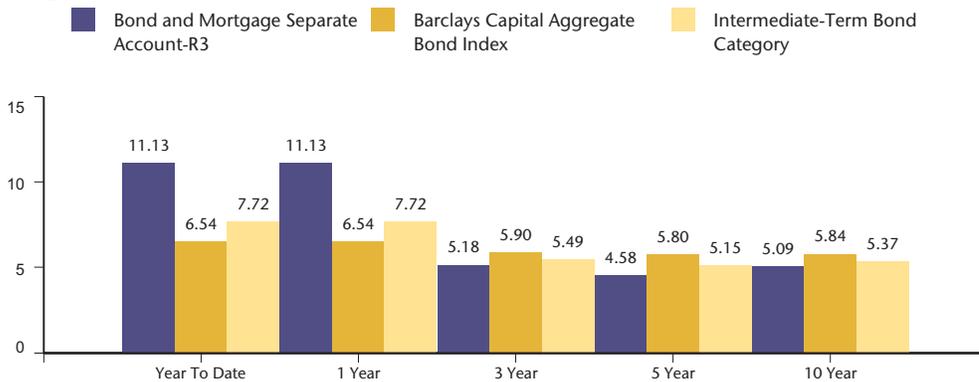
The investment option invests primarily in intermediate-term, fixed-income investments such as public and private corporate bonds, commercial and residential mortgages, asset-backed securities, and US government and agency-backed securities. Value is added primarily through sector allocation and security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



## Portfolio managers

**William C. Armstrong, CFA.** Since 01/01/1997. Master, 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  
**Mark A. Lieb** Since 07/01/2009. M.B.A., University of Hartford

## Long-term returns % as of 12/31/2010



## 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 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 %	11.13	11.13	5.18	4.58	5.09
Barclays Capital Aggregate Bond Index %	6.54	6.54	5.90	5.80	5.84
Intermediate-Term Bond Category %	7.72	7.72	5.49	5.15	5.37
Morningstar Percentile Rankings	-	6	65	73	65
# of Funds in Category	1164	1164	1026	878	560
Annual Returns	2010	2009	2008	2007	2006
Total Return %	11.13	21.12	-13.55	3.24	4.13
Barclays Capital Aggregate Bond Index %	6.54	5.93	5.24	6.97	4.33
Intermediate-Term Bond Category %	7.72	13.97	-4.70	4.70	4.15
Morningstar Percentile Rankings	6	12	89	84	41
# of Funds in Category	1164	1123	1135	1097	1092

*Morningstar percentile rankings are based on total returns.*

Morningstar category  
Intermediate-Term Bond

Morningstar Style Box™ \*\*  
As of 11/30/2010

Interest-Rate Sensitivity			Credit Quality	
Ltd	Mod	Ext		
				High
				Med
			Low	

## Risk and Return Statistics

as of 12/31/2010 Relative to  
Barclays Capital Aggregate Bond Index

	3Yr	5Yr
Alpha	-0.89	-1.21
Beta	1.08	1.05
R-Squared	36.10	40.06
Standard Deviation	7.49	5.99
Mean	5.18	4.58
Sharpe Ratio	0.60	0.37
Excess Risk	6.11	4.76
Information Ratio	-0.12	-0.26

## Operations

Total Investment Expense Net	1.12%
Total Investment Expense Gross	1.12%
Inception Date	02/01/1983
Total Net Assets (mil)	\$4,641.15



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

# Bond and Mortgage Separate Account-R3 as of 12/31/2010

## Portfolio information†

Composition as of 11/30/2010

Asset Distribution		Asset Type	Net %	Short %	Long %
		U.S. Bonds	86.54	0.00	86.54
		Non-U.S. Bonds	10.96	0.00	10.96
		Cash	4.31	0.00	4.31
		Convertibles	0.09	0.00	0.09
		Preferred	0.05	0.00	0.05
		Other	-1.95	9.24	7.29

## Top ten holdings

% of net assets

1. FNMA	3.12
2. US Treasury Bond 6.25%	2.29
3. Fnma Tba	2.09
4. Morgan Stanley Re-Remic Tr 2009-Io	1.14
5. GNMA 4.5%	1.12
6. FHLMC 4.5%	1.09
7. US Treasury Note 2.75%	1.06
8. US Treasury Note 1.875%	1.02
9. US Treasury Note 4%	1.01
10. Ms Re-Remic Tr 2010-C30 CMO 3.25%	1.01
% of net assets in top ten holdings*	14.94

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	1323
# of Other Hldgs	146
Turnover Ratio	540%

## Credit Analysis

As of 11/30/2010

	% Bonds
AAA	48.58
AA	7.37
A	13.73
BBB	17.24
BB	6.31
B	4.99
Below B	1.78
Not Rated	0.00

## Statistics

Avg Eff Duration (Yrs)	4.84
Avg Eff Maturity (Yrs)	7.11
Avg Weighted Price	102.02

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

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

\*\*The Morningstar Style Box™ reveals an investment option's investment strategy.

For equity investment options the vertical axis shows the market capitalization of the stocks owned and the horizontal axis shows investment style (value, blend, or growth).

For fixed-income investment options, the vertical axis shows the credit quality of the bonds owned and the horizontal axis shows interest rate sensitivity as measured by a bond's effective duration.

Morningstar seeks credit rating information from fund companies on a periodic basis (e.g., quarterly). In compiling credit rating information, Morningstar instructs fund companies to only use ratings that have been assigned by a Nationally Recognized Statistical Rating Organization (NRSRO). If two NRSROs have rated a security, fund companies are to report the lowest rating; if three or more NRSROs have rated the same security differently, fund companies are to report the rating that is in the middle. For example, if NRSRO X rates a security AA-, NRSRO Y rates the same security an A and NRSRO Z rates it a BBB+, the fund company should use the credit rating of 'A' in its reporting to Morningstar. PLEASE NOTE: Morningstar, Inc. is not itself an NRSRO nor does it issue a credit rating on the investment option. An NRSRO rating on a fixed-income security can change from time-to-time.

For credit quality, Morningstar combines the credit rating information provided by the fund companies with an average default rate calculation to come up with a weighted-average credit quality. The weighted-average credit quality is currently a letter that roughly corresponds to the scale used by a leading NRSRO. Bond investment options are assigned a style box placement of "low", "medium", or "high" based on their average credit quality. Investment options with a low credit quality are those whose weighted-average credit quality is determined to be less than "BBB-"; medium are those less than "AA-", but greater or equal to "BBB-"; and high are those with a weighted-average credit quality of "AA-" or higher. When classifying a bond portfolio, Morningstar first maps the NRSRO credit ratings of the underlying holdings to their respective default rates (as determined by Morningstar's analysis of actual historical default rates). Morningstar then averages these default rates to determine the average default rate for the entire bond investment option. Finally, Morningstar maps this average default rate to its corresponding credit rating along a convex curve.

For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income investment option's interest-rate sensitivity based on the effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited will be assigned to those investment options whose average effective duration is between 25% to 75% of MCBI's average effective duration; investment options whose average effective duration is between 75% to 125% of the MCBI will be classified as Moderate; and those that are at 125% or greater of the average effective duration of the MCBI will be classified as Extensive.

# U.S. Property Separate Account-R2 as of 12/31/2010

## Investment Strategy

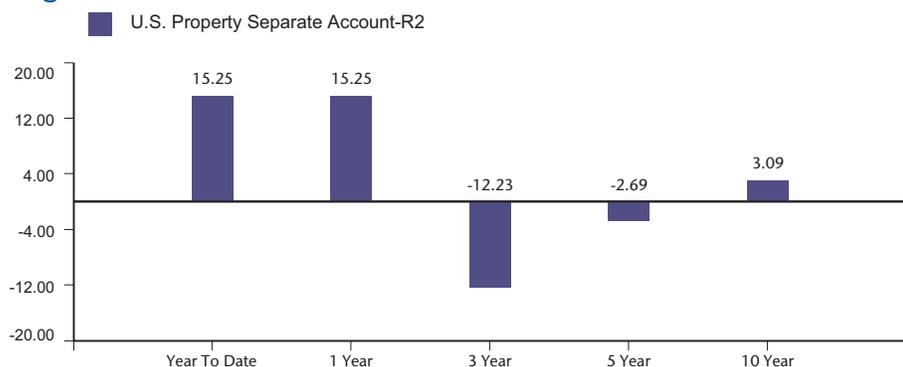
The investment invests the majority of assets on commercial real estate holdings. It focuses on properties that return both lease income and appreciation of the buildings' marketable value. The property holdings usually contain real estate from the multi-family, office, warehouse/manufacturing, and retail sectors. 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. If you elect to contribute funds into the U.S. Property Separate Account, you may not be able to immediately withdraw them.

## Principal Real Estate Investors

### Portfolio managers

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

## Long-term returns % as of 12/31/2010



## 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 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 %	15.25	15.25	-12.23	-2.69	3.09

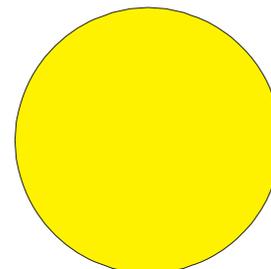
Annual Returns	2010	2009	2008	2007	2006
Total Return %	15.25	-31.99	-13.74	12.75	14.47

## Operations

Total Investment Expense Net	1.74%
Total Investment Expense Gross	1.74%
Inception Date	01/01/1982
Total Net Assets (mil)	\$2,921.70

## Portfolio information

Composition as of 11/30/2010



### % of Assets

Other	100.00
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### Analysis

Total Number of Hldgs	118
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## Portfolio composition

Top ten holdings	% of net assets
Office New York, NY	5.69
Office Seattle, WA	4.54
Retail Los Angeles, CA	3.94
Multi-family/Retail Cambridge, MA	2.99
Hotel San Antonio, TX	2.90
Office Phoenix, AZ	2.67
Office/Retail San Diego, CA	2.43
Office Cambridge, MA	2.31
Office Phoenix, AZ	2.14
Multi-family New York, NY	2.10

% 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	42.57
South	22.98
East	21.56
Midwest	12.89

## Property type

	% of account
Office	35.66
Retail	23.31
Industrial Park	19.54
Apartments	17.23
Other	4.26

# U.S. Property Separate Account-R2 as of 12/31/2010

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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.

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

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 [principal.com](http://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. If you elect to contribute funds into the U.S. Property Separate Account, you may not be able to immediately withdraw them.

# LargeCap S&P 500 Index Separate Account-R2 as of 12/31/2010

## Investment Strategy

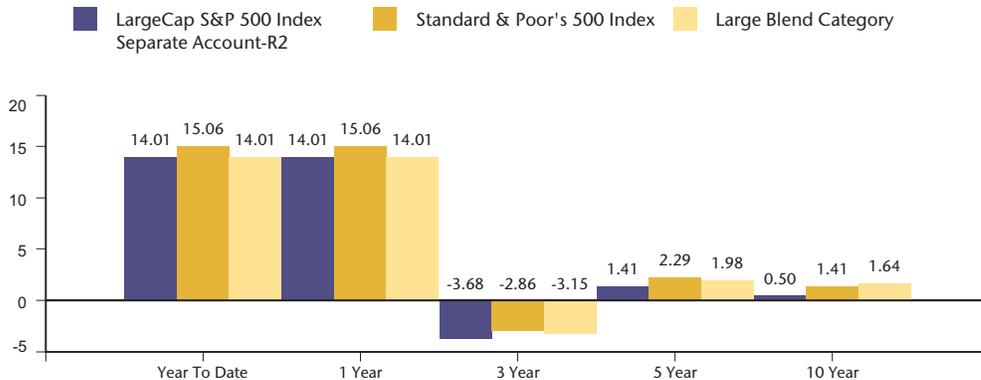
The investment option normally invests the majority of assets in common stocks of companies that compose the S&P 500 Index. Management attempts to mirror the investment performance of the index by allocating assets in approximately the same weightings as the S&P 500 Index. Over the long-term, management 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 Laschanky, 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 12/31/2010



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	14.01	14.01	-3.68	1.41	0.50
Standard & Poor's 500 Index %	15.06	15.06	-2.86	2.29	1.41
Large Blend Category %	14.01	14.01	-3.15	1.98	1.64
Morningstar Percentile Rankings	-	48	64	66	77
# of Funds in Category	2010	2010	1753	1457	802
Annual Returns	2010	2009	2008	2007	2006
Total Return %	14.01	25.34	-37.47	4.56	14.78
Standard & Poor's 500 Index %	15.06	26.46	-37.00	5.49	15.79
Large Blend Category %	14.01	28.17	-37.79	6.16	14.17
Morningstar Percentile Rankings	48	66	49	65	43
# of Funds in Category	2010	2027	2086	2090	1980

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Blend

## Morningstar Style Box™

As of 11/30/2010

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2010 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	22.09	17.77
Mean	-3.68	1.41
Sharpe Ratio	-0.09	0.03
Excess Return	-0.83	-0.88
Excess Risk	0.09	0.07
Information Ratio	-9.57	-12.62

## Operations

Total Investment Expense Net	0.90%
Total Investment Expense Gross	0.90%
Inception Date	01/01/1990
Total Net Assets (mil)	\$5,736.43



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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 12/31/2010

## Portfolio information†

Composition as of 11/30/2010

Asset Distribution		Asset Type	Net %	Short %	Long %
		U.S. Stocks	97.91	0.00	97.91
		Cash	2.09	0.00	2.09

## Top ten holdings

	% of net assets
1. ExxonMobil Corporation	3.24
2. Apple, Inc.	2.60
3. Microsoft Corporation	1.76
4. International Business Machines Corp	1.63
5. Procter & Gamble Company	1.58
6. General Electric Company	1.55
7. Johnson & Johnson	1.55
8. AT&T, Inc.	1.50
9. Chevron Corporation	1.49
10. J.P. Morgan Chase & Co.	1.35
% of net assets in top ten holdings*	18.25

## Analysis

# of Stock Hldgs	499
# of Bond Hldgs	0
# of Other Hldgs	1
GeoAvgCap (mil)	\$45,394.77
Turnover Ratio	4%
P/C Ratio	5.68
P/E Ratio	14.28
P/B Ratio	2.10

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>24.24</b>	<b>Service</b>	<b>39.15</b>	<b>Manufacturing</b>	<b>36.59</b>
Software	4.45	Healthcare	11.40	Consumer Goods	9.13
Hardware	9.39	Consumer Services	8.85	Industrial Materials	11.87
Media	3.22	Business Services	3.25	Energy	12.12
Telecom	7.18	Financial Services	15.65	Utilities	3.47

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

*Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754.*

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.

† The Portfolio Composition depicts a breakdown of the investment option's portfolio holdings, as of the date listed, into general investment classes. The x-axis represents the percentage each investment group holds, with the y-axis representing a zero value. Values to the right of the y-axis represent long security positions, while values to the left of the y-axis represent short security positions. The table to the right of the bar chart sums these two values to present the net emphasis of each investment group. Due to rounding, the total net position may not equal 100%. Long positions involve buying a security and selling it later, with the hope that the security price rises over time. In contrast, short positions are taken to benefit from anticipated price declines. 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 [principal.com](http://principal.com).

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

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

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

# LargeCap Blend II Separate Account-R3 as of 12/31/2010

## Investment Strategy

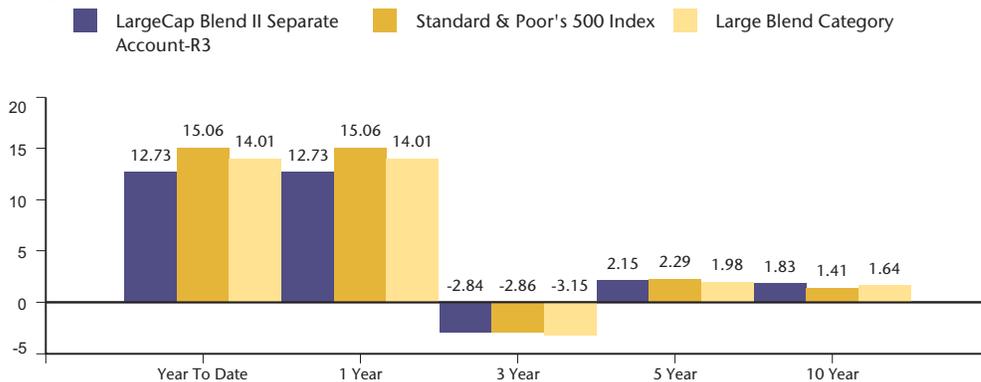
The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets in common stocks of companies with large market capitalizations (those with market capitalizations within the range of companies in the S&P 500 index) at the time of purchase. It generally remains fully 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.S., University of Pennsylvania (Wharton)  
**Ann M. Holcomb**, CFA. Since 03/02/2009. M.S., Loyola College, Maryland (Sellinger)  
**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 12/31/2010



## 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 [principal.com](http://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 %	12.73	12.73	-2.84	2.15	1.83
Standard & Poor's 500 Index %	15.06	15.06	-2.86	2.29	1.41
Large Blend Category %	14.01	14.01	-3.15	1.98	1.64
Morningstar Percentile Rankings	-	68	41	45	38
# of Funds in Category	2010	2010	1753	1457	802
Annual Returns	2010	2009	2008	2007	2006
Total Return %	12.73	28.85	-36.85	5.17	15.28
Standard & Poor's 500 Index %	15.06	26.46	-37.00	5.49	15.79
Large Blend Category %	14.01	28.17	-37.79	6.16	14.17
Morningstar Percentile Rankings	68	39	35	56	33
# of Funds in Category	2010	2027	2086	2090	1980

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Blend

## Morningstar Style Box™

As of 11/30/2010

### Investment style

	Value	Blend	Growth	
				Large
				Medium
				Small

Market capitalization

## Risk and Return Statistics

as of 12/31/2010 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	0.03	-0.13
Beta	1.00	1.00
R-Squared	99.69	99.63
Standard Deviation	22.23	17.92
Mean	-2.84	2.14
Sharpe Ratio	-0.05	0.07
Excess Return	0.02	-0.15
Excess Risk	1.25	1.10
Information Ratio	0.01	-0.13

## Operations

Total Investment Expense Net	1.33%
Total Investment Expense Gross	1.35%
Contractual Cap Expiration Date	02/28/2011
Waiver Expiration Date	02/28/2011
Inception Date	12/29/2000
Total Net Assets (mil)	\$732.21



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

# LargeCap Blend II Separate Account-R3 as of 12/31/2010

## Portfolio information†

Composition as of 11/30/2010

Asset Distribution		Asset Type	Net %	Short %	Long %
[Bar chart showing U.S. Stocks at 96.97%, Non-U.S. Stocks at 2.67%, and Cash at 0.36%]		U.S. Stocks	96.97	0.00	96.97
		Non-U.S. Stocks	2.67	0.00	2.67
		Cash	0.36	9.22	9.59

## Top ten holdings

	% of net assets
1. S&P 500 EMINI FUT DEC2010	9.22
2. ExxonMobil Corporation	2.73
3. Apple, Inc.	2.63
4. Wells Fargo Company	1.92
5. Google, Inc.	1.74
6. Procter & Gamble Company	1.64
7. Microsoft Corporation	1.61
8. J.P. Morgan Chase & Co.	1.53
9. PepsiCo, Inc.	1.50
10. General Electric Company	1.41
% of net assets in top ten holdings*	25.94

## Analysis

# of Stock Hldgs	485
# of Bond Hldgs	0
# of Other Hldgs	6
GeoAvgCap (mil)	\$42,650.41
Turnover Ratio	80%
P/C Ratio	5.27
P/E Ratio	14.63
P/B Ratio	2.19

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>24.69</b>	<b>Service</b>	<b>36.87</b>	<b>Manufacturing</b>	<b>38.45</b>
Software	4.06	Healthcare	11.36	Consumer Goods	10.25
Hardware	9.57	Consumer Services	7.47	Industrial Materials	12.51
Media	3.80	Business Services	3.68	Energy	12.64
Telecom	7.26	Financial Services	14.36	Utilities	3.05

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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.

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 12/31/2010

## Investment Strategy

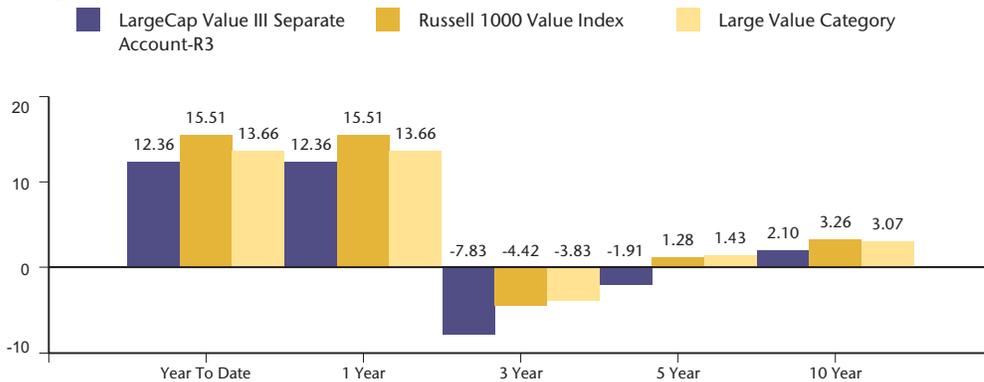
The investment seeks long-term growth of capital. The fund generally invests at least 80% of assets in companies with large market capitalizations (those with market capitalizations similar to companies in the Russell 1000 Value Index) at the time of purchase. The fund may invest up to 25% of assets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



## Portfolio managers

**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  
**Scott D. Lawson, CFA.** Since 07/15/2008. M.B.A., St. Louis University  
**Mariateresa Monaco** Since 06/02/2009. M.B.A., Massachusetts Institute of Technology

## Long-term returns % as of 12/31/2010



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	12.36	12.36	-7.83	-1.91	2.10
Russell 1000 Value Index %	15.51	15.51	-4.42	1.28	3.26
Large Value Category %	13.66	13.66	-3.83	1.43	3.07
Morningstar Percentile Rankings	-	65	93	93	69
# of Funds in Category	1240	1240	1120	956	502
Annual Returns	2010	2009	2008	2007	2006
Total Return %	12.36	18.39	-41.15	-4.31	21.22
Russell 1000 Value Index %	15.51	19.69	-36.85	-0.17	22.25
Large Value Category %	13.66	24.13	-37.09	1.42	18.15
Morningstar Percentile Rankings	65	77	81	86	13
# of Funds in Category	1240	1272	1433	1432	1371

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Value

## Morningstar Style Box™

As of 11/30/2010

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2010 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	-3.69	-3.20
Beta	0.99	0.99
R-Squared	99.06	98.92
Standard Deviation	23.31	18.95
Mean	-7.83	-1.92
Sharpe Ratio	-0.26	-0.13
Excess Return	-3.41	-3.19
Excess Risk	2.29	1.97
Information Ratio	-1.49	-1.62

## Operations

Total Investment Expense Net	1.34%
Total Investment Expense Gross	1.35%
Contractual Cap Expiration Date	02/28/2011
Waiver Expiration Date	02/28/2011
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,721.44



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

# LargeCap Value III Separate Account-R3 as of 12/31/2010

## Portfolio information†

Composition as of 11/30/2010

Asset Distribution		Asset Type	Net %	Short %	Long %
[Bar chart showing 96.30% for U.S. Stocks]		U.S. Stocks	96.30	0.00	96.30
[Bar chart showing 3.55% for Non-U.S. Stocks]		Non-U.S. Stocks	3.55	0.00	3.55
[Bar chart showing 0.15% for Cash]		Cash	0.15	2.86	3.02

## Top ten holdings

	% of net assets
1. Johnson & Johnson	3.25
2. Wells Fargo Company	3.22
3. J.P. Morgan Chase & Co.	3.11
4. Pfizer Inc.	3.07
5. S&P 500 EMINI FUT DEC2010	2.86
6. AT&T, Inc.	2.78
7. Chevron Corporation	1.67
8. Comcast Corporation A	1.56
9. Microsoft Corporation	1.44
10. The Travelers Companies, Inc.	1.34
% of net assets in top ten holdings*	24.30

## Analysis

# of Stock Hldgs	519
# of Bond Hldgs	0
# of Other Hldgs	6
GeoAvgCap (mil)	\$34,891.43
Turnover Ratio	99%
P/C Ratio	3.40
P/E Ratio	12.38
P/B Ratio	1.62

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>20.65</b>	<b>Service</b>	<b>41.27</b>	<b>Manufacturing</b>	<b>38.07</b>
Software	2.07	Healthcare	13.16	Consumer Goods	7.22
Hardware	5.05	Consumer Services	5.78	Industrial Materials	12.50
Media	7.20	Business Services	2.13	Energy	13.14
Telecom	6.33	Financial Services	20.20	Utilities	5.21

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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.

**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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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.

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.

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

# LargeCap Growth I Separate Account-R3 as of 12/31/2010

## Investment Strategy

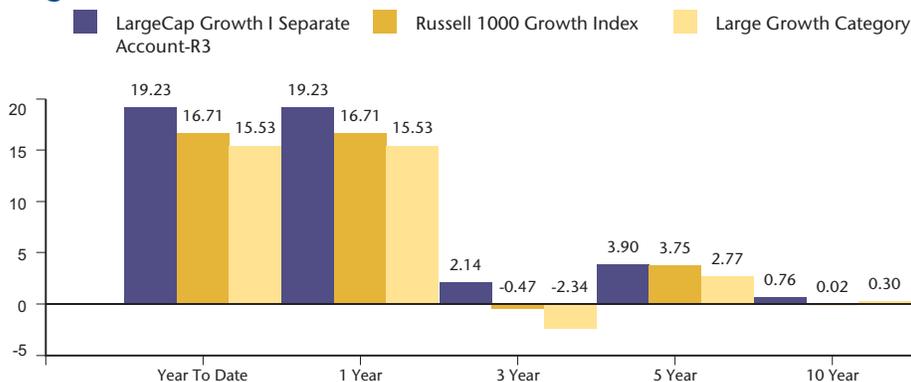
The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets in equity securities of companies with market capitalizations within the range of companies in the Russell 1000 Growth index at the time of purchase. It invests less than 25% of total assets in foreign 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 (Wharton)  
**Mariateresa Monaco** Since 06/02/2009. M.B.A., Massachusetts Institute of Technology  
**Kenneth M. Stuzin**, CFA. Since 07/14/2009. M.B.A., Columbia University

## Long-term returns % as of 12/31/2010



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	19.23	19.23	2.14	3.90	0.76
Russell 1000 Growth Index %	16.71	16.71	-0.47	3.75	0.02
Large Growth Category %	15.53	15.53	-2.34	2.77	0.30
Morningstar Percentile Rankings	-	19	7	27	40
# of Funds in Category	1718	1718	1504	1286	787
Annual Returns	2010	2009	2008	2007	2006
Total Return %	19.23	51.30	-40.93	7.74	5.49
Russell 1000 Growth Index %	16.71	37.21	-38.44	11.81	9.07
Large Growth Category %	15.53	35.68	-40.67	13.35	7.05
Morningstar Percentile Rankings	19	6	54	78	67
# of Funds in Category	1718	1796	1809	1748	1642

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Growth

## Morningstar Style Box™

As of 11/30/2010

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2010 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	3.02	0.25
Beta	1.08	1.08
R-Squared	96.73	96.00
Standard Deviation	24.66	19.83
Mean	2.14	3.90
Sharpe Ratio	0.18	0.17
Excess Return	2.61	0.15
Excess Risk	4.86	4.23
Information Ratio	0.54	0.03

## Operations

Total Investment Expense Net	1.20%
Total Investment Expense Gross	1.22%
Contractual Cap Expiration Date	02/28/2011
Waiver Expiration Date	02/28/2011
Inception Date	12/29/2000
Total Net Assets (mil)	\$2,734.56



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# LargeCap Growth I Separate Account-R3 as of 12/31/2010

## Portfolio information†

Composition as of 11/30/2010

Asset Distribution		Asset Type	Net %	Short %	Long %
		U.S. Stocks	95.85	0.00	95.85
		Non-U.S. Stocks	4.07	0.00	4.07
		Cash	0.08	3.39	3.47

## Top ten holdings

% of net assets

1. Apple, Inc.	5.18
2. Google, Inc.	4.17
3. S&P 500 EMINI FUT DEC2010	3.39
4. Schlumberger, Ltd.	3.02
5. Qualcomm, Inc.	3.00
6. Danaher Corporation	2.29
7. Accenture PLC	1.97
8. Amazon.com, Inc.	1.96
9. MasterCard Incorporated A	1.94
10. FMC Technologies, Inc.	1.69
% of net assets in top ten holdings*	28.61

## Analysis

# of Stock Hldgs	455
# of Bond Hldgs	0
# of Other Hldgs	6
GeoAvgCap (mil)	\$29,569.83
Turnover Ratio	99%
P/C Ratio	8.41
P/E Ratio	19.35
P/B Ratio	3.22

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>32.90</b>	<b>Service</b>	<b>38.60</b>	<b>Manufacturing</b>	<b>28.49</b>
Software	5.90	Healthcare	11.69	Consumer Goods	3.84
Hardware	13.57	Consumer Services	13.16	Industrial Materials	13.88
Media	1.37	Business Services	5.18	Energy	10.63
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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.

This investment option maintains a voluntary waiver which is reflected in the value displayed for Total Investment Expense - Net. This waiver may be discontinued at any time.

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.

# American Century Equity Income A Fund as of 12/31/2010

## Investment Strategy

The investment seeks current income; capital appreciation is a secondary consideration. The fund invests in equity securities with a favorable income-paying history that have prospects for income payments to continue or increase. It invests at least 80% of its assets in equity securities at all times regardless of the movement of stock prices generally and invests at least 85% of its assets in income-paying securities. The fund also invests in equity securities of companies that the advisor believes are undervalued and have the potential for an increase in price.



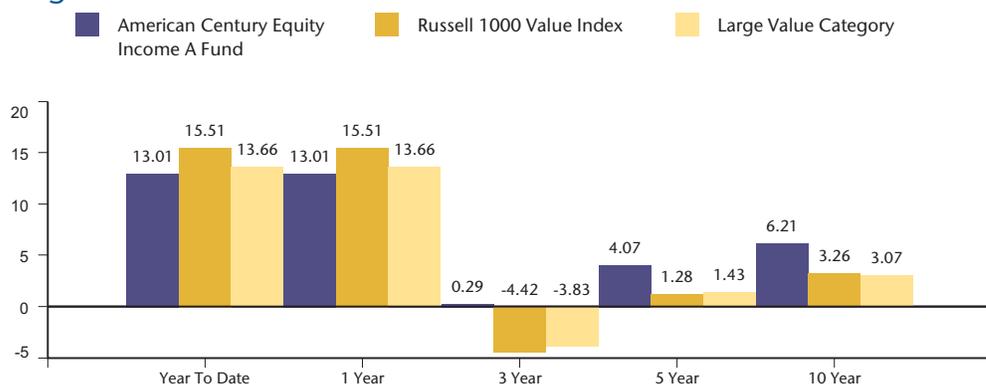
## Portfolio managers

**Phillip N. Davidson**, CFA. Since 12/31/1994. M.B.A., Illinois State University

**Michael Liss**, CFA. Since 12/31/1998. M.B.A., Indiana University

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

## Long-term returns % as of 12/31/2010



## 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 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 %	13.01	13.01	0.29	4.07	6.21
Russell 1000 Value Index %	15.51	15.51	-4.42	1.28	3.26
Large Value Category %	13.66	13.66	-3.83	1.43	3.07
Morningstar Percentile Rankings	-	56	6	10	4
# of Funds in Category	1240	1240	1120	956	502
Annual Returns	2010	2009	2008	2007	2006
Total Return %	13.01	11.95	-20.25	1.43	19.30
Russell 1000 Value Index %	15.51	19.69	-36.85	-0.17	22.25
Large Value Category %	13.66	24.13	-37.09	1.42	18.15
Morningstar Percentile Rankings	56	96	1	53	35
# of Funds in Category	1240	1272	1433	1432	1371

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Value

## Morningstar Style Box™

As of 09/30/2010

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2010 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	2.18	1.92
Beta	0.62	0.62
R-Squared	93.11	92.82
Standard Deviation	14.98	12.24
Mean	0.29	4.07
Sharpe Ratio	0.04	0.19
Excess Return	4.72	2.79
Excess Risk	9.88	7.90
Information Ratio	0.48	0.35

## Operations

Total Investment Expense Net	1.22%
Total Investment Expense Gross	1.22%
Inception Date	03/07/1997
Total Net Assets (mil)	\$7,732.03
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 12/31/2010

## Portfolio information<sup>†</sup>

Composition as of 09/30/2010

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	68.94	0.00	68.94
	Convertibles	13.67	0.00	13.67
	Preferred	6.56	0.00	6.56
	U.S. Bonds	4.05	0.00	4.05
	Non-U.S. Stocks	3.77	0.00	3.77
	Cash	2.27	0.00	2.27
	Other	0.74	0.00	0.74

## Top ten holdings

	% of net assets
1. ExxonMobil Corporation	5.06
2. AT&T, Inc.	4.03
3. Bk Amer Pfd	3.92
4. Us Bancorp Del Cv FRN	3.55
5. Total SA	3.02
6. Johnson & Johnson	2.96
7. United Parcel Service, Inc.	2.73
8. Annaly Cap Mgmt Cv 4%	2.49
9. Host Marriott L P 144A 3.25%	2.48
10. Chevron Corporation	2.41
% of net assets in top ten holdings*	32.64

## Analysis

# of Stock Hldgs	69
# of Bond Hldgs	3
# of Other Hldgs	33
GeoAvgCap (mil)	\$32,693.30
Turnover Ratio	105%
P/C Ratio	6.15
P/E Ratio	13.56
P/B Ratio	1.95

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	10.66	<b>Service</b>	42.29	<b>Manufacturing</b>	47.06
Software	0.11	Healthcare	10.91	Consumer Goods	9.43
Hardware	2.74	Consumer Services	9.44	Industrial Materials	10.43
Media	0.91	Business Services	7.24	Energy	16.28
Telecom	6.90	Financial Services	14.70	Utilities	10.92

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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\* 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 12/31/2010

## Investment Strategy

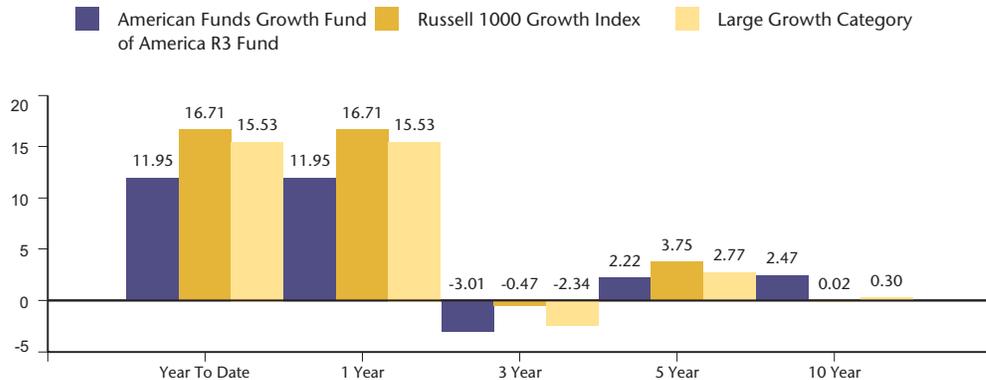
The investment seeks capital growth by investing in common stocks. The fund invests primarily in common stocks and seeks to invest in companies that appear to offer superior opportunities for growth of capital. It may invest a portion of its assets in securities of issuers domiciled outside the U.S. The fund may also hold cash or money market instruments.



## 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. M.B.A., Darlen School  
**Don D. O'Neal** Since 11/01/1993.  
**Gregg E. Ireland** Since 11/01/2004.

## Long-term returns % as of 12/31/2010



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	11.95	11.95	-3.01	2.22	2.47
Russell 1000 Growth Index %	16.71	16.71	-0.47	3.75	0.02
Large Growth Category %	15.53	15.53	-2.34	2.77	0.30
Morningstar Percentile Rankings	-	80	61	60	16
# of Funds in Category	1718	1718	1504	1286	787
Annual Returns	2010	2009	2008	2007	2006
Total Return %	11.95	34.12	-39.24	10.59	10.62
Russell 1000 Growth Index %	16.71	37.21	-38.44	11.81	9.07
Large Growth Category %	15.53	35.68	-40.67	13.35	7.05
Morningstar Percentile Rankings	80	51	40	66	19
# of Funds in Category	1718	1796	1809	1748	1642

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Growth

## Morningstar Style Box™

As of 09/30/2010

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2010 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	-2.67	-1.44
Beta	0.96	0.96
R-Squared	98.29	96.18
Standard Deviation	21.77	17.72
Mean	-3.01	2.22
Sharpe Ratio	-0.07	0.08
Excess Return	-2.54	-1.53
Excess Risk	2.99	3.55
Information Ratio	-0.85	-0.43

## Operations

Total Investment Expense Net	0.97%
Total Investment Expense Gross	0.97%
Inception Date	05/21/2002
Extended Performance	
Inception Date#	01/01/1959
Total Net Assets (mil)	\$154,104.11
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 12/31/2010

## Portfolio information<sup>†</sup>

Composition as of 09/30/2010

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	74.79	0.00	74.79
	Non-U.S. Stocks	13.68	0.00	13.68
	Cash	8.17	0.00	8.17
	U.S. Bonds	2.75	0.00	2.75
	Other	0.57	0.00	0.57
	Preferred	0.04	0.00	0.04
	Convertibles	0.01	0.00	0.01

Top ten holdings	% of net assets
1. Oracle Corporation	3.53
2. Google, Inc.	3.35
3. Microsoft Corporation	2.33
4. US Treasury Note 3.5%	1.64
5. Apple, Inc.	1.64
6. Union Pacific Corporation	1.33
7. J.P. Morgan Chase & Co.	1.31
8. Philip Morris International Inc	1.26
9. Merck & Co Inc	1.20
10. Corning Inc.	1.13
% of net assets in top ten holdings*	18.74

### Analysis

# of Stock Hldgs	275
# of Bond Hldgs	5
# of Other Hldgs	139
GeoAvgCap (mil)	\$40,870.60
Turnover Ratio	33%
P/C Ratio	5.95
P/E Ratio	14.65
P/B Ratio	2.20

### Stock Sector Breakdown

	% of net assets		% of net assets
<b>Information</b>	<b>30.33</b>	<b>Service</b>	<b>38.28</b>
Software	7.61	Healthcare	12.43
Hardware	9.36	Consumer Services	9.15
Media	5.02	Business Services	5.35
Telecom	8.34	Financial Services	11.35
		<b>Manufacturing</b>	<b>31.39</b>
		Consumer Goods	7.70
		Industrial Materials	12.80
		Energy	10.21
		Utilities	0.68

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# MidCap Growth III Separate Account-R3 as of 12/31/2010

## Investment Strategy

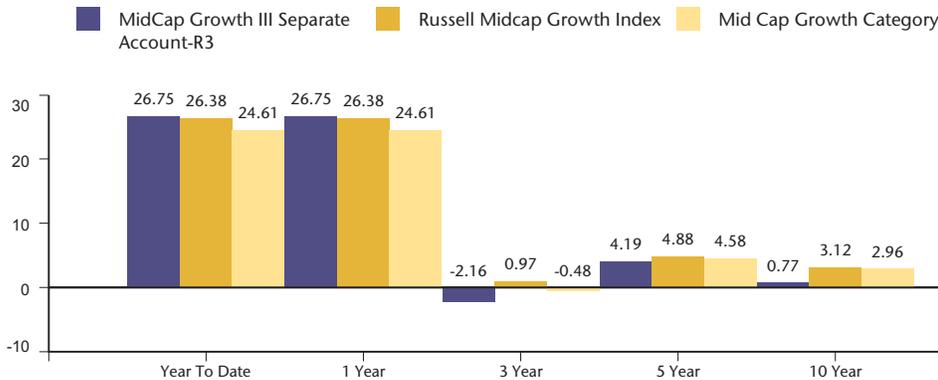
The investment seeks long-term growth of capital. The fund invests primarily in common stocks and other equity securities of U.S. companies with strong earnings growth potential. It normally invests at least 80% of assets in companies with market capitalizations similar to those of companies in the Russell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



## 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 12/31/2010



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	26.75	26.75	-2.16	4.19	0.77
Russell Midcap Growth Index %	26.38	26.38	0.97	4.88	3.12
Mid Cap Growth Category %	24.61	24.61	-0.48	4.58	2.96
Morningstar Percentile Rankings	-	37	65	60	77
# of Funds in Category	759	759	677	594	392
Annual Returns	2010	2009	2008	2007	2006
Total Return %	26.75	44.22	-48.77	23.89	5.83
Russell Midcap Growth Index %	26.38	46.29	-44.32	11.43	10.66
Mid Cap Growth Category %	24.61	39.11	-43.77	15.09	9.00
Morningstar Percentile Rankings	37	33	82	13	73
# of Funds in Category	759	812	934	967	994

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Mid Cap Growth

## Morningstar Style Box™

As of 11/30/2010

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2010 Relative to Russell Midcap Growth Index

	3Yr	5Yr
Alpha	-3.02	-0.58
Beta	1.02	1.04
R-Squared	98.36	96.61
Standard Deviation	27.58	22.84
Mean	-2.16	4.19
Sharpe Ratio	0.03	0.19
Excess Return	-3.13	-0.69
Excess Risk	3.61	4.31
Information Ratio	-0.86	-0.16

## Operations

Total Investment Expense Net	1.54%
Total Investment Expense Gross	1.56%
Contractual Cap Expiration Date	02/28/2011
Waiver Expiration Date	02/28/2011
Inception Date	10/28/1999
Total Net Assets (mil)	\$1,660.96



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

# MidCap Growth III Separate Account-R3 as of 12/31/2010

## Portfolio information<sup>†</sup>

Composition as of 11/30/2010

Asset Distribution		Asset Type	Net %	Short %	Long %
		U.S. Stocks	93.14	0.00	93.14
		Cash	4.01	4.37	8.38
		Non-U.S. Stocks	2.84	0.00	2.84

## Top ten holdings

	% of net assets
1. S&P MID 400 EMINI DEC10	4.37
2. F5 Networks, Inc.	1.91
3. Salesforce.com, Inc.	1.39
4. Cummins, Inc.	1.32
5. Coach, Inc.	1.23
6. Starwood Hotels & Resorts Worldwide, Inc.	1.23
7. NetApp, Inc.	1.16
8. SanDisk Corporation	1.15
9. Joy Global, Inc.	1.12
10. T. Rowe Price Group	1.07
% of net assets in top ten holdings*	15.95

## Analysis

# of Stock Hldgs	483
# of Bond Hldgs	0
# of Other Hldgs	6
GeoAvgCap (mil)	\$6,307.93
Turnover Ratio	98%
P/C Ratio	9.93
P/E Ratio	18.45
P/B Ratio	3.04

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>27.57</b>	<b>Service</b>	<b>40.49</b>	<b>Manufacturing</b>	<b>31.93</b>
Software	6.62	Healthcare	11.84	Consumer Goods	10.44
Hardware	15.55	Consumer Services	14.95	Industrial Materials	14.16
Media	1.42	Business Services	6.14	Energy	6.93
Telecom	3.98	Financial Services	7.56	Utilities	0.40

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

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<sup>†</sup> The Portfolio Composition depicts a breakdown of the investment option's portfolio holdings, as of the date listed, into general investment classes. The x-axis represents the percentage each investment group holds, with the y-axis representing a zero value. Values to the right of the y-axis represent long security positions, while values to the left of the y-axis represent short security positions. The table to the right of the bar chart sums these two values to present the net emphasis of each investment group. Due to rounding, the total net position may not equal 100%. Long positions involve buying a security and selling it later, with the hope that the security price rises over time. In contrast, short positions are taken to benefit from anticipated price declines. 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 [principal.com](http://principal.com).

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

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

# MidCap Value I Separate Account-R2 as of 12/31/2010

## Investment Strategy

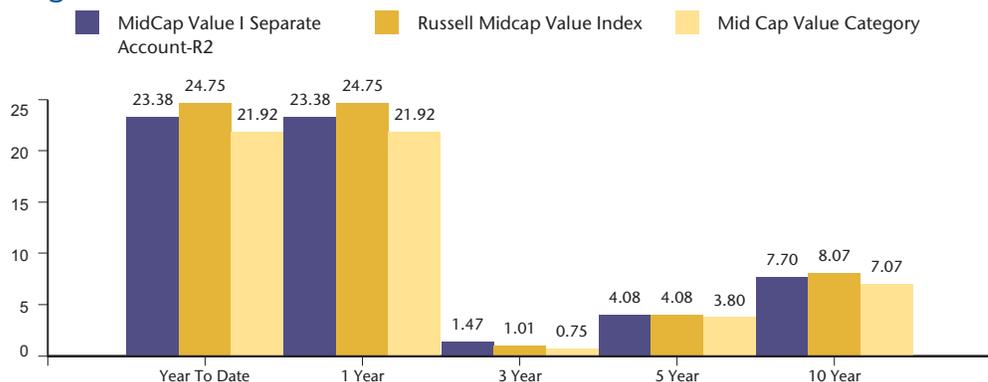
The investment seeks long term growth of capital. The fund invests at least 80% of assets in a diversified portfolio of equity investments in mid-cap issuers with a medium market capitalization (those with market capitalizations similar to companies in the Russell MidCap Value index) at the time of purchase. The advisor employs a quantitative approach for selecting securities it believes are favored in the current market environment.



## Portfolio managers

**David R. Borger**, CFA. Since 10/03/2005. M.B.A., University of Michigan  
**Christine M. Kugler** Since 10/03/2005. B.A., University of California, Santa Barbara  
**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 12/31/2010



## 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 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 %	23.38	23.38	1.47	4.08	7.70
Russell Midcap Value Index %	24.75	24.75	1.01	4.08	8.07
Mid Cap Value Category %	21.92	21.92	0.75	3.80	7.07
Morningstar Percentile Rankings	-	35	35	47	37
# of Funds in Category	420	420	360	286	98
Annual Returns	2010	2009	2008	2007	2006
Total Return %	23.38	32.83	-36.26	1.72	14.95
Russell Midcap Value Index %	24.75	34.21	-38.44	-1.42	20.22
Mid Cap Value Category %	21.92	35.41	-36.77	0.83	15.87
Morningstar Percentile Rankings	35	57	45	46	61
# of Funds in Category	420	416	442	405	375

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Mid Cap Value

## Morningstar Style Box™

As of 11/30/2010

### Investment style

	Value	Blend	Growth	
				Large
				Medium
				Small

Market capitalization

## Risk and Return Statistics

as of 12/31/2010 Relative to Russell Midcap Value Index

	3Yr	5Yr
Alpha	0.17	-0.03
Beta	0.90	0.91
R-Squared	97.82	97.31
Standard Deviation	25.08	20.22
Mean	1.46	4.08
Sharpe Ratio	0.15	0.18
Excess Return	0.45	0.00
Excess Risk	4.58	3.88
Information Ratio	0.10	0.00

## Operations

Total Investment Expense Net	1.75%
Total Investment Expense Gross	1.77%
Contractual Cap Expiration Date	02/28/2011
Waiver Expiration Date	02/28/2011
Inception Date	07/01/1999
Total Net Assets (mil)	\$1,578.46



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

# MidCap Value I Separate Account-R2 as of 12/31/2010

## Portfolio information<sup>†</sup>

Composition as of 11/30/2010

Asset Distribution		Asset Type	Net %	Short %	Long %
[Bar chart showing asset distribution]		U.S. Stocks	98.17	0.00	98.17
		Non-U.S. Stocks	1.68	0.00	1.68
		Cash	0.15	2.66	2.81

## Top ten holdings

	% of net assets
1. S&P MID 400 EMINI DEC10	2.66
2. Newfield Exploration Company	1.37
3. Invesco Ltd	1.32
4. Equity Residential	1.12
5. Xcel Energy, Inc.	1.08
6. CBS Corporation B	1.08
7. Hartford Financial Services Group, Inc.	0.96
8. Eaton Corporation	0.93
9. CenturyLink, Inc.	0.90
10. Progress Energy, Inc.	0.89
% of net assets in top ten holdings*	12.30

## Analysis

# of Stock Hldgs	596
# of Bond Hldgs	0
# of Other Hldgs	6
GeoAvgCap (mil)	\$6,023.48
Turnover Ratio	84%
P/C Ratio	4.95
P/E Ratio	15.25
P/B Ratio	1.49

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>13.98</b>	<b>Service</b>	<b>40.53</b>	<b>Manufacturing</b>	<b>45.49</b>
Software	2.20	Healthcare	5.13	Consumer Goods	10.46
Hardware	3.12	Consumer Services	3.61	Industrial Materials	12.62
Media	4.74	Business Services	3.30	Energy	10.41
Telecom	3.92	Financial Services	28.49	Utilities	12.00

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# SmallCap Growth II Separate Account-R3 as of 12/31/2010

## 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 12/31/2010



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	27.24	27.24	-1.54	1.70	0.98
Russell 2000 Growth Index %	29.09	29.09	2.18	5.30	3.78
Small Growth Category %	26.98	26.98	0.47	4.24	3.88
Morningstar Percentile Rankings	-	47	69	84	85
# of Funds in Category	758	758	670	563	341
Annual Returns	2010	2009	2008	2007	2006
Total Return %	27.24	30.60	-42.55	5.21	8.35
Russell 2000 Growth Index %	29.09	34.47	-38.54	7.05	13.35
Small Growth Category %	26.98	35.46	-41.55	7.59	10.81
Morningstar Percentile Rankings	47	68	60	59	68
# of Funds in Category	758	778	834	829	763

Morningstar percentile rankings are based on total returns.

## Morningstar category

Small Growth

## Morningstar Style Box™

As of 11/30/2010

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2010 Relative to Russell 2000 Growth Index

	3Yr	5Yr
Alpha	-3.64	-3.39
Beta	0.98	0.97
R-Squared	98.24	97.78
Standard Deviation	27.74	22.82
Mean	-1.54	1.70
Sharpe Ratio	0.06	0.09
Excess Return	-3.72	-3.60
Excess Risk	3.75	3.50
Information Ratio	-0.99	-1.03

## Operations

Total Investment Expense Net	1.57%
Total Investment Expense Gross	1.59%
Contractual Cap Expiration Date	02/28/2011
Waiver Expiration Date	02/28/2011
Inception Date	12/29/2000
Total Net Assets (mil)	\$272.39



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# SmallCap Growth II Separate Account-R3 as of 12/31/2010

## Portfolio information<sup>†</sup>

Composition as of 11/30/2010

Asset Distribution		Asset Type	Net %	Short %	Long %
[Bar chart showing 90.35% for U.S. Stocks]		U.S. Stocks	90.35	0.00	90.35
[Bar chart showing 7.66% for Non-U.S. Stocks]		Non-U.S. Stocks	7.66	0.00	7.66
[Bar chart showing 1.99% for Cash]		Cash	1.99	4.57	6.56

## Top ten holdings

	% of net assets
1. Russell 2000 Mini Dec10	4.57
2. Radiant Systems, Inc.	1.23
3. MWI Veterinary Supply, Inc.	1.19
4. Acme Packet, Inc.	1.18
5. Ulta Salon Cosmetics & Fragrances, Inc.	1.12
6. Aruba Networks, Inc.	1.02
7. Wabash National Corporation	0.99
8. Hibbett Sports, Inc.	0.98
9. Kforce, Inc.	0.93
10. Whiting Petroleum Corporation	0.93
% of net assets in top ten holdings*	14.14

## Analysis

# of Stock Hldgs	991
# of Bond Hldgs	0
# of Other Hldgs	7
GeoAvgCap (mil)	\$918.52
Turnover Ratio	132%
P/C Ratio	7.91
P/E Ratio	23.35
P/B Ratio	2.63

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>33.67</b>	<b>Service</b>	<b>38.11</b>	<b>Manufacturing</b>	<b>28.22</b>
Software	13.86	Healthcare	15.57	Consumer Goods	9.96
Hardware	12.64	Consumer Services	9.29	Industrial Materials	12.49
Media	0.52	Business Services	8.58	Energy	5.75
Telecom	6.65	Financial Services	4.67	Utilities	0.02

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# SmallCap Value II Separate Account-R3 as of 12/31/2010

## Investment Strategy

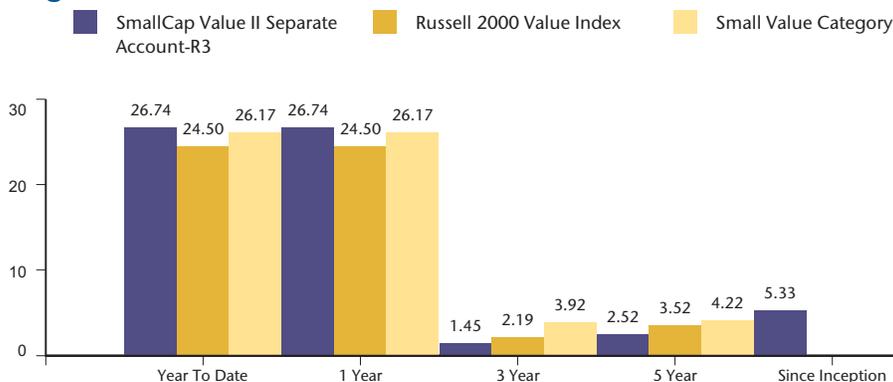
The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets in equity securities of small market capitalization companies. It may invests up to 25% of assets in foreign securities.



## Portfolio managers

**Chris D. Wallis**, CPA, CFA. Since 10/03/2005. M.B.A., Harvard University  
**David R. Berger**, CFA. Since 05/01/2009. M.B.A., University of Michigan  
**Christine M. Kugler** Since 05/01/2009. B.A., University of California, Santa Barbara  
**Stuart K. Matsuda** Since 05/01/2009. M.B.A., California State University Northridge  
**Thomas D. Stevens**, CFA. Since 05/01/2009. M.B.A., University of Wisconsin

## Long-term returns % as of 12/31/2010



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	26.74	26.74	1.45	2.52	5.33
Russell 2000 Value Index %	24.50	24.50	2.19	3.52	-
Small Value Category %	26.17	26.17	3.92	4.22	-
Morningstar Percentile Rankings	-	38	77	72	-
# of Funds in Category	342	342	307	241	-

Annual Returns	2010	2009	2008	2007	2006
Total Return %	26.74	31.59	-37.40	-9.49	19.87
Russell 2000 Value Index %	24.50	20.58	-28.92	-9.78	23.48
Small Value Category %	26.17	31.32	-32.24	-6.08	16.27
Morningstar Percentile Rankings	38	38	82	74	19
# of Funds in Category	342	370	438	438	389

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Small Value

## Morningstar Style Box™

As of 11/30/2010

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
				Small

## Risk and Return Statistics

as of 12/31/2010 Relative to Russell 2000 Value Index

	3Yr	5Yr
Alpha	-0.59	-0.89
Beta	1.04	1.03
R-Squared	98.63	98.21
Standard Deviation	29.99	24.38
Mean	1.44	2.52
Sharpe Ratio	0.17	0.13
Excess Return	-0.75	-1.00
Excess Risk	3.67	3.34
Information Ratio	-0.20	-0.30

## Operations

Total Investment Expense Net	1.64%
Total Investment Expense Gross	1.66%
Contractual Cap Expiration Date	02/28/2011
Waiver Expiration Date	02/28/2011
Inception Date	06/01/2004
Total Net Assets (mil)	\$748.98



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# SmallCap Value II Separate Account-R3 as of 12/31/2010

## Portfolio information†

Composition as of 11/30/2010

Asset Distribution		Asset Type	Net %	Short %	Long %
		U.S. Stocks	93.30	0.00	93.30
		Non-U.S. Stocks	6.55	0.00	6.55
		Cash	0.14	5.63	5.77
		Other	0.01	0.00	0.01

## Top ten holdings

	% of net assets
1. Russell 2000 Mini Dec10	5.63
2. CNO Financial Group Inc	0.75
3. CACI International, Inc. A	0.71
4. Wesco International, Inc.	0.60
5. Sensient Technologies Corporation	0.54
6. Silgan Holdings, Inc.	0.54
7. Apollo Investment Corporation BDC	0.52
8. Oil States International, Inc.	0.52
9. Brigham Exploration Company	0.51
10. Hanover Insurance Group, Inc.	0.51
% of net assets in top ten holdings*	10.82

## Analysis

# of Stock Hldgs	1632
# of Bond Hldgs	0
# of Other Hldgs	14
GeoAvgCap (mil)	\$1,027.37
Turnover Ratio	79%
P/C Ratio	4.28
P/E Ratio	15.04
P/B Ratio	1.16

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Information</b>	<b>12.84</b>	<b>Service</b>	<b>51.66</b>	<b>Manufacturing</b>	<b>35.49</b>
Software	3.08	Healthcare	4.30	Consumer Goods	7.24
Hardware	5.46	Consumer Services	8.35	Industrial Materials	16.05
Media	1.84	Business Services	9.29	Energy	8.50
Telecom	2.46	Financial Services	29.72	Utilities	3.70

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

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† The Portfolio Composition depicts a breakdown of the investment option's portfolio holdings, as of the date listed, into general investment classes. The x-axis represents the percentage each investment group holds, with the y-axis representing a zero value. Values to the right of the y-axis represent long security positions, while values to the left of the y-axis represent short security positions. The table to the right of the bar chart sums these two values to present the net emphasis of each investment group. Due to rounding, the total net position may not equal 100%. Long positions involve buying a security and selling it later, with the hope that the security price rises over time. In contrast, short positions are taken to benefit from anticipated price declines. 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 [principal.com](http://principal.com).

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

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

This investment option maintains a voluntary waiver which is reflected in the value displayed for Total Investment Expense - Net. This waiver may be discontinued at any time.

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

# International Growth Separate Account-R2 as of 12/31/2010

## 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.

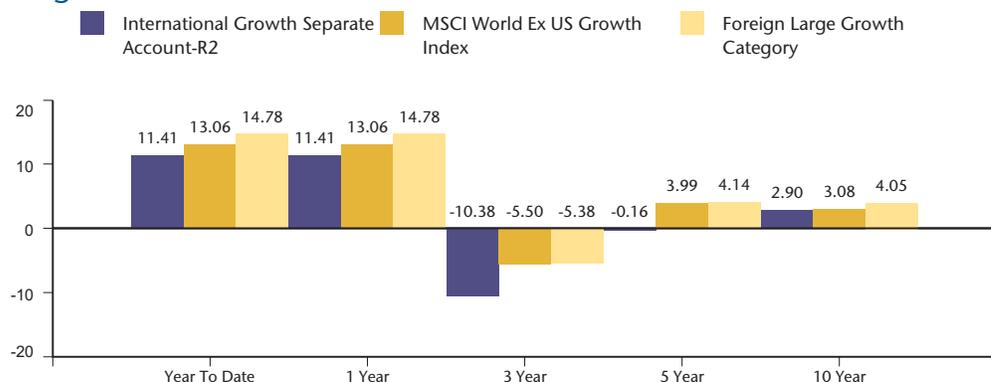


## Portfolio managers

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

**Mark R. Nebelung**, CFA. Since 05/27/2010. B.A., University of Waterloo

## Long-term returns % as of 12/31/2010



## 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 [principal.com](http://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 %	11.41	11.41	-10.38	-0.16	2.90
MSCI World Ex US Growth Index %	13.06	13.06	-5.50	3.99	3.08
Foreign Large Growth Category %	14.78	14.78	-5.38	4.14	4.05
Morningstar Percentile Rankings	-	82	91	96	75
# of Funds in Category	261	261	209	162	89
Annual Returns	2010	2009	2008	2007	2006
Total Return %	11.41	22.67	-47.33	11.66	23.43
MSCI World Ex US Growth Index %	13.06	30.66	-42.88	18.03	22.12
Foreign Large Growth Category %	14.78	38.02	-46.56	16.26	23.95
Morningstar Percentile Rankings	82	92	53	85	51
# of Funds in Category	261	266	251	220	243

Morningstar percentile rankings are based on total returns.

## Morningstar category

Foreign Large Growth

## Morningstar Style Box™

As of 11/30/2010

### Investment style

	Value	Blend	Growth	
				Large
				Medium
				Small

Market capitalization

## Risk and Return Statistics

as of 12/31/2010 Relative to MSCI World Ex US Growth Index

	3Yr	5Yr
Alpha	-4.80	-3.97
Beta	1.04	1.05
R-Squared	98.77	98.34
Standard Deviation	26.85	22.24
Mean	-10.38	-0.16
Sharpe Ratio	-0.30	0.00
Excess Return	-4.87	-4.15
Excess Risk	3.15	3.07
Information Ratio	-1.55	-1.35

## Operations

Total Investment Expense Net	1.76%
Total Investment Expense Gross	1.76%
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,355.12



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

# International Growth Separate Account-R2 as of 12/31/2010

## Portfolio information<sup>†</sup>

Composition as of 11/30/2010

Asset Distribution		Asset Type	Net %	Short %	Long %
[Bar chart showing 99.25% for Non-U.S. Stocks and 0.75% for Cash]		Non-U.S. Stocks	99.25	0.00	99.25
		Cash	0.75	0.00	0.75

Top ten holdings	% of net assets
1. Nestle SA	3.01
2. BHP Billiton Limited	1.79
3. Rio Tinto PLC	1.66
4. British American Tobacco PLC ADR	1.57
5. Siemens AG ADR	1.53
6. Standard Chartered PLC	1.44
7. Potash Corporation of Saskatchewan, Inc.	1.38
8. BHP Billiton PLC	1.30
9. Reckitt Benckiser Group PLC	1.25
10. Novartis AG ADR	1.24
% of net assets in top ten holdings*	16.17

Analysis	Top 5 Countries	% of net assets	Regional exposure	% of net assets
# of Stock Hldgs	United Kingdom	21.05	Europe	57.80
# of Bond Hldgs	Japan	19.49	Japan	19.49
# of Other Hldgs	Canada	9.78	Pacific Rim	11.60
GeoAvgCap (mil)	Switzerland	9.74	Other	11.10
Turnover Ratio	Australia	7.60		
P/C Ratio				
P/E Ratio				
P/B Ratio				

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.

*Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754.*

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

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 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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This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

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

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

# American Funds EuroPacific Growth R3 Fund as of 12/31/2010

## Investment Strategy

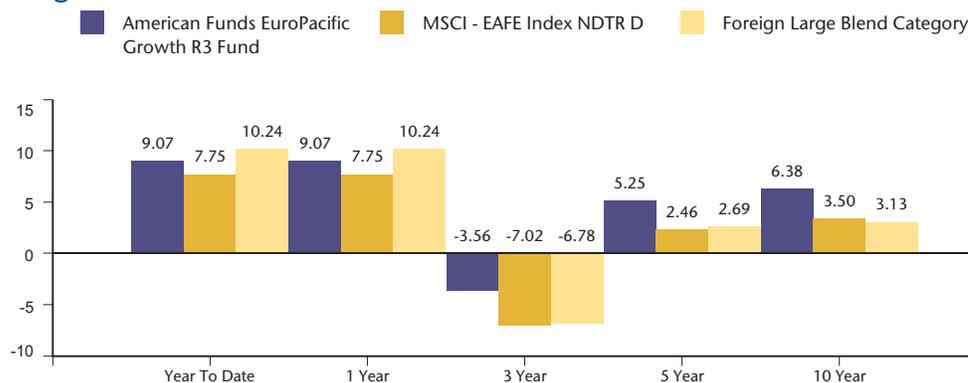
The investment seeks to provide you with long-term growth of capital. The fund invests primarily in common stocks of issuers in Europe and the Pacific Basin that the investment adviser believes have the potential for growth. It normally invests at least 80% of net assets in securities of issuers in Europe and the Pacific Basin. The fund may invest a portion of its assets in common stocks and other securities of companies in countries with developing economies and/or markets and may also hold cash, money market instruments and fixed-income securities.



### Portfolio managers

**Stephen E. Beppler**, CFA. Since 04/16/1984. , Columbia University  
**Mark E. Denning** Since 12/31/1991. M.B.A., Columbia University  
**Robert W. Lovelace**, CFA. Since 06/01/1994. A.B., Princeton University  
**Carl M. Kawaja** Since 06/01/2001. B.A., Brown University  
**Jonathan Knowles** Since 12/31/2006.

## Long-term returns % as of 12/31/2010



## 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 [principal.com](http://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 %	9.07	9.07	-3.56	5.25	6.38
MSCI - EAFE Index NDTR D %	7.75	7.75	-7.02	2.46	3.50
Foreign Large Blend Category %	10.24	10.24	-6.78	2.69	3.13
Morningstar Percentile Rankings	-	61	13	14	8
# of Funds in Category	829	829	694	511	289
Annual Returns	2010	2009	2008	2007	2006
Total Return %	9.07	38.71	-40.71	18.58	21.43
MSCI - EAFE Index NDTR D %	7.75	31.78	-43.38	11.17	26.34
Foreign Large Blend Category %	10.24	31.24	-43.99	12.71	24.77
Morningstar Percentile Rankings	61	16	15	11	86
# of Funds in Category	829	823	778	743	657

Morningstar percentile rankings are based on total returns.

## Morningstar category

Foreign Large Blend

## Morningstar Style Box™

As of 09/30/2010

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2010 Relative to MSCI - EAFE Index NDTR D

	3Yr	5Yr
Alpha	2.95	2.63
Beta	0.93	0.94
R-Squared	96.78	96.06
Standard Deviation	25.21	20.64
Mean	-3.56	5.25
Sharpe Ratio	-0.05	0.24
Excess Return	3.46	2.79
Excess Risk	4.90	4.31
Information Ratio	0.71	0.65

## Operations

Total Investment Expense Net	1.15%
Total Investment Expense Gross	1.15%
Inception Date	05/21/2002
Extended Performance	
Inception Date#	04/16/1984
Total Net Assets (mil)	\$102,270.60
12b-1 Fees	0.50%
Ticker	RERCX



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

# American Funds EuroPacific Growth R3 Fund as of 12/31/2010

## Portfolio information<sup>†</sup>

Composition as of 09/30/2010

Asset Distribution		Asset Type	Net %	Short %	Long %
		Non-U.S. Stocks	91.21	0.00	91.21
		Cash	8.36	0.00	8.36
		U.S. Stocks	0.21	0.00	0.21
		Other	0.15	0.00	0.15
		U.S. Bonds	0.05	0.00	0.05
		Preferred	0.02	0.00	0.02

## Top ten holdings

	% of net assets
1. America Movil S.A.B. de C.V. ADR L	2.77
2. Anheuser-Busch InBev SA	2.37
3. Novo Nordisk A/S	2.26
4. Novartis AG	2.22
5. Bayer AG	2.06
6. Daimler AG	1.72
7. Prudential PLC	1.36
8. Softbank Corporation	1.35
9. Nestle SA	1.29
10. UBS AG	1.26
% of net assets in top ten holdings*	18.66

## Analysis

# of Stock Hldgs	289
# of Bond Hldgs	1
# of Other Hldgs	114
GeoAvgCap (mil)	\$37,024.95
Turnover Ratio	26%
P/C Ratio	4.76
P/E Ratio	13.07
P/B Ratio	1.81

## Top 5 Countries

	% of net assets
United Kingdom	11.40
Japan	10.61
Germany	8.96
Switzerland	8.88
France	8.32

## Regional exposure

	% of net assets
Europe	55.80
Pacific Rim	18.61
Japan	10.62
Other	8.58
Latin America	6.18
United States	0.23

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

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

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

MSCI - EAFE Index NDTR D is listed for foreign stock funds (EAFE refers to Europe, Australia, and Far East). Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 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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International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

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

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

## **STATISTICAL SECTION (UNAUDITED)**

This section of the comprehensive annual financial report on Louisiana Lottery Corporation's Retirement Plans presents detailed information as a supplement to the information presented in the financial statements and note disclosures to assist readers in assessing the overall financial health of the Retirement Plans.

<b><u>CONTENTS</u></b>	<b>PAGE</b>
<b>Financial Trends, Revenue Capacity, and Operating Information</b>	<b>88-91</b>

These schedules contain information about the Plans' historical financial position, revenue generated by investment returns, and operations.

<b>Demographic and Economic Information</b>	<b>92</b>
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This schedule contains demographic and financial indicators to help readers understand the environment in which the Plans operate.

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	10-YEAR TOTALS
<b>ADDITIONS</b>											
Investment Income	(\$78,369)	(\$298,339)	\$643,368	\$460,486	\$339,933	\$715,655	\$397,280	(\$2,236,217)	\$1,334,564	\$845,590	\$2,123,951
Less investment management fees	(13,437)	(14,162)	(16,394)	(16,597)	(19,262)	(10,660)	(11,577)	(10,218)	(8,961)	(5,261)	(\$126,529)
<b>Net investment income</b>	<b>(91,806)</b>	<b>(312,501)</b>	<b>626,974</b>	<b>443,889</b>	<b>320,671</b>	<b>704,995</b>	<b>385,703</b>	<b>(2,246,435)</b>	<b>1,325,603</b>	<b>840,329</b>	<b>1,997,422</b>
<b>Contributions:</b>											
Participant	285,856	295,051	303,707	314,814	313,385	309,674	321,024	323,826	327,100	323,152	3,117,589
Employer	230,495	237,946	244,926	255,937	252,012	250,170	257,292	260,984	263,792	260,609	2,514,163
<b>Total additions</b>	<b>424,545</b>	<b>220,496</b>	<b>1,175,607</b>	<b>1,014,640</b>	<b>886,068</b>	<b>1,264,839</b>	<b>964,019</b>	<b>(1,661,625)</b>	<b>1,916,495</b>	<b>1,424,090</b>	<b>7,629,174</b>
<b>DEDUCTIONS</b>											
Benefits paid to participants	(119,282)	(237,346)	(162,764)	(121,847)	(530,300)	(272,881)	(400,802)	(451,899)	(136,404)	(675,991)	(3,109,516)
<b>CHANGES IN NET ASSETS</b>	<b>305,263</b>	<b>(16,850)</b>	<b>1,012,843</b>	<b>892,793</b>	<b>355,768</b>	<b>991,958</b>	<b>563,217</b>	<b>(2,113,524)</b>	<b>1,780,091</b>	<b>748,099</b>	
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	<b>2,608,621</b>	<b>2,913,884</b>	<b>2,897,034</b>	<b>3,909,877</b>	<b>4,802,670</b>	<b>5,158,438</b>	<b>6,150,396</b>	<b>6,713,613</b>	<b>4,600,089</b>	<b>6,380,180</b>	
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	<b>\$2,913,884</b>	<b>\$2,897,034</b>	<b>\$3,909,877</b>	<b>\$4,802,670</b>	<b>\$5,158,438</b>	<b>\$6,150,396</b>	<b>\$6,713,613</b>	<b>\$4,600,089</b>	<b>\$6,380,180</b>	<b>\$7,128,279</b>	
<b>AVERAGE INVESTMENT RETURNS *</b>	<b>-3.32%</b>	<b>-10.76%</b>	<b>18.42%</b>	<b>10.19%</b>	<b>6.44%</b>	<b>12.47%</b>	<b>6.00%</b>	<b>-39.71%</b>	<b>24.15%</b>	<b>12.44%</b>	

\* 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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	10-YEAR TOTALS
<b>ADDITIONS</b>											
Investment Income	(\$236,182)	(\$373,152)	\$420,643	\$250,442	\$183,925	\$382,901	\$237,927	(\$1,329,029)	\$723,265	\$484,591	\$745,331
Less investment management fees	(6,505)	(5,450)	(5,034)								(16,989)
<b>Net investment income</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>484,591</b>	<b>728,342</b>
<b>Contributions:</b>											
Participant	190,953	200,259	11,120	11,928	310,377	11,928	3,698	953	18,973	13,883	60,555
Employer	(51,734)	(178,343)	207,411	315,609	295,718	295,718	301,853	314,337	319,334	312,500	2,768,351
<b>Total additions</b>											
			634,140	566,051	494,302	690,547	543,478	(1,013,739)	1,061,572	810,974	3,557,248
<b>DEDUCTIONS</b>											
Benefits paid to participants	(59,702)	(117,359)	(87,395)	(57,837)	(254,924)	(128,503)	(193,500)	(144,922)	(129,501)	(362,157)	(1,535,800)
<b>CHANGES IN NET ASSETS</b>											
	(111,436)	(295,702)	546,745	508,214	239,378	562,044	349,978	(1,158,661)	932,071	448,817	
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING 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>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	\$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	\$4,059,969	
<b>AVERAGE INVESTMENT RETURNS *</b>	-12.24%	-21.28%	21.82%	10.30%	6.55%	11.94%	6.50%	-40.79%	23.00%	12.63%	

\* 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

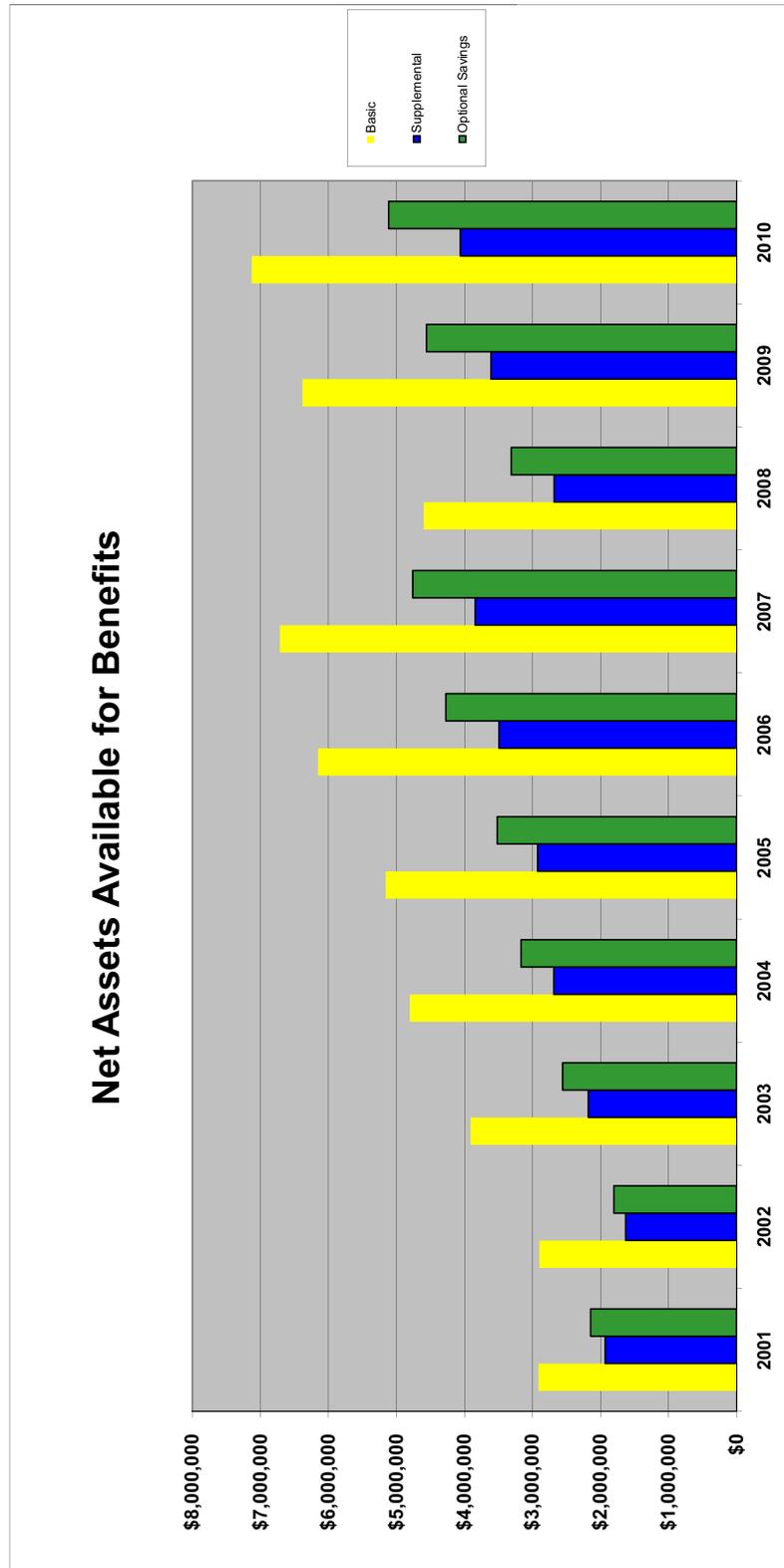
Historical Statements of Changes in Net Assets Available for Benefits and  
 Plan Investment Returns  
 Plan Years Ended December 31 for the Years Shown  
 (Unaudited)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	10-YEAR TOTALS
<b>ADDITIONS</b>											
Investment income	(\$266,380)	(\$422,305)	\$498,346	\$302,284	\$229,580	\$463,995	\$300,559	(\$1,642,628)	\$932,255	\$618,697	\$1,014,403
Less investment management fees	(6,584)	(5,501)	(5,268)								(17,353)
<b>Net investment income</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>618,697</b>	<b>997,050</b>
<b>Contributions:</b>											
Participant	203,833	224,369	218,754	257,406	286,868	313,367	336,897	367,608	336,770	315,143	2,861,015
Employer	96,415	100,862	103,966	111,488	113,261	111,085	117,225	122,485	121,961	119,748	1,118,496
<b>Total additions</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>1,053,588</b>	<b>4,976,561</b>
<b>DEDUCTIONS</b>											
Benefits paid to participants	(90,173)	(237,397)	(65,202)	(59,465)	(278,548)	(131,561)	(268,516)	(296,816)	(140,684)	(498,306)	(2,066,668)
<b>CHANGES IN NET ASSETS</b>	<b>(62,889)</b>	<b>(339,972)</b>	<b>750,596</b>	<b>611,713</b>	<b>351,161</b>	<b>756,886</b>	<b>486,165</b>	<b>(1,449,351)</b>	<b>1,250,302</b>	<b>555,282</b>	
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	<b>2,204,879</b>	<b>2,141,990</b>	<b>1,802,018</b>	<b>2,552,614</b>	<b>3,164,327</b>	<b>3,515,488</b>	<b>4,272,374</b>	<b>4,758,539</b>	<b>3,309,188</b>	<b>4,559,490</b>	
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	<b>\$2,141,990</b>	<b>\$1,802,018</b>	<b>\$2,552,614</b>	<b>\$3,164,327</b>	<b>\$3,515,488</b>	<b>\$4,272,374</b>	<b>\$4,758,539</b>	<b>\$3,309,188</b>	<b>\$4,559,490</b>	<b>\$5,114,772</b>	
<b>AVERAGE INVESTMENT RETURNS *</b>	<b>-12.56%</b>	<b>-21.69%</b>	<b>22.65%</b>	<b>10.58%</b>	<b>6.87%</b>	<b>11.92%</b>	<b>6.66%</b>	<b>-40.72%</b>	<b>23.70%</b>	<b>12.79%</b>	

\* 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)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<i>401(a) Basic Plan</i>										
Number of Participants	175	172	167	179	153	140	138	135	130	124
Total Annual Participant Deferrals	\$285,856	\$295,051	\$303,707	\$314,814	\$313,385	\$309,674	\$321,024	\$323,826	\$327,100	\$323,152
Net Assets Available for Benefits	\$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	\$7,128,279

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<i>401(a) Supplemental Plan</i>										
Number of Participants	143	141	141	149	120	107	113	107	102	100
Total Annual Employer Contributions	\$190,953	\$200,259	\$207,411	\$315,609	\$310,377	\$295,718	\$301,853	\$314,337	\$319,334	\$312,500
Net Assets Available for Benefits	\$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	\$4,059,969

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<i>457(b) Optional Savings Plan</i>										
Number of Participants	141	128	132	141	114	106	112	106	99	97
Total Annual Participant Deferrals	\$203,833	\$224,369	\$218,754	\$257,406	\$286,868	\$313,367	\$336,897	\$367,608	\$336,770	\$315,143
Annual Compensation Corporation Total	\$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	\$5,407,531
Average Deferral Percentage	4.33%	4.63%	4.38%	4.96%	5.52%	6.17%	6.39%	6.74%	6.17%	5.83%
Net Assets Available for Benefits	\$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	\$5,114,772

\*Total number of employees decreased at the same rate during this ten-year time period.

**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

June 10, 2011

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, 2010, and have issued our report thereon dated June 10, 2011. 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 Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings Retirement 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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LLCRP 2010