



**LOUISIANA LOTTERY CORPORATION**  
**A COMPONENT UNIT OF THE STATE OF LOUISIANA**  
**BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE PLAN YEAR ENDED DECEMBER 31, 2012**

**LOUISIANA LOTTERY CORPORATION**  
**BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS**  
**A COMPONENT UNIT OF THE STATE OF LOUISIANA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE PLAN YEAR ENDED DECEMBER 31, 2012**

**PREPARED BY ACCOUNTING DEPARTMENT**

**KAREN B. FOURNET**

**SENIOR VICE PRESIDENT**

**SECRETARY TREASURER**

**LOUISIANA LOTTERY CORPORATION  
 BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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June 17, 2013

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 457(b) retirement plans for the plan year ended December 31, 2012. 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 457(b) Retirement Plans for its comprehensive annual financial report for the year ended December 31, 2011. This was the fifth 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 (IRC). The 457(b) Retirement 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 457(b) Retirement 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 457(b) Retirement 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 19. Financial results for the plans are discussed in management's discussion and analysis beginning on page 10 and the remainder of the financial section. Historical financial results and demographic information are presented in the statistical section beginning on page 89.

## **Administration and Investments**

Principal Life Insurance Company (PLIC), a member of the Principal Financial Group of Des Moines, Iowa, provides administrative and investment services for the plans. The

administration and recordkeeping of participant information, account balances, investment earnings, distributions, investment transfers, contribution deposits, and participant enrollment and education are conducted through PLIC's system and service team. PLIC selects and monitors investment managers for its sub-advised investment offerings made available through separate accounts. Several mutual funds are also available through PLIC for participant investment. Information about all of the separate accounts, mutual funds, and investment managers is included in the investment section of this report beginning on page 30.

The Corporation's Human Resources and Finance departments are responsible for the administration of the plans with oversight by the Retirement Plans 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.

An investment policy governs the suitability of investment options available to participants. Assets are safeguarded through the use of separate accounts and trusts. In addition, due diligence reviews are performed quarterly to assess investment manager qualitative processes and quantitative performance. Overall average 2012 investment returns for all funds in the three plans combined were approximately 12%.

### **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, 2012, is included in the financial section of this report.

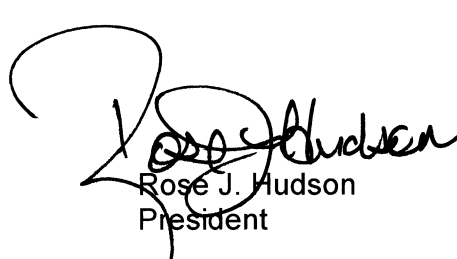
### **Acknowledgements**

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,

Retirement Plans Committee  
Louisiana Lottery Corporation



Rose J. Hudson  
President



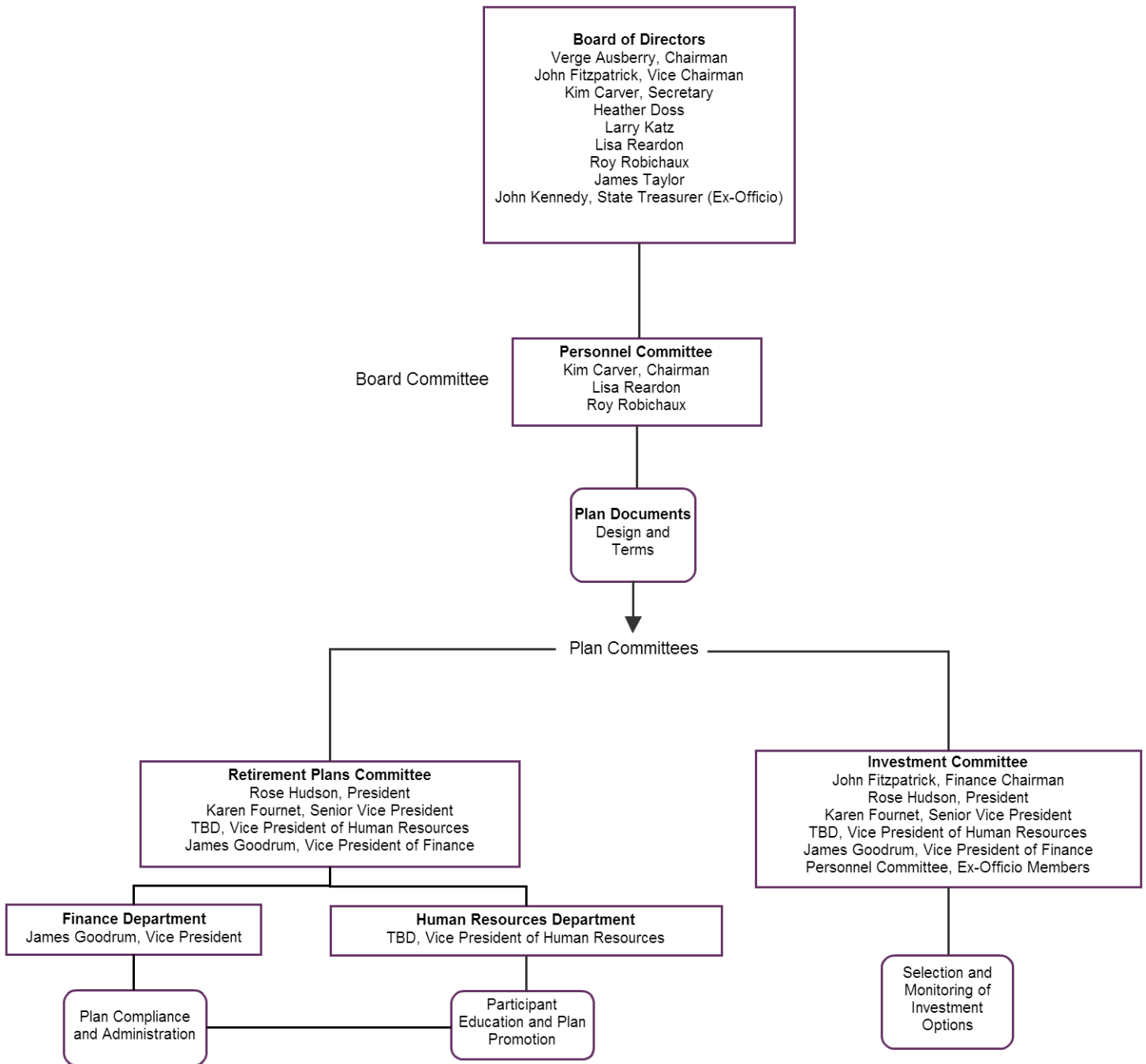
Karen B. Fournet  
Senior Vice President and  
Secretary Treasurer



James F. Goodrum  
Vice President of Finance



# Louisiana Lottery Corporation Structure of Oversight of Retirement Plans



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Louisiana Lottery Corporation  
Basic, Supplemental, & 457(b)  
Retirement Plans

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2011

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.



*Christopher P. Movill*

President

*Jeffrey R. Emer*

Executive Director

## **FINANCIAL SECTION**



LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

June 17, 2013

## Independent Auditor's Report

**LOUISIANA LOTTERY CORPORATION**  
**BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

### **Report on the Financial Statements**

We have audited the accompanying financial statements for the Louisiana Lottery Corporation Basic, Supplemental, and 457(b) Retirement Plans (the Plans) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Plans' basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plans as of December 31, 2012, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 15 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plans' basic financial statements. The accompanying supplementary information such as the Schedules of Changes in Net Position Available for Benefits by Investment Option and the other information such as the introductory, investment, and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Changes in Net Position Available for Benefits by Investment Option are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information

has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2013, on our consideration of the 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* in considering the Plans' internal control over financial reporting and compliance.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

ARW:DG:BDC:THC:ch

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**LOUISIANA LOTTERY CORPORATION  
BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS  
STATE OF LOUISIANA**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2012**

This discussion of the Louisiana Lottery Corporation Basic, Supplemental, and 457(b) Retirement Plans' financial statements provides an overview and analysis of the plans' financial position and activities for the year ended December 31, 2012. 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 position available for benefits on page 16 includes all assets and liabilities of the plans. The balances reported are as of the year ended December 31, 2012. Assets consist of the fair value of units held for the benefit of participants under each investment fund and any earned contributions deposited after December 31, 2012. 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, 2012, is presented in the statement of changes in net position available for benefits on page 17. The categories of activities included on this statement provide reasons for increases or decreases in plan net position. 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 earned 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 19.

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

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

A condensed financial data comparison between the current year ended December 31, 2012, and the year ended December 31, 2011, is presented below.

<b>401(a)</b>		
<b>Basic Plan</b>		
<b>Plan Years Ended December 31 for the Years Shown</b>		
	<b>2012</b>	<b>2011</b>
<b>Total Assets</b>	\$7,902,673	\$6,800,070
<b>Liabilities</b>	NONE	NONE
<b>Net position available for benefits</b>	\$7,902,673	\$6,800,070
<b>Additions:</b>		
Net investment income	\$894,776	(\$273,228)
Contributions:		
Participant	300,862	314,409
Employer	242,632	253,557
<b>Total additions</b>	1,438,270	294,738
<b>Deductions:</b>		
Benefits paid to participants	(335,667)	(622,947)
<b>Increase (Decrease) in net position</b>	\$1,102,603	(\$328,209)



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

	<u>2012</u>	<u>2011</u>
<b>Total Assets</b>	\$4,475,063	\$3,839,701
<b>Liabilities</b>	NONE	NONE
<b>Net position available for benefits</b>	<u>\$4,475,063</u>	<u>\$3,839,701</u>
<b>Additions:</b>		
Net investment income	\$504,263	(\$150,975)
Contributions:		
Participant	25,225	29,786
Employer	<u>308,166</u>	<u>314,191</u>
<b>Total additions</b>	837,654	193,002
<b>Deductions:</b>		
Benefits paid to participants	<u>(202,292)</u>	<u>(413,270)</u>
<b>Increase (Decrease) in net position</b>	<u>\$635,362</u>	<u>(\$220,268)</u>

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

	<u>2012</u>	<u>2011</u>
<b>Total Assets</b>	\$5,429,270	\$4,815,447
<b>Liabilities</b>	NONE	NONE
<b>Net position available for benefits</b>	<u>\$5,429,270</u>	<u>\$4,815,447</u>
<b>Additions:</b>		
Net investment income	\$611,586	(\$178,963)
Contributions:		
Participant	268,443	309,563
Employer	<u>109,700</u>	<u>117,745</u>
<b>Total additions</b>	989,729	248,345
<b>Deductions:</b>		
Benefits paid to participants	<u>(375,906)</u>	<u>(547,670)</u>
<b>Increase (Decrease) in net position</b>	<u>\$613,823</u>	<u>(\$299,325)</u>

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

### **Investment income**

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

	<u>2012</u>	<u>2011</u>
<i>Basic Plan</i>	12.17%	-3.92%
<i>Supplemental Plan</i>	12.13%	-3.82%
<i>457(b) Plan</i>	11.94%	-3.60%

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 30. 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>2012</u>	<u>2011</u>
<b><u>Economic Indicators:</u></b>		
<i>Gross Domestic Product (GDP)</i>	2.20%	1.80%
<i>Federal Funds Rate</i>	0.25%	0.25%
<i>Unemployment Rate</i>	7.80%	8.50%
<i>Consumer Price Index (CPI)</i>	1.70%	3.00%
<b><u>Financial Markets:</u></b>		
<i>Dow Jones Industrial Average (DJIA)</i>	7.26%	5.53%
<i>NASDAQ Composite Index</i>	15.91%	-1.80%
<i>Standard and Poor's 500 Index (S&amp;P500)</i>	13.41%	0.00%
<i>10-Year Treasury Note Yield</i>	1.76%	1.87%

The United States (U.S.) and global economies improved in the past year. Gross domestic product was at 2.20% for 2012. The consumer price index decreased to 1.70%. The Federal Reserve has maintained the federal funds rate at exceptionally low levels in an effort to fuel further growth. In addition, the unemployment rate decreased to 7.80%, the lowest level since December 2008.

These economic and financial market factors had an impact on the performance of investments. Most domestic and international stock funds had solid gains in 2012. 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 2012 because of the decrease in the ten-year Treasury note yield.

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

## **Contributions**

The level of contributions to the plans is affected by annual compensation for all three plans and elective participant deferrals in the 457(b) Plan. Total compensation was approximately \$5.04 million in 2012 and \$5.26 million in 2011. Contributions are calculated as a percentage of wages. The average deferral percentages for the 457(b) Plan for plan years 2012 and 2011 were 5.32% and 5.89%, respectively. The contribution provisions for both plans are outlined in note 2 to the financial statements beginning on page 19. Historical compensation and deferral information is provided in the demographic information in the statistical section of this report on page 93.

### **Benefits paid to participants**

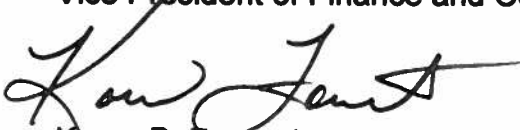
The amount of benefits paid out in any given year is dependent upon the volume of employee terminations or retirements, the length of service of these employees, the balances maintained in their accounts, and the distribution elections that determine the timing of payments. Differences in these factors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

This financial overview of the Basic, Supplemental, and 457(b) 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, 2012. 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,



James F. Goodrum  
Vice President of Finance and Controller



Karen B. Fournet  
Senior Vice President and Secretary Treasurer

**LOUISIANA LOTTERY CORPORATION  
BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS  
STATE OF LOUISIANA**

**Statement of Net Position Available for Benefits  
December 31, 2012**

	<u>401(a) Plans</u>		<u>457(b) Plan</u>
	<u>Basic</u>	<u>Supplemental</u>	
<b>ASSETS</b>			
Investments (note 3)	\$7,880,969	\$4,466,561	\$5,414,872
Contributions receivable	21,704	8,502	14,398
<b>Total Assets</b>	<u>\$7,902,673</u>	<u>\$4,475,063</u>	<u>\$5,429,270</u>
<b>LIABILITIES</b>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
<b>NET POSITION AVAILABLE FOR BENEFITS</b>	<u>\$7,902,673</u>	<u>\$4,475,063</u>	<u>\$5,429,270</u>

The accompanying notes are an integral part of this statement.

**LOUISIANA LOTTERY CORPORATION  
BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS  
STATE OF LOUISIANA**

**Statement of Changes in Net Position Available for Benefits  
For the Year Ended December 31, 2012**

	<u>401(a) Plans</u>		<u>457(b) Plan</u>
	<u>Basic</u>	<u>Supplemental</u>	
<b>ADDITIONS</b>			
Investment income	\$896,094	\$504,263	\$611,586
Less investment management fees (note 4)	(1,318)	NONE	NONE
Net investment income	<u>894,776</u>	<u>504,263</u>	<u>611,586</u>
Contributions:			
Participant	300,862	25,225	268,443
Employer	242,632	308,166	109,700
Total additions	<u>1,438,270</u>	<u>837,654</u>	<u>989,729</u>
<b>DEDUCTIONS</b>			
Benefits paid to participants	<u>(335,667)</u>	<u>(202,292)</u>	<u>(375,906)</u>
Net increase	1,102,603	635,362	613,823
<b>NET POSITION AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	<u>6,800,070</u>	<u>3,839,701</u>	<u>4,815,447</u>
<b>NET POSITION AVAILABLE FOR BENEFITS, END OF YEAR</b>	<u>\$7,902,673</u>	<u>\$4,475,063</u>	<u>\$5,429,270</u>

The accompanying notes are an integral part of this statement.

## INTRODUCTION

The Louisiana Lottery Corporation (Corporation) is authorized under Louisiana Revised Statute (R.S.) 47:9015(A) to provide or arrange for a retirement plan. The Corporation's Basic, Supplemental, and 457(b) 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 earned.

**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, 2012.

**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, 2012, there were 115 participants in the Basic Plan, 105 participants in the Supplemental Plan, and 99 participants in the 457(b) Retirement 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.

An employee is eligible to participate in the plan immediately upon employment. In addition, a participant is fully vested immediately. In no event shall the assets of this plan revert for the benefit of the Corporation.

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.



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 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.

An employee is eligible to participate in the plan immediately upon employment. In addition, a participant is fully vested immediately. In no event shall the assets of this plan revert for the benefit of the Corporation.

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.

In addition, each fiscal 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 fiscal year.

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 Retirement Plans 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. 457(b) RETIREMENT PLAN**

The 457(b) Retirement Plan is a voluntary deferred compensation plan adopted under the provisions of IRC Section 457(b).

A full-time employee is eligible to participate in the plan immediately upon employment. In addition, a participant is fully vested immediately. In no event shall the assets of this plan revert for the benefit of the Corporation.

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 \$17,000. 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, increased by the amount of any deferral under this Plan.

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 in the form of a single-sum payment.

## **3. INVESTMENTS**

Principal Life Insurance Company (PLIC) provides administrative and investment services for the Plans. The Plans' investments at December 31, 2012, 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. 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.

On April 20, 2012, the Committee amended the approved investment options available to participants. Russell LifePoints separate accounts are no longer available as an investment option in the Plans effective June 14, 2012. Balances in the Russell LifePoints accounts transitioned to the Principal Lifetime portfolios. In addition, any future contribution investment elections to Russell default to Principal Lifetime.

Participants in the Supplemental and 457(b) Retirement 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 separate accounts listed on the following page. The investment allocations in the Plans for current balances and future contributions can be changed on a daily basis.

At December 31, 2012, investments are composed of the following:

NOTES TO THE FINANCIAL STATEMENTS

	<i>401(a)</i>		<u>457 (b)</u>
	<i>Plans</i>		
	<u>Basic</u>	<u>Supplemental</u>	
<b>Principal Stable Value Signature Fund</b> (Union Bond & Trust Company - Trustee)		\$43,424	\$54,755
<b>PLIC Flexible Investment Annuity Group Contract</b>			
<b>Separate Accounts:</b>			
<b>Principal Proprietary Funds R2 Rate Level:</b>			
U.S. Property		16,907	25,155
LargeCap S&P 500 Index		156,763	189,622
MidCap Value I		16,976	22,306
Diversified International (1)		18,536	32,839
<b>Principal Proprietary Funds R3 Rate Level:</b>			
Bond & Mortgage(1)		32,282	34,855
LargeCap Blend II		61,148	77,008
LargeCap Growth I		30,282	66,460
LargeCap Value III		37,443	39,558
MidCap Growth III		103,532	194,836
SmallCap Growth II		60,433	136,310
SmallCap Value II		75,248	113,308
<b>Principal Proprietary Funds I3 Level:</b>			
<b>Principal LifeTime:</b>			
LifeTime Strategic Income (1)	\$9,802	151	51
LifeTime 2010 (1)	516,490	183,461	603,959
LifeTime 2015 (1)	621,705	307,927	385,046
LifeTime 2020 (1)	1,458,815	901,005	843,727
LifeTime 2025 (1)	1,345,580	786,036	709,699
LifeTime 2030 (1)	2,075,284	897,611	1,092,392
LifeTime 2035 (1)	482,883	115,645	130,576
LifeTime 2040 (1)	719,921	336,495	324,193
LifeTime 2045 (1)	128,239	79,632	72,004
LifeTime 2050 (1)	514,768	39,723	26,422
LifeTime 2055 (1)	7,482	2,354	1,713
<b>Mutual Fund Investments</b>			
<b>(Principal Trust Company - Trustee):</b>			
American Century Equity Income A Fund		42,784	50,081
American Funds Growth Fund of America R3 Fund (1)		37,434	51,940
American Funds Europacific Growth R3 Fund (1)		83,329	136,057
<b>Total</b>	<u>\$7,880,969</u>	<u>\$4,466,561</u>	<u>\$5,414,872</u>

(1) At December 31, 2012, funds contain investments in international securities. In the Principal LifeTime funds, approximately 26% of Strategic Income, 29% of LifeTime 2010, 30% of LifeTime 2015, 33% of LifeTime 2020, 32% of LifeTime 2025, 32% of LifeTime 2030, 34% of LifeTime 2035, 35% of LifeTime 2040, 35% of LifeTime 2045, 36% of LifeTime 2050 and 36% of LifeTime 2055 are invested in international securities. In the

## NOTES TO THE FINANCIAL STATEMENTS

Principal Proprietary funds, approximately 27% of the Bond & Mortgage separate account is invested in international securities. The American Funds Growth Fund of America R3 Fund contains approximately 16% international investments. The Diversified International 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, 2012, the average credit quality ratings, the average effective duration, and the percentage of bond holdings invested in mortgage-backed securities are presented for each fund in the chart below.

	<b>Bond %</b>	<b>Average Credit Quality</b>	<b>Average Effective Duration (Years)</b>	<b>Mortgage- Backed Securities Exposure %</b>
Principal Stable Value Signature Fund	79	*	2.27	-
Principal Bond & Mortgage	98	BBB	5.17	35.54
<b>Principal LifeTime:</b>				
LifeTime Strategic Income	74	BBB	4.71	17.04
LifeTime 2010	55	BBB	4.75	17.38
LifeTime 2015	46	BBB	4.94	18.55
LifeTime 2020	35	BBB	5.15	20.13
LifeTime 2025	30	BBB	5.14	18.93
LifeTime 2030	25	BBB	5.16	17.73
LifeTime 2035	18	BBB	5.07	16.61
LifeTime 2040	14	BB	4.92	15.16
LifeTime 2045	11	BB	4.85	12.43
LifeTime 2050	8	BB	4.79	10.34
LifeTime 2055	8	BB	4.74	8.55

\* Fund credit quality is not rated.

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

An asset-based charge of 0.05% is assessed to the Basic Plan only pursuant to a service and expense agreement with PLIC. This fee, which is based on the daily net assets, is deducted monthly from the separate accounts. During the year ended December 31, 2012, investment management fees were \$1,318. This fee was eliminated by PLIC effective June 20, 2012.

#### **5. FORFEITURES**

Prior to January 1, 2011, a participant's Supplemental Plan and 457(b) Retirement Plan nonvested employer contribution account was forfeited at the close of the plan year in which the participant's employment with the Corporation was terminated. These forfeitures are reallocated to the employer contribution accounts of all remaining active participants based on the proportion that each participant's compensation bears to total compensation of all participants.

During the year ended December 31, 2012, forfeited nonvested accounts of \$3,491 in the Supplemental Plan and \$1,361 in the 457(b) Plan were reallocated to the accounts of remaining active participants at December 31, 2010. Effective January 1, 2011, participants in both plans are fully vested immediately upon employment. Therefore, the forfeiture of any terminated participant's employer contribution accounts ceased after the 2010 plan year.

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

The Basic and Supplemental Retirement Plans obtained favorable determination letters from the IRS on October 12 and 22, 2011, respectively. The IRS stated that the Plans, as designed, were in compliance with the applicable requirements of the IRC. Therefore, the Plans are qualified and tax-exempt as of the financial statement date.

The 457(b) Retirement Plan is an employee benefit plan that is established and maintained under Section 457(b) of the IRC. The 457(b) Retirement 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 Retirement Plans Committee shall direct the administrative services provider to distribute the assets of the Plans to the participants.

**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, 2012.

**11. SUBSEQUENT EVENTS**

On April 26, 2013, the Board of Directors amended the Supplemental Retirement Plan to increase the maximum potential annual discretionary contribution from 2% to 4% of each participant's compensation. In addition, the 457(b) Retirement Plan was amended to add another matching contribution layer of 50% of the next 3% of participants' compensation deferrals and to allow for Roth contributions into the Plan. Both amendments are effective as of July 1, 2013.

On the same day, the Retirement Plans Investment Committee elected to replace the Principal Lifetime Target Date Funds with the lower-cost Principal Trust Target Date Funds. The Committee also decided to offer the lowest-cost share class available to participants for all investment options and allocate the funds' administrative expenses to the Corporation. Implementation of these investment changes will be as close as feasible to July 1, 2013.

## SCHEDULES OF CHANGES IN NET POSITION 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 position available for benefits by investment option for the year ended December 31, 2012.



**LOUISIANA LOTTERY CORPORATION  
BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS  
STATE OF LOUISIANA**

**Schedule of Changes in Net Position Available for Benefits, by Investment  
Option for the 401(a) Basic Plan  
For the Year Ended December 31, 2012**

	NET POSITION AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	INVESTMENT INCOME	INVESTMENT MANAGEMENT FEES	PARTICIPANT CONTRIBUTIONS	EMPLOYER CONTRIBUTIONS	BENEFITS PAID TO PARTICIPANTS	INTERFUND TRANSFERS	NET POSITION AVAILABLE FOR BENEFITS, END OF YEAR
<b>PLIC Flexible Investment Annuity Group Contract</b>								
<b>Separate Accounts:</b>								
<b>Principal Proprietary Funds I3 Rate Level:</b>								
<b>Principal LifeTime:</b>								
LifeTime Strategic Income	\$69,724	\$3,117	(\$15)	\$3,622	\$2,921	(\$22,052)	(\$47,515)	\$9,802
LifeTime 2010	306,388	49,942	(53)	12,443	10,034	(2,617)	140,353	516,490
LifeTime 2015		43,484	(3)	12,996	10,481	(19,715)	574,462	621,705
LifeTime 2020	289,045	148,247	(69)	24,770	19,976	(31,384)	1,008,230	1,458,815
LifeTime 2025		109,578	(8)	24,490	19,750	(34,966)	1,226,736	1,345,580
LifeTime 2030	609,034	222,280	(135)	64,355	51,900		1,127,850	2,075,284
LifeTime 2035		42,767	(2)	10,848	8,748		420,522	482,883
LifeTime 2040	288,725	88,108	(62)	41,421	33,405	(59,926)	328,250	719,921
LifeTime 2045		11,733	(1)	5,448	4,394		106,665	128,239
LifeTime 2050	71,760	66,468	(22)	26,839	21,645	(23,083)	351,161	514,768
LifeTime 2055		297		4,328	3,490	(633)		7,482
<b>Nonproprietary Funds R6 Rate Level:</b>								
<b>Russell LifePoints:</b>								
Conservative Strategy	104,398	2,966	(20)	2,992	2,412		(112,748)	0
Moderate Strategy	49,334	1,375	(11)	2,047	1,651		(54,396)	0
Balanced Strategy	2,522,741	61,158	(402)	19,354	15,609	(59,041)	(2,559,419)	0
Growth Strategy	1,802,081	45,751	(365)	30,737	24,788	(82,250)	(1,820,742)	0
Equity Growth Strategy	664,991	(1,177)	(150)	14,252	11,493		(689,409)	0
<b>Contributions Receivable</b>	21,849			(80)	(65)			21,704
<b>Total</b>	<b>\$6,800,070</b>	<b>\$896,094</b>	<b>(\$1,318)</b>	<b>\$300,862</b>	<b>\$242,632</b>	<b>(\$335,667)</b>	<b>NONE</b>	<b>\$7,902,673</b>

LOUISIANA LOTTERY CORPORATION  
 BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS  
 STATE OF LOUISIANA

Schedule of Changes in Net Position Available for Benefits, by Investment  
 Option for the 401(a) Supplemental Plan  
 For the Year Ended December 31, 2012

	NET POSITION AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	INVESTMENT INCOME	PARTICIPANT CONTRIBUTIONS	EMPLOYER CONTRIBUTIONS	BENEFITS PAID TO PARTICIPANTS	INTERFUND TRANSFERS	NET POSITION AVAILABLE FOR BENEFITS, END OF YEAR
<b>Principal Stable Value Signature Fund</b> (Union Bond & Trust Company - Trustee)	\$91,725	\$703		\$11,927	(\$25,646)	(\$35,285)	\$43,424
<b>PLIC Flexible Investment Annuity Group Contract</b> <b>Separate Accounts:</b>							
<b>Principal Proprietary Funds R2 Rate Level:</b>							
U.S. Property	12,781	1,581		1,107		1,438	16,907
LargeCap S&P 500 Index	156,882	21,375		1,883	(2)	(23,375)	156,763
MidCap Value I	13,816	2,380		1,107	(2)	(325)	16,976
Diversified International	46,587	2,254		851	(4)	(31,152)	18,536
<b>Principal Proprietary Funds R3 Rate Level:</b>							
Bond & Mortgage	65,328	3,398		2,020		(38,464)	32,282
LargeCap Blend II	72,562	8,353		1,695	(3)	(21,459)	61,148
LargeCap Growth I	33,107	4,672			(969)	(6,528)	30,282
LargeCap Value III	50,516	5,364		2,468	(2)	(20,903)	37,443
MidCap Growth III	115,973	8,688	1,213	3,480	2	(25,824)	103,532
SmallCap Growth II	86,174	10,530		2,179	(2)	(38,448)	60,433
SmallCap Value II	81,253	11,547		3,747	(7,845)	(13,454)	75,248
<b>Principal Proprietary Funds I3 Rate Level:</b>							
<b>Principal LifeTime:</b>							
Strategic Income		856	3,640		(41,446)	37,101	151
LifeTime 2010	77,773	17,611		7,855	(1,693)	81,915	183,461
LifeTime 2015		21,755		7,460	(13,411)	292,123	307,927
LifeTime 2020	186,493	86,911		32,895	(702)	595,408	901,005
LifeTime 2025		65,271		26,408	(34,445)	728,802	786,036
LifeTime 2030	100,895	88,071		62,389	(3,773)	650,029	897,611
LifeTime 2035		10,207		7,079	(29)	98,388	115,645
LifeTime 2040	69,678	37,375	6,067	41,599	(5,997)	187,773	336,495
LifeTime 2045		7,280		8,211	(84)	64,225	79,632
LifeTime 2050	38,473	7,473		18,242	(13,915)	(10,550)	39,723
LifeTime 2055		81		2,527	(254)		2,354
<b>Nonproprietary Funds R6 Rate Level:</b>							
<b>Russell LifePoints:</b>							
Conservative Strategy	94,962	2,701		2,142		(99,805)	0
Moderate Strategy	88,053	2,502		3,254		(93,809)	0
Balanced Strategy	968,141	24,008	14,305	15,494	(21,471)	(1,000,477)	0
Growth Strategy	1,092,386	25,748		24,312	(20,047)	(1,122,399)	0
Equity Growth Strategy	114,038	1,240		5,248		(120,526)	0
<b>Mutual Fund Investments</b> (Principal Trust Company - Trustee):							
American Century Equity Income A Fund	40,112	4,248		3,080	(1,525)	(3,131)	42,784
American Funds Growth Fund of America R3 Fund	32,670	6,398		3,053	(791)	(3,896)	37,434
American Funds Europacific Growth R3 Fund	101,051	13,682		4,224	(8,236)	(27,392)	83,329
<b>Contributions Receivable</b>	8,272			230			8,502
<b>Total</b>	<b>\$3,839,701</b>	<b>\$504,263</b>	<b>\$25,225</b>	<b>\$308,166</b>	<b>(\$202,292)</b>	<b>NONE</b>	<b>\$4,475,063</b>

LOUISIANA LOTTERY CORPORATION  
 BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS  
 STATE OF LOUISIANA

Schedule of Changes in Net Position Available for Benefits, by Investment  
 Option for the 457(b) Retirement Plan  
 For the Year Ended December 31, 2012

	NET POSITION AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	INVESTMENT INCOME	PARTICIPANT CONTRIBUTIONS	EMPLOYER CONTRIBUTIONS	BENEFITS PAID TO PARTICIPANTS	INTERFUND TRANSFERS	NET POSITION AVAILABLE FOR BENEFITS, END OF YEAR
<b>Principal Stable Value Signature Fund (Union Bond &amp; Trust Company - Trustee)</b>	\$134,641	\$1,040	\$17,377	\$4,722	(\$80,308)	(\$22,717)	\$54,755
<b>PLIC Flexible Investment Annuity Group Contract Separate Accounts:</b>							
<b>Principal Proprietary Funds R2 Rate Level:</b>							
U.S. Property	19,536	2,386	660	660		1,913	25,155
LargeCap S&P 500 Index	207,374	27,585	3,365	800	(1)	(49,501)	189,622
MidCap Value I	18,501	3,149	549	549	(1)	(441)	22,306
Diversified International	26,750	4,874	329	329	(1)	558	32,839
<b>Principal Proprietary Funds R3 Rate Level:</b>							
Bond & Mortgage	69,050	3,649	3,607	861		(42,312)	34,855
LargeCap Blend II	100,704	10,684	3,501	803	(1)	(38,683)	77,008
LargeCap Growth I	72,346	10,031	125	125	(1)	(16,166)	66,460
LargeCap Value III	47,464	5,484	1,899	1,062	(1)	(16,350)	39,558
MidCap Growth III	194,267	15,757	4,170	1,402	(1)	(20,759)	194,836
SmallCap Growth II	139,937	20,130	1,359	891	(1)	(26,006)	136,310
SmallCap Value II	107,922	16,807	4,204	1,535	(7,713)	(9,447)	113,308
<b>Principal Proprietary Funds I3 Rate Level:</b>							
<b>Principal LifeTime:</b>							
Strategic Income		1,731			(81,153)	79,473	51
LifeTime 2010	281,311	55,513	21,022	2,595	(7,921)	251,439	603,959
LifeTime 2015		28,351	8,317	2,495	(97,824)	443,707	385,046
LifeTime 2020	157,632	82,850	21,750	10,525		570,970	843,727
LifeTime 2025		58,669	14,453	7,888	(24,963)	653,652	709,699
LifeTime 2030	102,391	107,612	36,892	15,638	(13,613)	843,472	1,092,392
LifeTime 2035		12,103	4,165	1,712	(12)	112,608	130,576
LifeTime 2040	55,820	36,823	20,603	13,561	(22,140)	219,526	324,193
LifeTime 2045		6,507	6,154	1,714	(27)	57,656	72,004
LifeTime 2050	13,983	3,540	8,291	6,979	(6,143)	(228)	26,422
LifeTime 2055		45	834	834			1,713
<b>Nonproprietary Funds R6 Rate Level:</b>							
<b>Russell LifePoints:</b>							
Conservative Strategy	114,204	3,241	3,637	1,163		(122,245)	0
Moderate Strategy	173,297	4,944	2,658	1,995		(182,894)	0
Balanced Strategy	811,799	19,735	16,621	5,532	(6,438)	(847,249)	0
Growth Strategy	1,426,005	29,856	37,682	13,989	(15,952)	(1,491,580)	0
Equity Growth Strategy	307,977	3,199	15,742	4,263		(331,181)	0
<b>Mutual Fund Investments (Principal Trust Company - Trustee):</b>							
American Century Equity Income A Fund	42,183	4,860	1,711	1,255	(1)	73	50,081
American Funds Growth Fund of America R3 Fund	44,157	8,925	1,950	1,404	(3,734)	(762)	51,940
American Funds Europacific Growth R3 Fund	131,245	21,506	5,408	2,380	(7,956)	(16,526)	136,057
<b>Contributions Receivable</b>	14,951		(592)	39			14,398
<b>Total</b>	<b>\$4,815,447</b>	<b>\$611,586</b>	<b>\$268,443</b>	<b>\$109,700</b>	<b>(\$375,906)</b>	<b>NONE</b>	<b>\$5,429,270</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. Target-date funds are offered in all three plans. These funds are professionally managed asset allocation portfolios that are fully diversified single investment options matched to a participant's investment time horizon. 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 457(b) Plans for the participants that are more involved in their individual investment allocations.

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

- **Investment Policy Approved Investment Options** (Page 31)
  - Contains a listing of funds available for investment by participants in each plan grouped into categories of investor preference (i.e. completely do-it-for-me, do-it-myself)
- **Investment Styles** (Page 32)
  - Reflects the diversification of the investment offerings by asset classes, styles, and investment managers
- **Asset Allocation** (Page 33)
  - Provides an overview of the allocation of plan assets by asset class at December 31, 2012
- **Fair Value and Percent of Total Fair Value for Each Investment** (Page 34)
  - Presents the fair value of each investment and percent to total plan assets fair value
- **Investment Performance** (Page 35)
  - Average annualized % rates of return for the 1-, 3-, and 5- year time periods and net expense ratios for each fund are provided
- **Fund Fact Sheets** (Pages 37-88)
  - Contain detailed information about each investment option including investment strategy, returns compared to market categories and benchmarks, statistics, and holdings

Investment balances and allocations are reported at fair value, which is based on deposit values and quoted market prices. Performance calculations are time-weighted rates of return based on market rates of return.

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

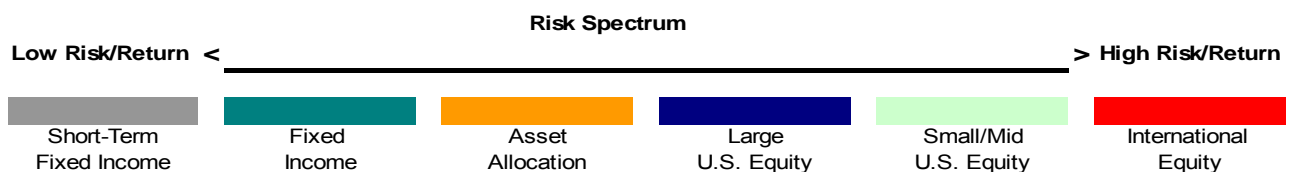
Source: Louisiana Lottery Corporation Retirement Plans Investment Policy

## Louisiana Lottery Corporation Investment Policy Current Approved Investment Options

Investment Fund	Investment Style	Basic Plan	Supplemental Plan	457(b) Plan
<b>Target-Date Funds:</b>				
<b>Completely "Do-it-for-me" Investors</b>				
<b>Principal LifeTime Portfolios: (1)</b>				
<i>Target Date Portfolios</i>				
Principal LifeTime Strategic Income	Asset Allocation	√	√	√
Principal LifeTime 2010	Asset Allocation	√	√	√
Principal LifeTime 2015	Asset Allocation	√	√	√
Principal LifeTime 2020	Asset Allocation	√	√	√
Principal LifeTime 2025	Asset Allocation	√	√	√
Principal LifeTime 2030	Asset Allocation	√	√	√
Principal LifeTime 2035	Asset Allocation	√	√	√
Principal LifeTime 2040	Asset Allocation	√	√	√
Principal LifeTime 2045	Asset Allocation	√	√	√
Principal LifeTime 2050	Asset Allocation	√	√	√
Principal LifeTime 2055	Asset Allocation	√	√	√
Principal LifeTime (Future Date Portfolios)	Asset Allocation	√	√	√
<b>Individual Separate Accounts and Funds:</b>				
<b>"Do-it-myself" Investors</b>				
Principal Stable Value Signature Fund	Stable Value or Cash Equivalent		√	√
Principal Bond & Mortgage	Domestic Fixed Income		√	√
U.S. Property Separate Account	Core Real Estate Property		√	√
Principal LargeCap S&P 500 Index	Domestic Stock/Large Blend Index		√	√
LargeCap Blend II Separate Account	Domestic Stock/Large Blend		√	√
LargeCap Value III Separate Account	Domestic Stock/Large Value		√	√
LargeCap Growth I Separate Account	Domestic Stock/Large Growth		√	√
American Century Equity Income A Fund	Domestic Stock/Large Value		√	√
American Funds Growth Fund of America R3 Fund	Domestic Stock/Large Growth		√	√
MidCap Growth III Separate Account	Domestic Stock/Mid Growth		√	√
MidCap Value I Separate Account	Domestic Stock/Mid Value		√	√
SmallCap Growth II Separate Account	Domestic Stock/Small Growth		√	√
SmallCap Value II Separate Account	Domestic Stock/Small Value		√	√
Diversified International Separate Account	International or Foreign Stock		√	√
American Funds Europacific Growth R3 Fund	International or Foreign Stock		√	√

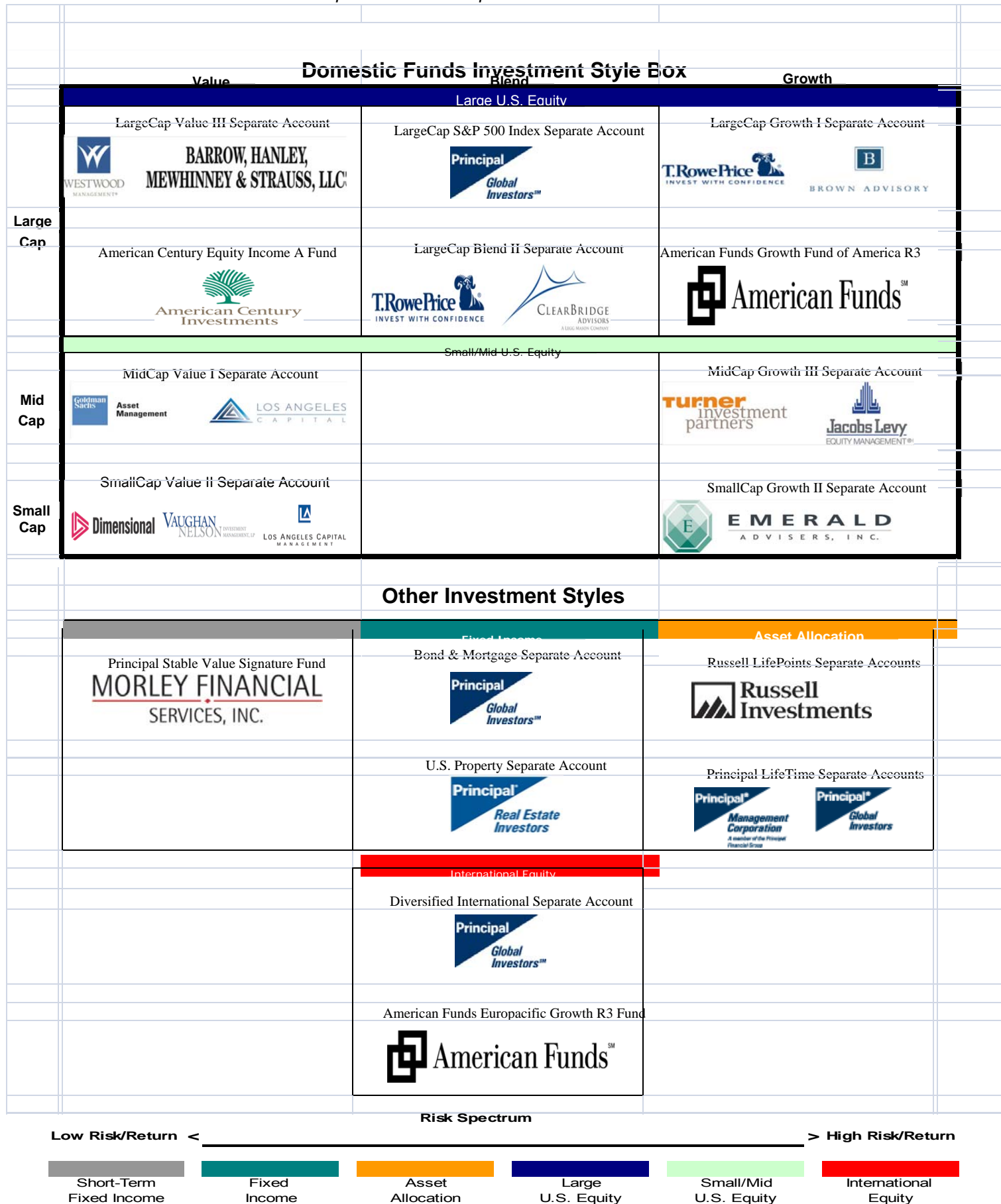
√ - Approved investment option

(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.



# Investment Styles

Source: Investment Committee and Principal Financial Group



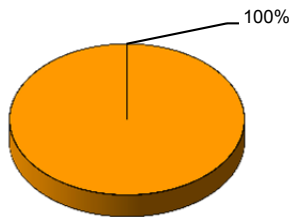
## Asset Allocation

Source: Investment Committee

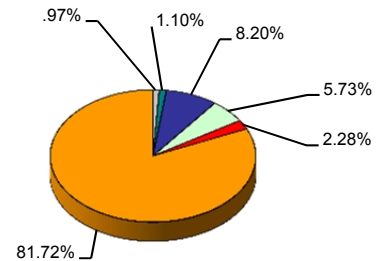
This chart reflects that the majority of participants prefer investing in the asset allocation funds offered in the investment menu for the Plans. The Basic Plan only allows investments into these lifecycle funds while the Supplemental and 457(b) Plans offer the full menu of options approved in the investment policy.

### 401(a) Plans

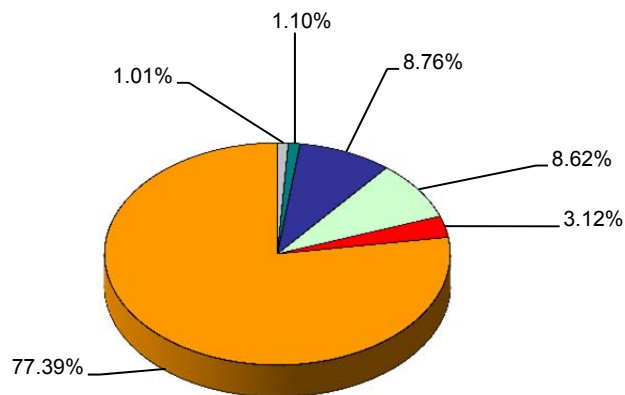
Basic



Supplemental



### 457(b) Plan



#### Risk Spectrum

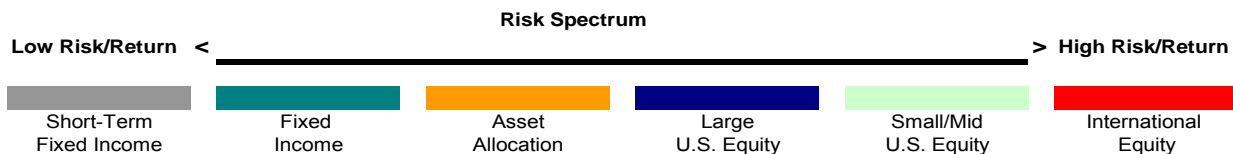




## Fair Value and Percent of Total Fair Value for Each Investment

Source: Principal Financial Group

	401(a) Plans					
	Basic		Supplemental		457(b) Plan	
	2012	%	2012	%	2012	%
<b>Target-Date Funds:</b>						
<b>Principal LifeTime Portfolios:</b>						
<i>Target Date Portfolios</i>						
Principal LifeTime Strategic Income	\$9,802	0.14%	\$151	0.01%	\$51	0.02%
Principal LifeTime 2010	516,490	6.55%	183,461	4.11%	603,959	11.15%
Principal LifeTime 2015	621,705	7.89%	307,927	6.89%	\$385,046	7.11%
Principal LifeTime 2020	1,458,815	18.51%	901,005	20.17%	843,727	15.58%
Principal LifeTime 2025	1,345,580	17.07%	786,036	17.60%	709,699	13.11%
Principal LifeTime 2030	2,075,284	26.33%	897,611	20.10%	1,092,392	20.17%
Principal LifeTime 2035	482,883	6.13%	115,645	2.59%	130,576	2.41%
Principal LifeTime 2040	719,921	9.13%	336,495	7.53%	324,193	5.99%
Principal LifeTime 2045	128,239	1.63%	79,632	1.78%	72,004	1.33%
Principal LifeTime 2050	514,768	6.53%	39,723	0.89%	26,422	0.49%
Principal LifeTime 2055	7,482	0.09%	2,354	0.05%	1,713	0.03%
<b>Individual Separate Accounts and Funds:</b>						
Principal Stable Value Signature Fund			43,424	0.97%	54,755	1.01%
Principal Bond & Mortgage Separate Account			32,282	0.72%	34,855	0.64%
U.S. Property Separate Account			16,907	0.38%	25,155	0.46%
Principal LargeCap S&P 500 Index Separate Account			156,763	3.51%	189,622	3.50%
LargeCap Blend II Separate Account			61,148	1.37%	77,008	1.42%
LargeCap Value III Separate Account			37,443	0.84%	39,558	0.73%
LargeCap Growth I Separate Account			30,282	0.68%	66,460	1.23%
American Century Equity Income A Fund			42,784	0.96%	50,081	0.92%
American Funds Growth Fund of America R3 Fund			37,434	0.84%	51,940	0.96%
MidCap Growth III Separate Account			103,532	2.32%	194,836	3.60%
MidCap Value I Separate Account			16,976	0.38%	22,306	0.41%
SmallCap Growth II Separate Account			60,433	1.35%	136,310	2.52%
SmallCapValue II Separate Account			75,248	1.68%	113,308	2.09%
Diversified International Separate Account			18,536	0.41%	32,839	0.61%
American Funds Europacific Growth R3 Fund			83,329	1.87%	136,057	2.51%
	\$7,880,969	100.00%	\$4,466,561	100.00%	\$5,414,872	100.00%



## Investment Performance

Source: Principal Financial Group

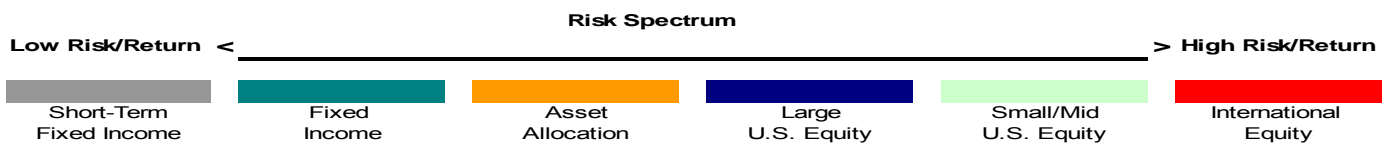
Comparisons to benchmarks and peer groups included in fund fact sheets beginning on page 37

### % Rates of Return Through December 31, 2012

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>Net Expense Ratio</u>
<b><u>Target- Date Funds:</u></b>				
<b>Principal LifeTime Portfolios:</b>				
<i>Target Date Portfolios</i>				
Principal LifeTime Strategic Income	9.46	8.02	3.03	0.62
Principal LifeTime 2010	12.04	8.89	2.37	0.69
Principal LifeTime 2015 (1)	13.07	8.98		0.71
Principal LifeTime 2020	14.71	9.22	1.94	0.74
Principal LifeTime 2025 (1)	15.23	9.23		0.75
Principal LifeTime 2030	15.66	9.32	1.42	0.76
Principal LifeTime 2035 (1)	16.36	9.32		0.78
Principal LifeTime 2040	16.66	9.30	0.91	0.78
Principal LifeTime 2045 (1)	17.07	9.34		0.81
Principal LifeTime 2050	17.42	9.35	0.68	0.79
Principal LifeTime 2055 (1)	17.41	9.13		0.83
<b><u>Individual Separate Accounts and Funds:</u></b>				
Principal Stable Value Signature Fund	1.02	1.50	1.97	1.11
Principal Bond & Mortgage Separate Account	7.14	8.20	5.81	1.12
U.S. Property Separate Account	10.81	13.56	-2.99	1.74
Principal LargeCap S&P 500 Index Separate Account	14.95	9.88	0.78	0.90
LargeCap Blend II Separate Account	14.75	8.57	0.82	1.31
LargeCap Value III Separate Account	15.25	7.72	-2.72	1.35
LargeCap Growth I Separate Account	15.85	11.04	4.12	1.18
American Century Equity Income A Fund	11.23	9.10	3.00	1.20
American Funds Growth Fund of America R3 Fund	20.20	8.48	0.79	0.98
MidCap Growth III Separate Account	8.78	9.43	-0.65	1.52
MidCap Value I Separate Account	16.97	11.23	3.10	1.73
SmallCap Growth II Separate Account	15.84	11.92	1.02	1.58
SmallCap Value II Separate Account	17.03	11.59	2.74	1.60
Diversified International Separate Account	17.73	5.67	-4.22	1.65
American Funds Europacific Growth R3 Fund	18.89	3.76	-1.68	1.14

(1) Five-year interval Lifetime funds inception year is 2008.

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



## **Fund Fact Sheets**

*Source: Reprinted with permission from Principal Financial Group*

# Principal LifeTime Strategic Income Sep Acct-I3 as of 12/31/2012

## Investment Strategy

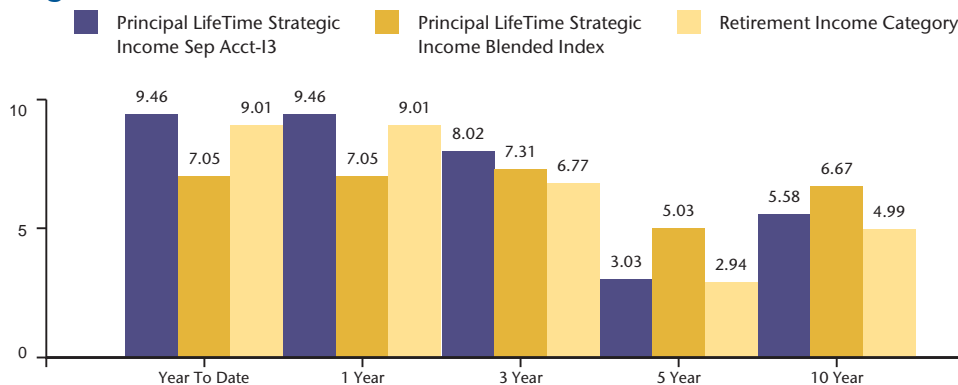
The investment seeks current income, and as a secondary objective, capital appreciation. The fund invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real estate investments, and fixed-income funds according to an asset allocation strategy designed for investors primarily seeking current income and secondarily capital appreciation. Its asset allocation is designed for investors who are approximately 15 years beyond the normal retirement age of 65. The fund invests in PFI Institutional Class shares of underlying funds.

## Multiple Sub-Advisors

### 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  
**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  
**Jeffrey R. Tyler**, CFA. Since 03/01/2011. Master, Northwestern University

## Long-term returns % as of 12/31/2012



## 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 Participant Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different or where a contractual cap and/or waiver date is given, 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 %	9.46	9.46	8.02	3.03	5.58
Principal LifeTime Strategic Income Blended Index %	7.05	7.05	7.31	5.03	6.67
Retirement Income Category %	9.01	9.01	6.77	2.94	4.99
Morningstar Percentile Rankings	-	43	9	36	20
# of Funds in Category	281	281	257	187	21
Annual Returns	2012	2011	2010	2009	2008
Total Return %	9.46	3.56	11.19	18.53	-22.29
Principal LifeTime Strategic Income Blended Index %	7.05	5.97	8.92	11.80	-6.49
Retirement Income Category %	9.01	1.60	8.94	18.36	-18.06
Morningstar Percentile Rankings	43	17	10	44	69
# of Funds in Category	281	260	162	134	122

Morningstar percentile rankings are based on total returns.

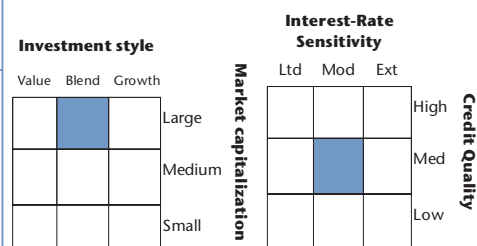
The Principal LifeTime portfolios, which are target date portfolios, invest in underlying Principal Funds. Each Principal LifeTime portfolio is managed toward a particular target (retirement) date, or the approximate date the participant or investor starts withdrawing money. As each Principal LifeTime portfolio approaches its target date, the investment mix becomes more conservative by increasing exposure to generally more conservative investment options and reducing exposure to typically more aggressive investment options. The asset allocation for each Principal LifeTime portfolio is regularly re-adjusted within a time frame that extends 10-15 years beyond the target date, at which point it reaches its most conservative allocation. Principal LifeTime portfolios assume the value of the investor's account will be withdrawn gradually during retirement. Neither the principal nor the underlying assets of the Principal LifeTime portfolios are guaranteed at any time, including the target date. Investment risk remains at all times.

## Morningstar category

Retirement Income

## Morningstar Style Box™\*\*

As of 11/30/2012



## Risk and Return Statistics

as of 12/31/2012 Relative to Principal LifeTime Strategic Income Blended Index

	3Yr	5Yr
Alpha	-2.25	-3.53
Beta	1.42	1.39
R-Squared	92.61	86.06
Standard Deviation	5.09	8.88
Mean	8.02	3.03
Sharpe Ratio	1.52	0.33
Excess Return	0.71	-1.99
Tracking Error	2.01	4.06
Information Ratio	0.35	-0.50

## Operations

Total Investment Expense Net	0.62%
Total Investment Expense Gross	0.62%
Inception Date	03/30/2001
Total Net Assets (mil)	\$776.98



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

# Principal LifeTime Strategic Income Sep Acct-I3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Bonds	55.93	0.00	55.93
	Non-U.S. Bonds	17.99	1.90	19.89
	U.S. Stocks	15.92	0.00	15.92
	Non-U.S. Stocks	8.25	0.34	8.59
	Other	1.40	1.84	3.24
	Preferred	1.04	0.00	1.04
	Convertibles	0.10	0.00	0.10
	Cash	-0.62	19.47	18.85

Top ten holdings	% of net assets
1. Principal Core Plus Bond I Institutional	14.58
2. Principal Bond & Mtg Securities Inst	14.49
3. Principal Short-Term Income Inst	13.57
4. Principal Bond Market Index Instl	12.69
5. Principal Inflation Protection Inst	7.66
6. Principal Global Div Inc Instl	6.64
7. Principal Equity Income Inst	6.35
8. Principal Diversified Real Asset Inst	4.67
9. Principal High Yield Fund I Inst	3.51
10. Principal Large Cap Growth I Inst	3.13
% of net assets in top ten holdings*	87.28

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	21
AvgMktCap (mil)	\$20,868.40
Turnover Ratio	31%
P/C Ratio	5.94
P/E Ratio	14.40
P/B Ratio	1.74

## Stock Sector Breakdown

	% of net assets	% of net assets	% of net assets
<b>Cyclical</b>	<b>37.20</b>	<b>Defensive</b>	<b>19.94</b>
Consumer Cyclical	11.13	Healthcare	9.54
Basic Materials	4.46	Consumer Defensive	5.95
Financial Svcs	15.03	Utilities	4.45
Real Estate	6.58	Energy	15.38
		Comm Svcs	3.72
		<b>Sensitive</b>	<b>42.87</b>
		Technology	11.04
		Industrials	12.73

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

The full name of this investment option is Principal LifeTime Strategic Income Sep Acct-I3.

*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 or by visiting [principal.com](http://principal.com).*

\*\*The Morningstar Style Box™ reveals a fund's investment strategy. For equity funds 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 funds, 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 the following Nationally Recognized Statistical Rating Organizations (NRSROs): Moody's, Standard & Poor's, Fitch, and Egan-Jones. 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 fund. 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 funds are assigned a style box placement of "low", "medium", or "high" based on their average credit quality. Funds 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 fund. 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 fund'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 funds whose average effective duration is between 25% to 75% of MCBI's average effective duration; funds 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-I3 as of 12/31/2012

## Investment Strategy

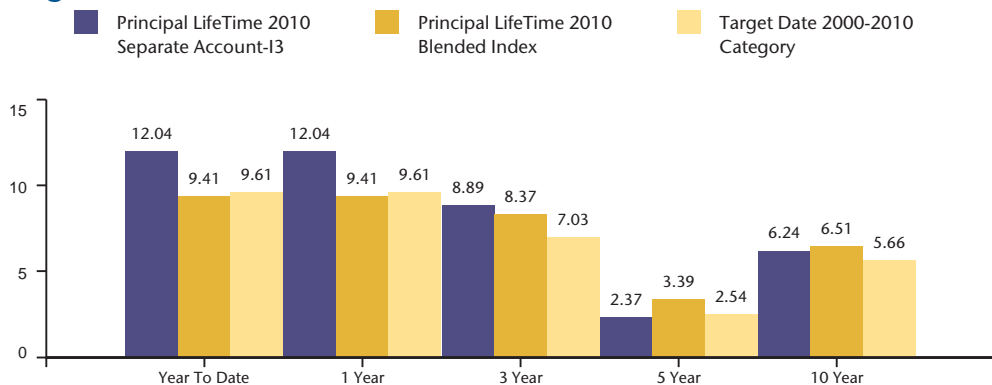
The investment seeks a total return consisting of long-term growth of capital and current income. The fund operates as a "target date fund." It invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real estate investments, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. The fund invests in PFI Institutional Class shares of underlying funds. Within 10 to 15 years after its target year, the fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund.

## Multiple Sub-Advisors

### 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  
**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  
**Jeffrey R. Tyler**, CFA. Since 03/01/2011. Master, Northwestern University

## Long-term returns % as of 12/31/2012



## 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 Participant 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 %	12.04	12.04	8.89	2.37	6.24
Principal LifeTime 2010 Blended Index %	9.41	9.41	8.37	3.39	6.51
Target Date 2000-2010 Category %	9.61	9.61	7.03	2.54	5.66
Morningstar Percentile Rankings	-	9	1	53	8
# of Funds in Category	145	145	139	117	14
Annual Returns	2012	2011	2010	2009	2008
Total Return %	12.04	1.16	13.91	24.92	-30.27
Principal LifeTime 2010 Blended Index %	9.41	4.50	11.32	18.41	-20.76
Target Date 2000-2010 Category %	9.61	0.91	10.68	22.42	-22.46
Morningstar Percentile Rankings	9	40	1	26	90
# of Funds in Category	145	167	179	201	304

*Morningstar percentile rankings are based on total returns.*

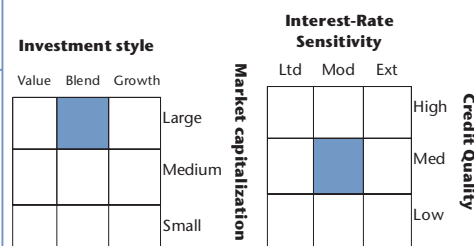
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## Morningstar category

Target Date 2000-2010

## Morningstar Style Box™\*\*

As of 11/30/2012



## Risk and Return Statistics

as of 12/31/2012 Relative to Principal LifeTime 2010 Blended Index

	3Yr	5Yr
Alpha	-1.34	-1.45
Beta	1.24	1.22
R-Squared	97.48	97.17
Standard Deviation	9.19	13.60
Mean	8.89	2.37
Sharpe Ratio	0.96	0.21
Excess Return	0.52	-1.01
Tracking Error	2.28	3.34
Information Ratio	0.22	-0.31

## Operations

Total Investment Expense Net	0.69%
Total Investment Expense Gross	0.69%
Inception Date	03/30/2001
Total Net Assets (mil)	\$1,681.06



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

# Principal LifeTime 2010 Separate Account-I3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Bonds	40.89	0.00	40.89
	U.S. Stocks	28.60	0.00	28.60
	Non-U.S. Stocks	15.44	0.28	15.72
	Non-U.S. Bonds	13.68	1.47	15.16
	Other	1.55	1.23	2.79
	Preferred	0.81	0.00	0.81
	Convertibles	0.08	0.00	0.08
	Cash	-1.06	15.77	14.71

## Top ten holdings

	% of net assets
1. Principal Core Plus Bond I Institutional	11.34
2. Principal Bond & Mtg Securities Inst	11.23
3. Principal Bond Market Index Instl	9.50
4. Principal Short-Term Income Inst	8.36
5. Principal Large Cap Growth I Inst	6.50
6. Principal Equity Income Inst	5.14
7. Principal Global Div Inc Instl	5.14
8. Principal Inflation Protection Inst	5.09
9. Principal MidCap Blend Inst	4.31
10. Principal Large Cap Value I Inst	4.14
% of net assets in top ten holdings*	70.75

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	23
AvgMktCap (mil)	\$21,530.86
Turnover Ratio	29%
P/C Ratio	5.66
P/E Ratio	13.98
P/B Ratio	1.73

## Stock Sector Breakdown

	% of net assets	% of net assets	% of net assets
<b>Cyclical</b>	<b>37.43</b>	<b>Defensive</b>	<b>20.38</b>
Consumer Cyclical	11.75	Healthcare	10.13
Basic Materials	4.87	Consumer Defensive	6.89
Financial Svcs	16.30	Utilities	3.36
Real Estate	4.51	Energy	13.04
		Comm Svcs	3.64
		<b>Sensitive</b>	<b>42.17</b>
		Technology	12.27
		Industrials	13.22

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

The full name of this investment option is Principal LifeTime 2010 Separate Account-I3.

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\*\*The Morningstar Style Box™ reveals a fund's investment strategy. For equity funds 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 funds, 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 the following Nationally Recognized Statistical Rating Organizations (NRSROs): Moody's, Standard & Poor's, Fitch, and Egan-Jones. 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 fund. 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 funds are assigned a style box placement of "low", "medium", or "high" based on their average credit quality. Funds 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 fund. 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 fund'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 funds whose average effective duration is between 25% to 75% of MCBI's average effective duration; funds 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 2015 Separate Account-I3 as of 12/31/2012

## Investment Strategy

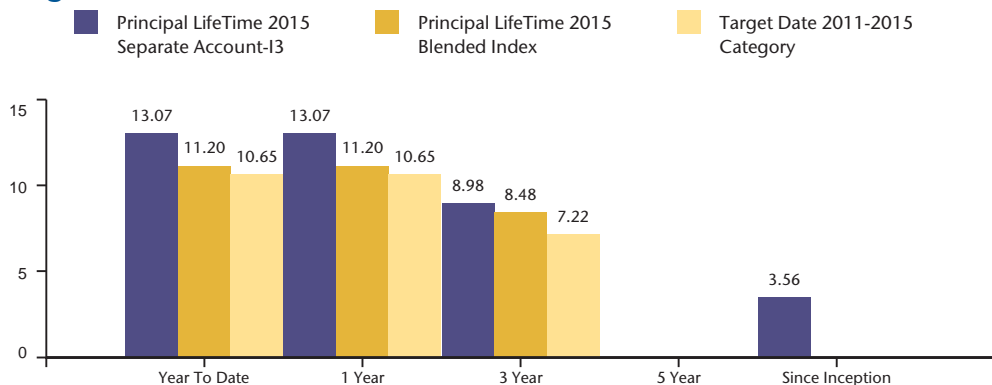
The investment seeks a total return consisting of long-term growth of capital and current income. The fund operates as a "target date fund." It invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real estate investments, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. The fund invests in PFI Institutional Class shares of underlying funds. Within 10 to 15 years after its target year, the fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund.

## Multiple Sub-Advisors

### Portfolio managers

**James Fennessey**, CFA. Since 02/29/2008. B.S., Truman State University  
**Dirk Laschanzky**, CFA. Since 02/29/2008. M.B.A., University of Iowa  
**Randy L. Welch**, CFA. Since 02/29/2008. M.B.A., Drake University  
**David Blake**, CFA. Since 03/31/2008. M.B.A., Saint Louis University  
**Jeffrey R. Tyler**, CFA. Since 03/01/2011. Master, Northwestern University

## Long-term returns % as of 12/31/2012



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	13.07	13.07	8.98	-	3.56
Principal LifeTime 2015 Blended Index %	11.20	11.20	8.48	2.90	-
Target Date 2011-2015 Category %	10.65	10.65	7.22	2.04	-
Morningstar Percentile Rankings	-	8	1	-	-
# of Funds in Category	154	154	136	84	-
Annual Returns	2012	2011	2010	2009	2008
Total Return %	13.07	0.01	14.44	24.82	-
Principal LifeTime 2015 Blended Index %	11.20	2.59	11.89	20.19	-
Target Date 2011-2015 Category %	10.65	-0.27	11.50	23.55	-27.76
Morningstar Percentile Rankings	8	44	1	53	-
# of Funds in Category	154	157	149	153	133

Morningstar percentile rankings are based on total returns.

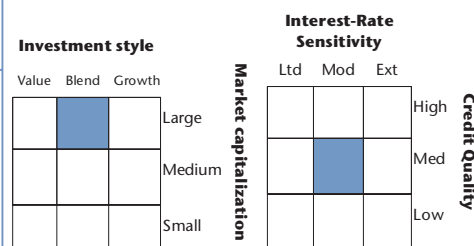
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## Morningstar category

Target Date 2011-2015

## Morningstar Style Box™\*\*

As of 11/30/2012



## Risk and Return Statistics

as of 12/31/2012 Relative to Principal LifeTime 2015 Blended Index

	3Yr	5Yr
Alpha	-1.05	-
Beta	1.20	-
R-Squared	98.90	-
Standard Deviation	11.00	-
Mean	8.98	-
Sharpe Ratio	0.83	-
Excess Return	0.49	-
Tracking Error	2.16	-
Information Ratio	0.23	-

## Operations

Total Investment Expense Net	0.71%
Total Investment Expense Gross	0.71%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	02/29/2008
Total Net Assets (mil)	\$811.38



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.



# Principal LifeTime 2015 Separate Account-I3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	35.60	0.00	35.60
	U.S. Bonds	33.73	0.00	33.73
	Non-U.S. Stocks	18.46	0.27	18.73
	Non-U.S. Bonds	11.78	1.35	13.13
	Other	1.74	0.85	2.59
	Preferred	0.60	0.00	0.60
	Convertibles	0.08	0.00	0.08
	Cash	-1.98	14.86	12.88

## Top ten holdings

% of net assets

1. Principal Core Plus Bond I Institutional	10.43
2. Principal Bond & Mtg Securities Inst	10.04
3. Principal Bond Market Index Instl	9.14
4. Principal Large Cap Growth I Inst	7.07
5. Principal Large Cap Value I Inst	6.74
6. Principal Large Cap S&P 500 Index Inst	5.18
7. Principal Overseas Instl	4.32
8. Principal Diversified Intl Inst	4.22
9. Principal Equity Income Inst	4.10
10. Principal Inflation Protection Inst	4.06
% of net assets in top ten holdings*	65.30

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	27
AvgMktCap (mil)	\$21,535.39
Turnover Ratio	23%
P/C Ratio	5.70
P/E Ratio	13.85
P/B Ratio	1.72

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Cyclical</b>	<b>38.46</b>	<b>Defensive</b>	<b>20.52</b>	<b>Sensitive</b>	<b>41.03</b>
Consumer Cyclical	11.54	Healthcare	10.20	Technology	12.65
Basic Materials	5.06	Consumer Defensive	7.14	Industrials	12.82
Financial Svcs	16.02	Utilities	3.18	Energy	12.07
Real Estate	5.84	Comm Svcs		Comm Svcs	3.49

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# Principal LifeTime 2020 Separate Account-I3 as of 12/31/2012

## Investment Strategy

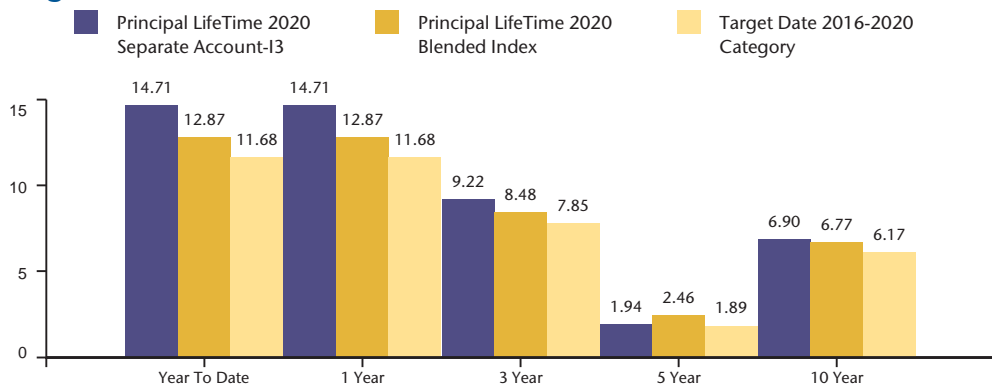
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## Multiple Sub-Advisors

### 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  
**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  
**Jeffrey R. Tyler**, CFA. Since 03/01/2011. Master, Northwestern University

## Long-term returns % as of 12/31/2012



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	14.71	14.71	9.22	1.94	6.90
Principal LifeTime 2020 Blended Index %	12.87	12.87	8.48	2.46	6.77
Target Date 2016-2020 Category %	11.68	11.68	7.85	1.89	6.17
Morningstar Percentile Rankings	-	1	7	54	5
# of Funds in Category	208	208	179	132	21
Annual Returns	2012	2011	2010	2009	2008
Total Return %	14.71	-1.11	14.86	27.45	-33.70
Principal LifeTime 2020 Blended Index %	12.87	0.63	12.40	21.91	-26.44
Target Date 2016-2020 Category %	11.68	-0.22	12.27	24.25	-29.46
Morningstar Percentile Rankings	1	62	1	32	68
# of Funds in Category	208	205	203	212	186

*Morningstar percentile rankings are based on total returns.*

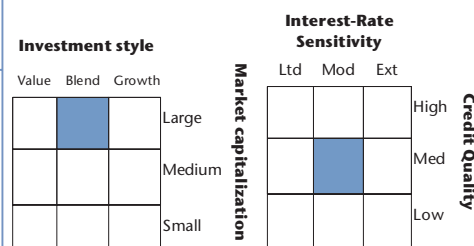
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## Morningstar category

Target Date 2016-2020

## Morningstar Style Box™\*\*

As of 11/30/2012



## Risk and Return Statistics

as of 12/31/2012 Relative to Principal LifeTime 2020 Blended Index

	3Yr	5Yr
Alpha	-0.19	-0.61
Beta	1.12	1.14
R-Squared	99.28	98.76
Standard Deviation	12.26	16.27
Mean	9.22	1.94
Sharpe Ratio	0.77	0.18
Excess Return	0.73	-0.52
Tracking Error	1.66	2.67
Information Ratio	0.44	-0.20

## Operations

Total Investment Expense Net	0.74%
Total Investment Expense Gross	0.74%
Inception Date	03/30/2001
Total Net Assets (mil)	\$5,602.39



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# Principal LifeTime 2020 Separate Account-I3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	41.68	0.00	41.68
	U.S. Bonds	25.79	0.00	25.79
	Non-U.S. Stocks	23.07	0.25	23.32
	Non-U.S. Bonds	9.69	1.19	10.87
	Other	1.91	0.50	2.41
	Preferred	0.41	0.00	0.41
	Convertibles	0.08	0.00	0.08
	Cash	-2.61	13.40	10.79

## Top ten holdings

% of net assets

1. Principal Bond & Mtg Securities Inst	9.32
2. Principal Core Plus Bond I Institutional	9.08
3. Principal Large Cap Growth I Inst	8.43
4. Principal Large Cap Value I Inst	8.33
5. Principal Bond Market Index Instl	7.65
6. Principal Large Cap S&P 500 Index Inst	6.43
7. Principal Overseas Instl	4.77
8. Principal Diversified Intl Inst	4.68
9. Principal Large Cap Value Inst	4.31
10. Principal Global Real Estate Sec Inst	3.71
% of net assets in top ten holdings*	66.71

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	26
AvgMktCap (mil)	\$21,651.56
Turnover Ratio	22%
P/C Ratio	5.75
P/E Ratio	13.91
P/B Ratio	1.70

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Cyclical</b>	<b>40.49</b>	<b>Defensive</b>	<b>20.01</b>	<b>Sensitive</b>	<b>39.49</b>
Consumer Cyclical	11.09	Healthcare	9.93	Technology	12.73
Basic Materials	5.07	Consumer Defensive	7.18	Industrials	12.33
Financial Svcs	15.40	Utilities	2.90	Energy	11.09
Real Estate	8.93			Comm Svcs	3.34

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

The full name of this investment option is Principal LifeTime 2020 Separate Account-I3.

*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 or by visiting [principal.com](http://principal.com).*

\*\*The Morningstar Style Box™ reveals a fund's investment strategy. For equity funds 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 funds, 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 the following Nationally Recognized Statistical Rating Organizations (NRSROs): Moody's, Standard & Poor's, Fitch, and Egan-Jones. 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 fund. An NRSRO rating on a fixed-income security can change from time-to-time.

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For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income fund'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 funds whose average effective duration is between 25% to 75% of MCBI's average effective duration; funds 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 2025 Separate Account-I3 as of 12/31/2012

## Investment Strategy

The investment seeks a total return consisting of long-term growth of capital and current income. The fund operates as a "target date fund." It invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real estate investments, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. The fund invests in PFI Institutional Class shares of underlying funds. Within 10 to 15 years after its target year, the fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund.

## Multiple Sub-Advisors

### Portfolio managers

**James Fennessey**, CFA. Since 02/29/2008. B.S., Truman State University

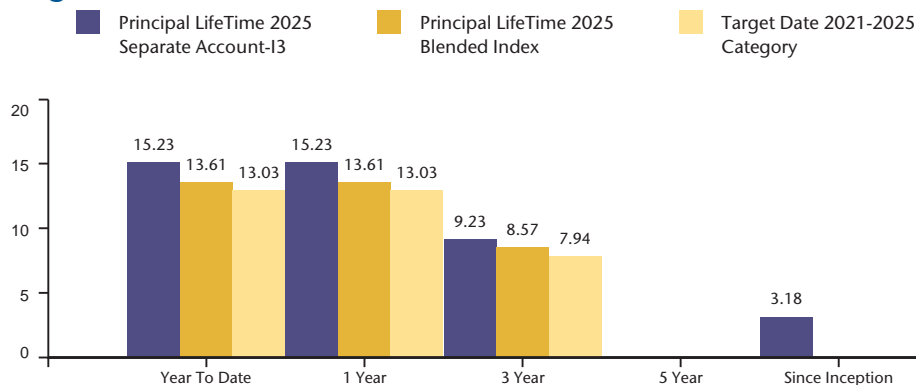
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**David Blake**, CFA. Since 03/31/2008. M.B.A., Saint Louis University

**Jeffrey R. Tyler**, CFA. Since 03/01/2011. Master, Northwestern University

## Long-term returns % as of 12/31/2012



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	15.23	15.23	9.23	-	3.18
Principal LifeTime 2025 Blended Index %	13.61	13.61	8.57	2.12	-
Target Date 2021-2025 Category %	13.03	13.03	7.94	1.37	-
Morningstar Percentile Rankings	-	11	5	-	-
# of Funds in Category	154	154	121	77	-
Annual Returns	2012	2011	2010	2009	2008
Total Return %	15.23	-1.76	15.11	26.77	-
Principal LifeTime 2025 Blended Index %	13.61	-0.08	12.73	23.08	-
Target Date 2021-2025 Category %	13.03	-2.06	13.29	28.32	-34.15
Morningstar Percentile Rankings	11	42	7	59	-
# of Funds in Category	154	145	131	127	104

Morningstar percentile rankings are based on total returns.

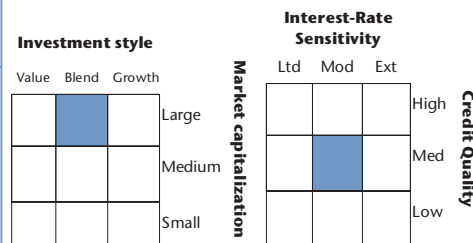
The Principal LifeTime portfolios, which are target date portfolios, invest in underlying Principal Funds. Each Principal LifeTime portfolio is managed toward a particular target (retirement) date, or the approximate date the participant or investor starts withdrawing money. As each Principal LifeTime portfolio approaches its target date, the investment mix becomes more conservative by increasing exposure to generally more conservative investment options and reducing exposure to typically more aggressive investment options. The asset allocation for each Principal LifeTime portfolio is regularly re-adjusted within a time frame that extends 10-15 years beyond the target date, at which point it reaches its most conservative allocation. Principal LifeTime portfolios assume the value of the investor's account will be withdrawn gradually during retirement. Neither the principal nor the underlying assets of the Principal LifeTime portfolios are guaranteed at any time, including the target date. Investment risk remains at all times.

## Morningstar category

Target Date 2021-2025

## Morningstar Style Box™\*\*

As of 11/30/2012



## Risk and Return Statistics

as of 12/31/2012 Relative to Principal LifeTime 2025 Blended Index

	3Yr	5Yr
Alpha	-0.40	-
Beta	1.10	-
R-Squared	99.26	-
Standard Deviation	13.14	-
Mean	9.23	-
Sharpe Ratio	0.71	-
Excess Return	0.66	-
Tracking Error	1.65	-
Information Ratio	0.22	-

## Operations

Total Investment Expense Net	0.75%
Total Investment Expense Gross	0.75%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	02/29/2008
Total Net Assets (mil)	\$1,053.66



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

# Principal LifeTime 2025 Separate Account-I3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	44.88	0.00	44.88
	Non-U.S. Stocks	23.89	0.25	24.14
	U.S. Bonds	21.89	0.00	21.89
	Non-U.S. Bonds	8.20	1.05	9.25
	Other	1.76	0.44	2.20
	Preferred	1.44	0.00	1.44
	Convertibles	0.09	0.00	0.09
	Cash	-2.16	11.74	9.58

## Top ten holdings

	% of net assets
1. Principal Large Cap Value I Inst	10.30
2. Principal Large Cap Growth I Inst	9.64
3. Principal Core Plus Bond I Institutional	7.38
4. Principal Bond Market Index Instl	7.32
5. Principal Bond & Mtg Securities Inst	7.22
6. Principal Large Cap S&P 500 Index Inst	6.77
7. Principal Large Cap Value Inst	5.42
8. Principal Overseas Instl	5.17
9. Principal Diversified Intl Inst	5.06
10. Principal Global Real Estate Sec Inst	4.22
% of net assets in top ten holdings*	68.50

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	26
AvgMktCap (mil)	\$21,537.29
Turnover Ratio	15%
P/C Ratio	5.78
P/E Ratio	13.92
P/B Ratio	1.72

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Cyclical</b>	<b>40.66</b>	<b>Defensive</b>	<b>19.91</b>	<b>Sensitive</b>	<b>39.43</b>
Consumer Cyclical	11.17	Healthcare	9.96	Technology	13.28
Basic Materials	5.11	Consumer Defensive	7.27	Industrials	12.24
Financial Svcs	15.40	Utilities	2.68	Energy	10.65
Real Estate	8.98			Comm Svcs	3.26

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# Principal LifeTime 2030 Separate Account-I3 as of 12/31/2012

## Investment Strategy

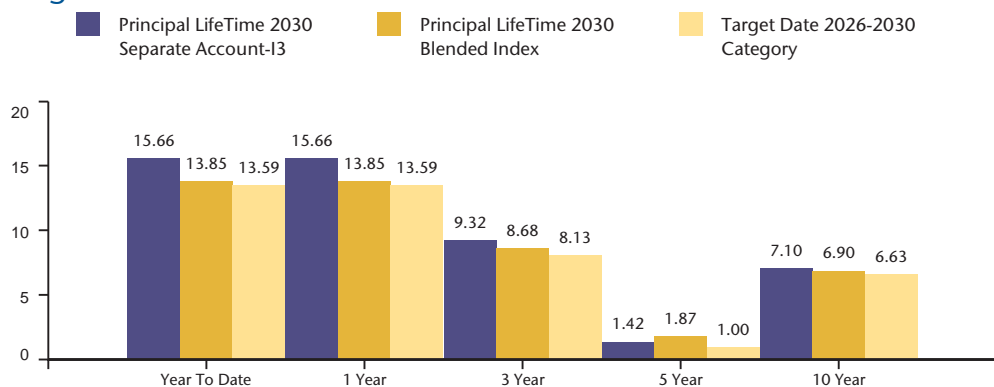
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## Multiple Sub-Advisors

### 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  
**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  
**Jeffrey R. Tyler**, CFA. Since 03/01/2011. Master, Northwestern University

## Long-term returns % as of 12/31/2012



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	15.66	15.66	9.32	1.42	7.10
Principal LifeTime 2030 Blended Index %	13.85	13.85	8.68	1.87	6.90
Target Date 2026-2030 Category %	13.59	13.59	8.13	1.00	6.63
Morningstar Percentile Rankings	-	12	9	37	7
# of Funds in Category	208	208	179	132	16
Annual Returns	2012	2011	2010	2009	2008
Total Return %	15.66	-2.23	15.53	28.83	-36.26
Principal LifeTime 2030 Blended Index %	13.85	-0.25	13.04	24.25	-30.22
Target Date 2026-2030 Category %	13.59	-2.26	13.47	28.87	-36.04
Morningstar Percentile Rankings	12	38	10	49	48
# of Funds in Category	208	205	200	200	169

*Morningstar percentile rankings are based on total returns.*

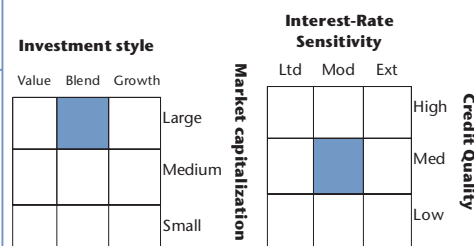
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## Morningstar category

Target Date 2026-2030

## Morningstar Style Box™\*\*

As of 11/30/2012



## Risk and Return Statistics

as of 12/31/2012 Relative to Principal LifeTime 2030 Blended Index

	3Yr	5Yr
Alpha	-0.14	-0.42
Beta	1.10	1.11
R-Squared	99.14	98.98
Standard Deviation	13.91	17.91
Mean	9.32	1.42
Sharpe Ratio	0.70	0.15
Excess Return	0.63	-0.45
Tracking Error	1.80	2.49
Information Ratio	0.36	-0.18

## Operations

Total Investment Expense Net	0.76%
Total Investment Expense Gross	0.76%
Inception Date	03/30/2001
Total Net Assets (mil)	\$5,284.87



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# Principal LifeTime 2030 Separate Account-I3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	48.25	0.00	48.25
	Non-U.S. Stocks	25.70	0.22	25.93
	U.S. Bonds	17.87	0.00	17.87
	Non-U.S. Bonds	6.63	0.91	7.55
	Other	1.70	0.37	2.07
	Preferred	1.45	0.00	1.45
	Convertibles	0.09	0.00	0.09
	Cash	-1.69	10.18	8.49

## Top ten holdings % of net assets

1. Principal Large Cap Growth I Inst	10.76
2. Principal Large Cap Value I Inst	10.44
3. Principal Overseas Instl	8.09
4. Principal Large Cap S&P 500 Index Inst	6.88
5. Principal Core Plus Bond I Institutional	5.84
6. Principal Bond & Mtg Securities Inst	5.81
7. Principal Bond Market Index Instl	5.52
8. Principal Large Cap Value Inst	5.38
9. Principal Global Real Estate Sec Inst	5.32
10. Principal Diversified Intl Inst	5.26
<b>% of net assets in top ten holdings*</b>	<b>69.29</b>

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	24
AvgMktCap (mil)	\$20,860.92
Turnover Ratio	20%
P/C Ratio	6.03
P/E Ratio	13.98
P/B Ratio	1.72

## Stock Sector Breakdown

	% of net assets	% of net assets	% of net assets
<b>Cyclical</b>	<b>41.06</b>	<b>Defensive</b>	<b>19.51</b>
Consumer Cyclical	11.22	Healthcare	9.84
Basic Materials	4.98	Consumer Defensive	7.14
Financial Svcs	15.01	Utilities	2.53
Real Estate	9.85	Energy	10.33
		Comm Svcs	3.18
		<b>Sensitive</b>	<b>39.41</b>
		Technology	13.45
		Industrials	12.45

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# Principal LifeTime 2035 Separate Account-I3 as of 12/31/2012

## Investment Strategy

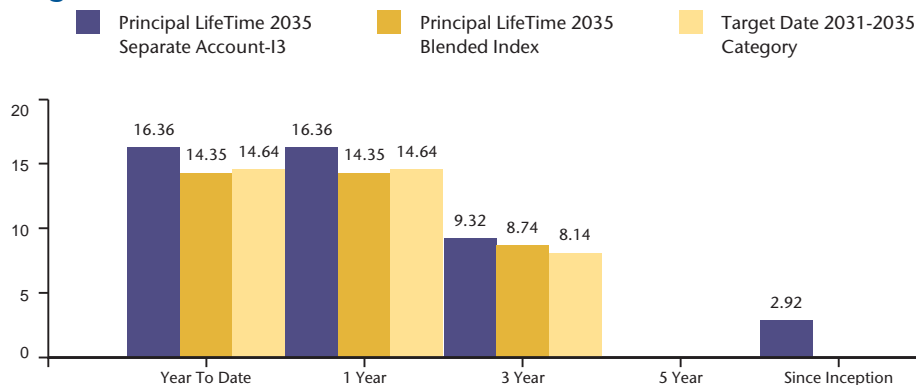
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## Multiple Sub-Advisors

### Portfolio managers

**James Fennessey**, CFA. Since 02/29/2008. B.S., Truman State University  
**Dirk Laschanzky**, CFA. Since 02/29/2008. M.B.A., University of Iowa  
**Randy L. Welch**, CFA. Since 02/29/2008. M.B.A., Drake University  
**David Blake**, CFA. Since 03/31/2008. M.B.A., Saint Louis University  
**Jeffrey R. Tyler**, CFA. Since 03/01/2011. Master, Northwestern University

## Long-term returns % as of 12/31/2012



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	16.36	16.36	9.32	-	2.92
Principal LifeTime 2035 Blended Index %	14.35	14.35	8.74	1.60	-
Target Date 2031-2035 Category %	14.64	14.64	8.14	0.75	-
Morningstar Percentile Rankings	-	12	10	-	-
# of Funds in Category	154	154	121	77	-
Annual Returns	2012	2011	2010	2009	2008
Total Return %	16.36	-2.87	15.59	28.17	-
Principal LifeTime 2035 Blended Index %	14.35	-0.74	13.27	25.11	-
Target Date 2031-2035 Category %	14.64	-3.51	14.28	30.06	-37.04
Morningstar Percentile Rankings	12	28	16	67	-
# of Funds in Category	154	139	125	121	104

Morningstar percentile rankings are based on total returns.

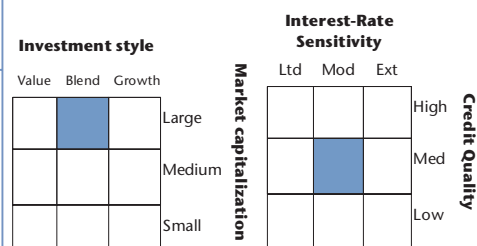
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## Morningstar category

Target Date 2031-2035

## Morningstar Style Box™\*\*

As of 11/30/2012



## Risk and Return Statistics

as of 12/31/2012 Relative to Principal LifeTime 2035 Blended Index

	3Yr	5Yr
Alpha	-0.45	-
Beta	1.10	-
R-Squared	99.17	-
Standard Deviation	14.72	-
Mean	9.32	-
Sharpe Ratio	0.66	-
Excess Return	0.57	-
Tracking Error	1.89	-
Information Ratio	0.16	-

## Operations

Total Investment Expense Net	0.78%
Total Investment Expense Gross	0.78%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	02/29/2008
Total Net Assets (mil)	\$704.81



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.



# Principal LifeTime 2035 Separate Account-I3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	51.59	0.00	51.59
	Non-U.S. Stocks	28.49	0.22	28.71
	U.S. Bonds	13.24	0.00	13.24
	Non-U.S. Bonds	5.01	0.77	5.78
	Other	1.61	0.30	1.91
	Preferred	1.19	0.00	1.19
	Convertibles	0.09	0.00	0.09
	Cash	-1.22	8.30	7.08

## Top ten holdings

	% of net assets
1. Principal Large Cap Growth I Inst	11.83
2. Principal Large Cap Value I Inst	11.32
3. Principal Large Cap S&P 500 Index Inst	7.38
4. Principal Overseas Instl	6.28
5. Principal Large Cap Value Inst	6.11
6. Principal Diversified Intl Inst	6.09
7. Principal Global Real Estate Sec Inst	5.56
8. Principal Large Cap Growth Inst	4.66
9. Principal Bond Market Index Instl	4.37
10. Principal Intl Emerging Markets Inst	4.18
<b>% of net assets in top ten holdings*</b>	<b>67.78</b>

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	24
AvgMktCap (mil)	\$21,690.35
Turnover Ratio	13%
P/C Ratio	5.81
P/E Ratio	13.96
P/B Ratio	1.73

## Stock Sector Breakdown

	% of net assets		% of net assets		
<b>Cyclical</b>	<b>41.06</b>	<b>Defensive</b>	<b>19.74</b>	<b>Sensitive</b>	<b>39.20</b>
Consumer Cyclical	11.22	Healthcare	9.95	Technology	13.56
Basic Materials	5.13	Consumer Defensive	7.25	Industrials	12.25
Financial Svcs	15.19	Utilities	2.54	Energy	10.18
Real Estate	9.52			Comm Svcs	3.21

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

The full name of this investment option is Principal LifeTime 2035 Separate Account-I3.

*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 or by visiting [principal.com](http://principal.com).*

\*\*The Morningstar Style Box™ reveals a fund's investment strategy. For equity funds 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 funds, 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 the following Nationally Recognized Statistical Rating Organizations (NRSROs): Moody's, Standard & Poor's, Fitch, and Egan-Jones. 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 fund. 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 funds are assigned a style box placement of "low", "medium", or "high" based on their average credit quality. Funds 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 fund. 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 fund'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 funds whose average effective duration is between 25% to 75% of MCBI's average effective duration; funds 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 2040 Separate Account-I3 as of 12/31/2012

## Investment Strategy

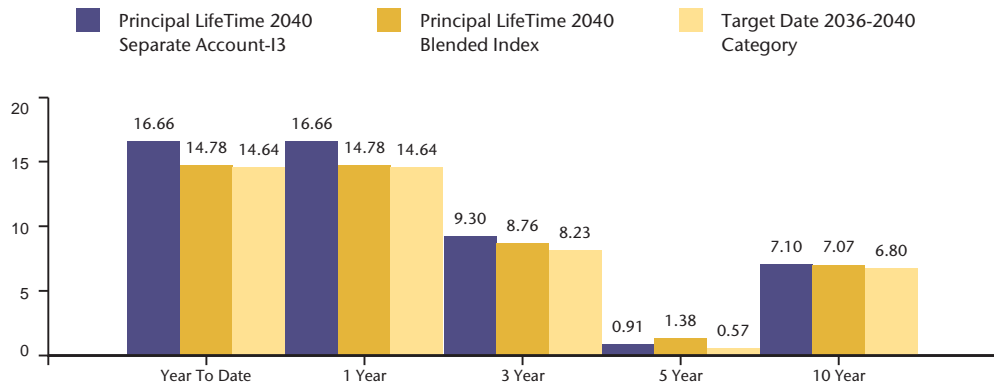
The investment seeks a total return consisting of long-term growth of capital and current income. The fund operates as a "target date fund." It invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real estate investments, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. The fund invests in PFI Institutional Class shares of underlying funds. Within 10 to 15 years after its target year, the fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund.

## Multiple Sub-Advisors

### 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  
**Randy L. Welch**, CFA. Since 05/29/2007. M.B.A., Drake University  
**David Blake**, CFA. Since 03/31/2008. M.B.A., Saint Louis University  
**Jeffrey R. Tyler**, CFA. Since 03/01/2011. Master, Northwestern University

## Long-term returns % as of 12/31/2012



## 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 Participant Contact Center at 1-800-547-7754.*

*In situations where the net and gross total investment expense figures are different or where a contractual cap and/or waiver date is given, 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 %	16.66	16.66	9.30	0.91	7.10
Principal LifeTime 2040 Blended Index %	14.78	14.78	8.76	1.38	7.07
Target Date 2036-2040 Category %	14.64	14.64	8.23	0.57	6.80
Morningstar Percentile Rankings	-	10	12	31	20
# of Funds in Category	204	204	175	125	16
Annual Returns	2012	2011	2010	2009	2008
Total Return %	16.66	-3.38	15.85	29.47	-38.10
Principal LifeTime 2040 Blended Index %	14.78	-1.22	13.48	25.98	-32.87
Target Date 2036-2040 Category %	14.64	-3.49	14.37	30.90	-37.94
Morningstar Percentile Rankings	10	37	15	59	51
# of Funds in Category	204	202	194	193	151

*Morningstar percentile rankings are based on total returns.*

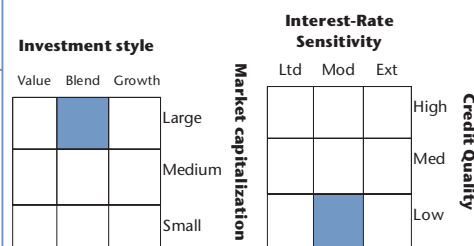
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## Morningstar category

Target Date 2036-2040

## Morningstar Style Box™\*\*

As of 11/30/2012



## Risk and Return Statistics

as of 12/31/2012 Relative to Principal LifeTime 2040 Blended Index

	3Yr	5Yr
Alpha	-0.11	-0.38
Beta	1.09	1.08
R-Squared	99.19	99.16
Standard Deviation	15.28	19.15
Mean	9.30	0.91
Sharpe Ratio	0.65	0.12
Excess Return	0.54	-0.47
Tracking Error	1.83	2.30
Information Ratio	0.30	-0.20

## Operations

Total Investment Expense Net	0.78%
Total Investment Expense Gross	0.78%
Inception Date	03/30/2001
Total Net Assets (mil)	\$3,249.97



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

# Principal LifeTime 2040 Separate Account-I3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	53.53	0.00	53.53
	Non-U.S. Stocks	30.88	0.21	31.09
	U.S. Bonds	9.70	0.00	9.70
	Non-U.S. Bonds	4.01	0.67	4.68
	Other	1.59	0.25	1.84
	Preferred	1.15	0.00	1.15
	Convertibles	0.08	0.00	0.08
	Cash	-0.94	7.14	6.20

## Top ten holdings

	% of net assets
1. Principal Large Cap Growth I Inst	12.25
2. Principal Large Cap Value I Inst	12.03
3. Principal Large Cap S&P 500 Index Inst	7.52
4. Principal Overseas Instl	6.87
5. Principal Diversified Intl Inst	6.75
6. Principal Large Cap Value Inst	6.35
7. Principal Global Real Estate Sec Inst	5.38
8. Principal Large Cap Growth Inst	5.27
9. Principal Intl Emerging Markets Inst	4.51
10. Principal International I Inst	4.08
% of net assets in top ten holdings*	71.00

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	23
AvgMktCap (mil)	\$21,972.60
Turnover Ratio	13%
P/C Ratio	5.72
P/E Ratio	13.89
P/B Ratio	1.72

## Stock Sector Breakdown

	% of net assets		% of net assets		
<b>Cyclical</b>	<b>40.81</b>	<b>Defensive</b>	<b>19.85</b>	<b>Sensitive</b>	<b>39.36</b>
Consumer Cyclical	11.28	Healthcare	10.01	Technology	13.54
Basic Materials	5.24	Consumer Defensive	7.32	Industrials	12.36
Financial Svcs	15.37	Utilities	2.52	Energy	10.21
Real Estate	8.92			Comm Svcs	3.25

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The full name of this investment option is Principal LifeTime 2040 Separate Account-I3.

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# Principal LifeTime 2045 Separate Account-I3 as of 12/31/2012

## Investment Strategy

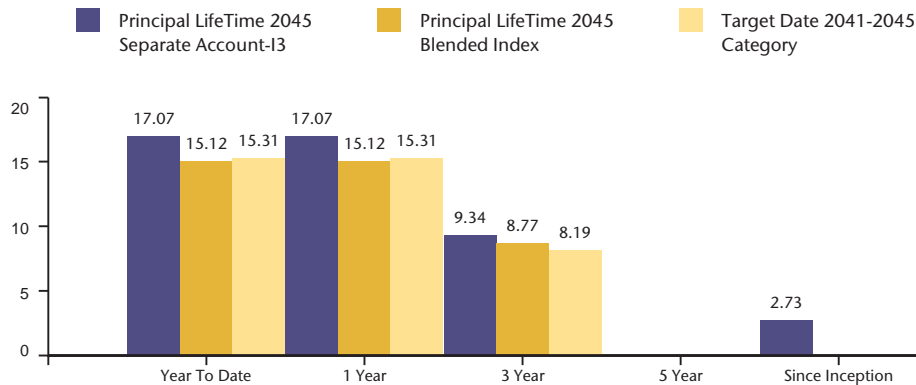
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## Multiple Sub-Advisors

### Portfolio managers

**James Fennessey**, CFA. Since 02/29/2008. B.S., Truman State University  
**Dirk Laschzky**, CFA. Since 02/29/2008. M.B.A., University of Iowa  
**Randy L. Welch**, CFA. Since 02/29/2008. M.B.A., Drake University  
**David Blake**, CFA. Since 03/31/2008. M.B.A., Saint Louis University  
**Jeffrey R. Tyler**, CFA. Since 03/01/2011. Master, Northwestern University

## Long-term returns % as of 12/31/2012



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	17.07	17.07	9.34	-	2.73
Principal LifeTime 2045 Blended Index %	15.12	15.12	8.77	1.19	-
Target Date 2041-2045 Category %	15.31	15.31	8.19	0.56	-
Morningstar Percentile Rankings	-	10	10	-	-
# of Funds in Category	145	145	120	76	-
Annual Returns	2012	2011	2010	2009	2008
Total Return %	17.07	-3.66	15.89	29.01	-
Principal LifeTime 2045 Blended Index %	15.12	-1.62	13.63	26.56	-
Target Date 2041-2045 Category %	15.31	-4.10	14.60	30.88	-38.11
Morningstar Percentile Rankings	10	37	20	70	-
# of Funds in Category	145	139	125	115	92

*Morningstar percentile rankings are based on total returns.*

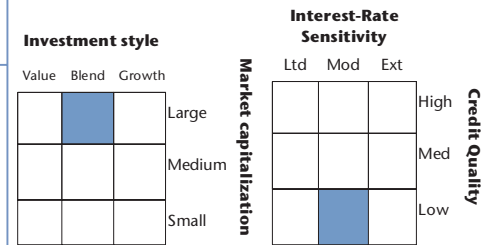
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## Morningstar category

Target Date 2041-2045

## Morningstar Style Box™\*\*

As of 11/30/2012



## Risk and Return Statistics

as of 12/31/2012 Relative to Principal LifeTime 2045 Blended Index

	3Yr	5Yr
Alpha	-0.04	-
Beta	1.09	-
R-Squared	99.21	-
Standard Deviation	15.79	-
Mean	9.34	-
Sharpe Ratio	0.64	-
Excess Return	0.57	-
Tracking Error	1.87	-
Information Ratio	0.33	-

## Operations

Total Investment Expense Net	0.81%
Total Investment Expense Gross	0.81%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	02/29/2008
Total Net Assets (mil)	\$367.85



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

# Principal LifeTime 2045 Separate Account-I3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	54.69	0.00	54.69
	Non-U.S. Stocks	31.70	0.20	31.90
	U.S. Bonds	7.89	0.00	7.89
	Non-U.S. Bonds	3.25	0.60	3.85
	Other	1.57	0.21	1.78
	Preferred	1.46	0.00	1.46
	Convertibles	0.09	0.00	0.09
	Cash	-0.64	6.22	5.58

## Top ten holdings

	% of net assets
1. Principal Large Cap Growth I Inst	12.62
2. Principal Large Cap Value I Inst	12.19
3. Principal Large Cap S&P 500 Index Inst	7.79
4. Principal Overseas Instl	7.16
5. Principal Diversified Intl Inst	7.02
6. Principal Large Cap Value Inst	6.59
7. Principal Global Real Estate Sec Inst	5.67
8. Principal Large Cap Growth Inst	5.08
9. Principal Intl Emerging Markets Inst	4.50
10. Principal International I Inst	4.03
% of net assets in top ten holdings*	72.64

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	23
AvgMktCap (mil)	\$22,000.76
Turnover Ratio	8%
P/C Ratio	5.73
P/E Ratio	13.89
P/B Ratio	1.72

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets	
<b>Cyclical</b>	<b>40.96</b>	<b>Defensive</b>	<b>19.84</b>	<b>Sensitive</b>	<b>39.20</b>	
Consumer Cyclical	11.25	Healthcare	9.99	Technology	13.47	
Basic Materials	5.21	Consumer Defensive	7.32	Industrials	12.34	
Financial Svcs	15.40	Utilities	2.53	Energy	10.14	
Real Estate	9.10			Comm Svcs	3.25	

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The full name of this investment option is Principal LifeTime 2045 Separate Account-I3.

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For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income fund'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 funds whose average effective duration is between 25% to 75% of MCBI's average effective duration; funds 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-I3 as of 12/31/2012

## Investment Strategy

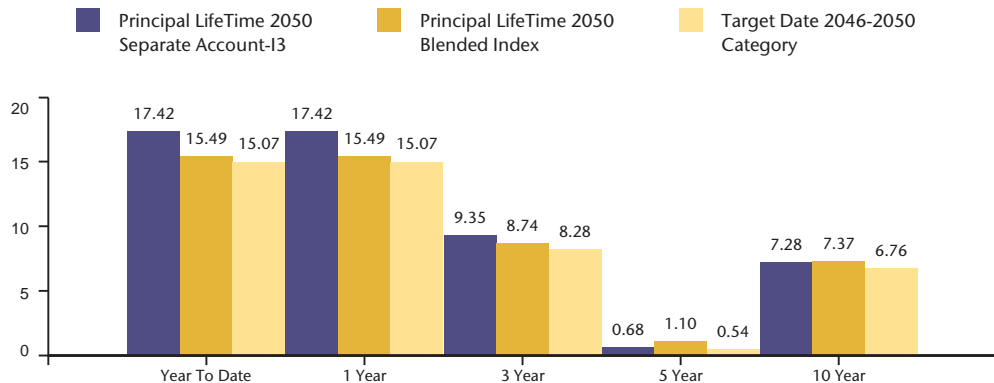
The investment seeks a total return consisting of long-term growth of capital and current income. The fund operates as a "target date fund." It invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real estate investments, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. The fund invests in PFI Institutional Class shares of underlying funds. Within 10 to 15 years after its target year, the fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund.

## Multiple Sub-Advisors

### 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  
**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  
**Jeffrey R. Tyler**, CFA. Since 03/01/2011. Master, Northwestern University

## Long-term returns % as of 12/31/2012



## 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 Participant Contact Center at 1-800-547-7754.*

*In situations where the net and gross total investment expense figures are different or where a contractual cap and/or waiver date is given, 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 %	17.42	17.42	9.35	0.68	7.28
Principal LifeTime 2050 Blended Index %	15.49	15.49	8.74	1.10	7.37
Target Date 2046-2050 Category %	15.07	15.07	8.28	0.54	6.76
Morningstar Percentile Rankings	-	7	13	40	1
# of Funds in Category	177	177	139	79	6
Annual Returns	2012	2011	2010	2009	2008
Total Return %	17.42	-4.02	16.02	29.77	-39.04
Principal LifeTime 2050 Blended Index %	15.49	-2.14	13.77	27.10	-34.23
Target Date 2046-2050 Category %	15.07	-3.82	14.53	32.02	-38.67
Morningstar Percentile Rankings	7	40	17	66	52
# of Funds in Category	177	168	150	139	86

*Morningstar percentile rankings are based on total returns.*

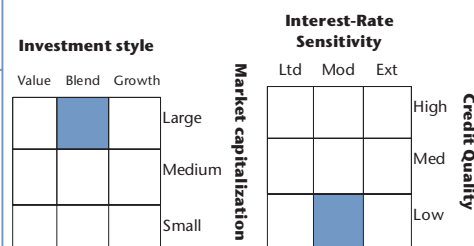
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## Morningstar category

Target Date 2046-2050

## Morningstar Style Box™\*\*

As of 11/30/2012



## Risk and Return Statistics

as of 12/31/2012 Relative to Principal LifeTime 2050 Blended Index

	3Yr	5Yr
Alpha	0.01	-0.31
Beta	1.08	1.07
R-Squared	99.19	99.19
Standard Deviation	16.24	19.97
Mean	9.35	0.68
Sharpe Ratio	0.63	0.11
Excess Return	0.60	-0.42
Tracking Error	1.88	2.26
Information Ratio	0.32	-0.19

## Operations

Total Investment Expense Net	0.79%
Total Investment Expense Gross	0.79%
Inception Date	03/30/2001
Total Net Assets (mil)	\$1,426.53



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

# Principal LifeTime 2050 Separate Account-I3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	56.17	0.00	56.17
	Non-U.S. Stocks	33.39	0.19	33.58
	U.S. Bonds	5.29	0.00	5.29
	Non-U.S. Bonds	2.49	0.55	3.04
	Other	1.54	0.18	1.73
	Preferred	1.48	0.00	1.48
	Convertibles	0.09	0.00	0.09
	Cash	-0.45	5.56	5.11

## Top ten holdings

	% of net assets
1. Principal Large Cap Growth I Inst	12.93
2. Principal Large Cap Value I Inst	12.70
3. Principal Large Cap S&P 500 Index Inst	7.96
4. Principal Overseas Instl	7.69
5. Principal Diversified Intl Inst	7.46
6. Principal Large Cap Value Inst	6.65
7. Principal Large Cap Growth Inst	5.74
8. Principal Global Real Estate Sec Inst	5.74
9. Principal Intl Emerging Markets Inst	4.85
10. Principal International I Inst	4.01
% of net assets in top ten holdings*	75.74

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	23
AvgMktCap (mil)	\$22,149.35
Turnover Ratio	11%
P/C Ratio	5.71
P/E Ratio	13.85
P/B Ratio	1.72

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets	
<b>Cyclical</b>	<b>40.91</b>	<b>Defensive</b>	<b>19.84</b>	<b>Sensitive</b>	<b>39.25</b>	
Consumer Cyclical	11.26	Healthcare	10.00	Technology	13.47	
Basic Materials	5.26	Consumer Defensive	7.35	Industrials	12.38	
Financial Svcs	15.49	Utilities	2.49	Energy	10.12	
Real Estate	8.90			Comm Svcs	3.28	

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

The full name of this investment option is Principal LifeTime 2050 Separate Account-I3.

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# Principal LifeTime 2055 Separate Account-I3 as of 12/31/2012

## Investment Strategy

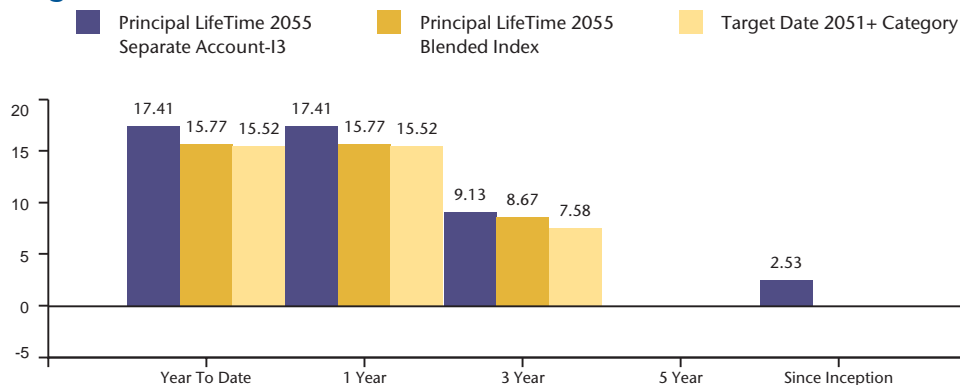
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## Multiple Sub-Advisors

### Portfolio managers

**James Fennessey**, CFA. Since 02/29/2008. B.S., Truman State University  
**Dirk Laschanzky**, CFA. Since 02/29/2008. M.B.A., University of Iowa  
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**David Blake**, CFA. Since 03/31/2008. M.B.A., Saint Louis University  
**Jeffrey R. Tyler**, CFA. Since 03/01/2011. Master, Northwestern University

## Long-term returns % as of 12/31/2012



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	17.41	17.41	9.13	-	2.53
Principal LifeTime 2055 Blended Index %	15.77	15.77	8.67	1.06	-
Target Date 2051+ Category %	15.52	15.52	7.58	-0.75	-
Morningstar Percentile Rankings	-	2	13	-	-
# of Funds in Category	102	102	25	11	-
Annual Returns	2012	2011	2010	2009	2008
Total Return %	17.41	-4.34	15.73	29.74	-
Principal LifeTime 2055 Blended Index %	15.77	-2.55	13.77	27.10	-
Target Date 2051+ Category %	15.52	-4.13	14.45	32.20	-38.86
Morningstar Percentile Rankings	2	47	20	69	-
# of Funds in Category	102	235	175	159	97

Morningstar percentile rankings are based on total returns.

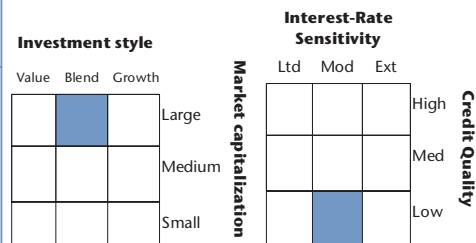
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## Morningstar category

Target Date 2051+

## Morningstar Style Box™\*\*

As of 11/30/2012



## Risk and Return Statistics

as of 12/31/2012 Relative to Principal LifeTime 2055 Blended Index

	3Yr	5Yr
Alpha	-0.10	-
Beta	1.07	-
R-Squared	99.25	-
Standard Deviation	16.30	-
Mean	9.13	-
Sharpe Ratio	0.61	-
Excess Return	0.46	-
Tracking Error	1.78	-
Information Ratio	0.24	-

## Operations

Total Investment Expense Net	0.83%
Total Investment Expense Gross	0.91%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	02/29/2008
Total Net Assets (mil)	\$66.46



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.



# Principal LifeTime 2055 Separate Account-I3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	55.94	0.00	55.94
	Non-U.S. Stocks	33.60	0.19	33.80
	U.S. Bonds	5.43	0.00	5.43
	Non-U.S. Bonds	2.47	0.54	3.01
	Other	1.54	0.18	1.73
	Preferred	1.39	0.00	1.39
	Convertibles	0.09	0.00	0.09
	Cash	-0.46	5.54	5.08

## Top ten holdings

	% of net assets
1. Principal Large Cap Growth I Inst	13.06
2. Principal Large Cap Value I Inst	12.69
3. Principal Large Cap S&P 500 Index Inst	8.07
4. Principal Overseas Instl	7.84
5. Principal Diversified Intl Inst	6.96
6. Principal Large Cap Value Inst	6.60
7. Principal Global Real Estate Sec Inst	5.70
8. Principal Large Cap Growth Inst	5.30
9. Principal Intl Emerging Markets Inst	4.85
10. Principal International I Inst	4.53
% of net assets in top ten holdings*	75.59

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	22
AvgMktCap (mil)	\$22,264.56
Turnover Ratio	15%
P/C Ratio	5.66
P/E Ratio	13.84
P/B Ratio	1.71

## Stock Sector Breakdown

	% of net assets		% of net assets		
<b>Cyclical</b>	<b>40.82</b>	<b>Defensive</b>	<b>19.91</b>	<b>Sensitive</b>	<b>39.27</b>
Consumer Cyclical	11.25	Healthcare	10.01	Technology	13.44
Basic Materials	5.25	Consumer Defensive	7.39	Industrials	12.44
Financial Svcs	15.48	Utilities	2.51	Energy	10.12
Real Estate	8.84			Comm Svcs	3.27

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

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# Principal Stable Value Sig Fund as of 12/31/2012

## Investment Strategy

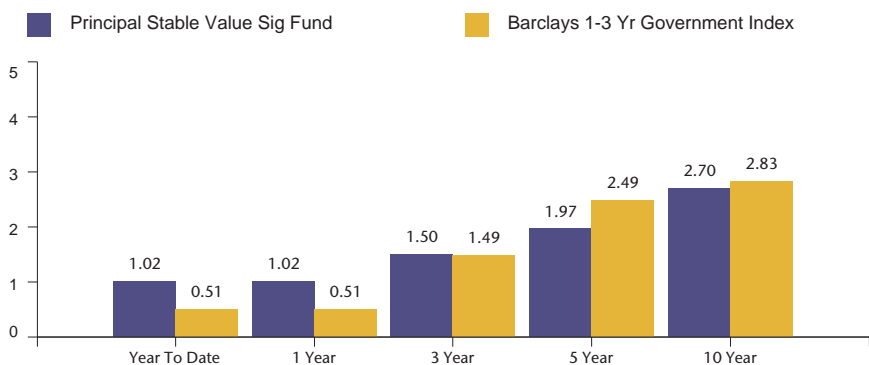
The objective of the Fund is to provide preservation of capital, relatively stable returns consistent with its comparatively low risk profile, and liquidity for benefit responsive plan or participant payments.

**MORLEY FINANCIAL**  
SERVICES, INC.

## Portfolio managers

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

## Long-term returns % as of 12/31/2012



## 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 Participant Contact Center at 1-800-547-7754.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	1.02	1.02	1.50	1.97	2.70
Barclays 1-3 Yr Government Index %	0.51	0.51	1.49	2.49	2.83

Annual Returns	2012	2011	2010	2009	2008
Total Return %	1.02	1.54	1.94	1.81	3.58
Barclays 1-3 Yr Government Index %	0.51	1.56	2.40	1.41	6.66

Past performance is not an indicator of future results. Performance returns assume the reinvestment of dividends and other earnings. Returns for periods less than one year are not annualized. Please read the trust document carefully before investing. The investment product is not a mutual fund.



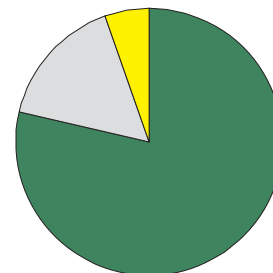
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## Operations

Total Investment Expense Net	1.11%
Total Investment Expense Gross	1.11%
Inception Date	01/09/1997
Total Net Assets (mil)	\$4,325.98

## Portfolio information

Composition as of 12/31/2012



## % of Assets

U.S. Bonds	78.65
Cash	15.97
Other	5.37

## Portfolio composition

### Top ten issuers

Top ten issuers	% of net assets
Prudential	23.89
MetLife	12.02
New York Life	9.17
Aviva	8.81
NATIXIS	6.82
TIAA-CREF Life	5.22
MassMutual	4.66
State Street	2.98
JP Morgan Chase	2.78
American General Life	2.72

% of net assets in top ten holdings\* 79.07%

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

## Diversification

### Duration

Duration	% of assets
less than 1 Yr	31.00
1-2 Yrs	15.78
2-3 Yrs	25.68
3-4 Yrs	11.01
4-5 Yrs	9.80
Over 5 Yrs	6.73

## Statistics

# of Issuers	13
Avg Eff Duration (Yrs)	2.27
Turnover Ratio %	12
Crediting Rate %	1.64

# Principal Stable Value Sig Fund as of 12/31/2012

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, if applicable, 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.

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).

**Past performance is no guarantee of future results.** Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect fees or expenses. Individuals cannot invest directly in an index.

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

**Duration** – A measure of the price sensitivity of a fixed-income security or portfolio to a change in interest rates. Duration is commonly measured in years. The longer the duration the greater the price change volatility is expected to be.

**Crediting Rate** – The rate of return credited to the book value of the Fund, expressed as an annual percentage yield. A crediting rate is determined per each wrap contract which may remain fixed for the term of the contract or may be reset at predetermined intervals based upon portfolio characteristics including yields, market value, book value and duration. Adjustments in the crediting rate are how the Fund is able to amortize gains and losses over time. The Crediting rate provided is net of any applicable fees associated with wrap contracts, sub-advisors, and Fund fees which include but may not be limited to custodial fees, audit fees, and legal fees but gross of the Trustee fee. The data is provided for general informational purposes and the return received may be higher or lower than the estimates provided.

**Wrap Contracts** – Investment contracts issued by insurance companies and other financial institutions such as Guaranteed Investment Contracts (GICs), Bank Investment Contracts (BICs), Synthetic Investment Contracts (SICs), Separate Account Contracts (SACs). Wrap contracts allow the Fund to apply book value accounting standards amortizing gains and losses over time through the crediting rate thus providing capital preservation.

The Stable Value Fund (Fund) is a Collective Investment Trust (CIT) for which Union Bond and Trust Company (UBT) serves as the trustee and Morley Capital Management (MCM) serves as the investment adviser. Both MCM and UBT are wholly owned subsidiaries of Morley Financial Services, which is a wholly owned subsidiary of the Principal Financial Group. Only employer sponsored tax-qualified defined contribution retirement plans are eligible to invest in the Fund. The Fund cannot accept investment from individuals or plans that do not meet the required criteria. While the Fund's investment objective includes capital preservation, there is no assurance that the objective will be achieved. The Fund is not guaranteed by, insured by, and does not represent a deposit or obligation of UBT, the FDIC or any government agency. Investments in the Fund may involve investment risk, including the possible loss of the principal amount invested and are subject to a deferral of redemption requests of up to 12 months at the discretion of the Trustee, as defined in the applicable Trust Agreement. Before investing carefully consider the Fund's investment objectives, risks, and charges.

# Bond and Mortgage Separate Account-R3 as of 12/31/2012

## 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.

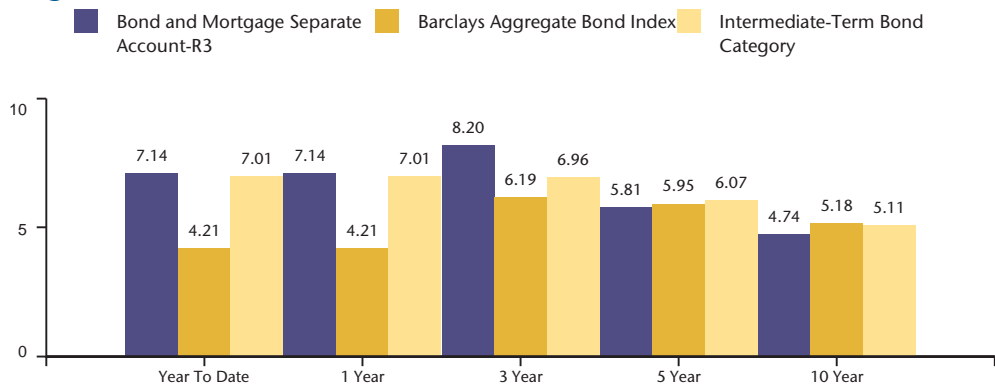


### Portfolio managers

**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

## Long-term returns % as of 12/31/2012



## 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 Participant Contact Center at 1-800-547-7754.*

*In situations where the net and gross total investment expense figures are different or where a contractual cap and/or waiver date is given, 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 %	7.14	7.14	8.20	5.81	4.74
Barclays Aggregate Bond Index %	4.21	4.21	6.19	5.95	5.18
Intermediate-Term Bond Category %	7.01	7.01	6.96	6.07	5.11
Morningstar Percentile Rankings	-	45	18	60	64
# of Funds in Category	1165	1165	1001	874	612
Annual Returns	2012	2011	2010	2009	2008
Total Return %	7.14	6.40	11.13	21.12	-13.55
Barclays Aggregate Bond Index %	4.21	7.84	6.54	5.93	5.24
Intermediate-Term Bond Category %	7.01	5.86	7.72	13.97	-4.70
Morningstar Percentile Rankings	45	47	6	12	89
# of Funds in Category	1165	1195	1164	1123	1135

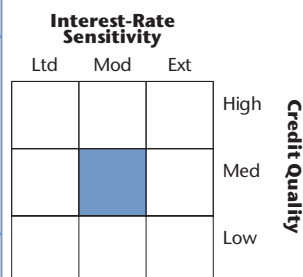
*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Intermediate-Term Bond

## Morningstar Style Box™\*\*

As of 11/30/2012



## Risk and Return Statistics

as of 12/31/2012 Relative to Barclays Aggregate Bond Index

	3Yr	5Yr
Alpha	2.75	-0.05
Beta	0.86	1.01
R-Squared	55.34	35.50
Standard Deviation	2.79	5.96
Mean	8.20	5.81
Sharpe Ratio	2.82	0.90
Tracking Error	1.89	4.84
Information Ratio	1.06	-0.03

## Operations

Total Investment Expense Net	1.12%
Total Investment Expense Gross	1.12%
Inception Date	02/01/1983
Total Net Assets (mil)	\$4,216.19



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

# Bond and Mortgage Separate Account-R3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Bonds	77.69	0.00	77.69
	Non-U.S. Bonds	27.10	0.00	27.10
	Cash	1.19	0.00	1.19
	Preferred	0.60	0.00	0.60
	Other	-6.58	10.09	3.51

## Top ten holdings

% of net assets

1. Bond & Mtg Mortgage Holding	3.60
2. Separate Account Li-Mm	2.24
3. Fannie Mae Single Family TBA 2.5% 2027-12-01	2.23
4. Ginnie Mae Single Family TBA 3.5% 2042-12-01	1.96
5. US Treasury Bond 6.25%	1.76
6. US Treasury Note 1.5%	1.43
7. FNMA 4%	1.31
8. Ginnie Mae Single Family TBA 4% 2042-12-01	1.25
9. US Treasury Note 1.875%	1.12
10. US Treasury Note 4%	1.09
% of net assets in top ten holdings*	18.00

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	1521
# of Other Hldgs	80
Turnover Ratio	259%

## Credit Analysis

As of 11/30/2012

	% Bonds
AAA	53.58
AA	2.62
A	12.38
BBB	20.01
BB	5.12
B	4.73
Below B	1.56
Not Rated	0.00

## Statistics

Avg Eff Duration (Yrs)	5.17
Avg Eff Maturity (Yrs)	8.04
Avg Weighted Price	0.00

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

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

*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 or by visiting [principal.com](http://principal.com).*

\*\*The Morningstar Style Box™ reveals a fund's investment strategy. For equity funds 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 funds, 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 the following Nationally Recognized Statistical Rating Organizations (NRSROs): Moody's, Standard & Poor's, Fitch, and Egan-Jones. 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 fund. 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 funds are assigned a style box placement of "low", "medium", or "high" based on their average credit quality. Funds 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 fund. 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 fund'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 funds whose average effective duration is between 25% to 75% of MCBI's average effective duration; funds 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 12/31/2012

## Investment Strategy

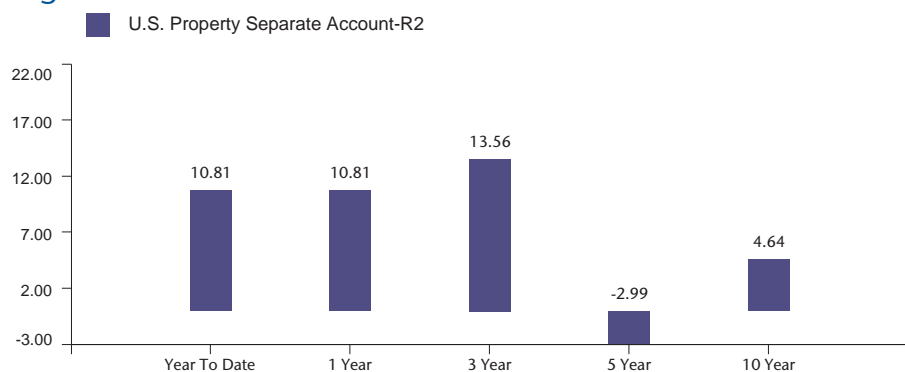
The investment invests the majority of assets in commercial real estate holdings. It focuses on properties that return both lease income and appreciation of the buildings' marketable value. The property holdings usually contain real estate from the multi-family, office, warehouse/manufacturing, and retail 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. You may not be able to immediately withdraw funds contributed to this Separate Account. A contractual limitation in the group annuity contract that provides access to this Separate Account may be implemented, which will allow management of this Separate Account, and satisfy withdrawal requests over time and fairly amongst all those who request a withdrawal.



## Portfolio managers

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

## Long-term returns % as of 12/31/2012



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	10.81	10.81	13.56	-2.99	4.64

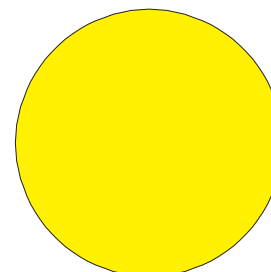
Annual Returns	2012	2011	2010	2009	2008
Total Return %	10.81	14.66	15.25	-31.99	-13.74

## Operations

Total Investment Expense Net	1.74%
Total Investment Expense Gross	1.74%
Inception Date	01/01/1982
Total Net Assets (mil)	\$4,078.16

## Portfolio information

Composition as of 11/30/2012



## % of Assets

Other	100.00
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## Analysis

Total Number of Hldgs	115
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## Portfolio composition

Top ten holdings	% of net assets
Office New York, NY	5.51
Office Seattle, WA	4.16
Retail Los Angeles, CA	3.92
Multi-family/Retail Cambridge, MA	3.29
Office Washington, D.C.	3.19
Hotel San Antonio, TX	2.64
Office Cambridge, MA	2.62
Multi-family New York, NY	2.47
Office San Francisco, CA	2.34
Office Phoenix, AZ	2.28

% of net assets in top ten holdings\* 32.43%

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

## Geographical diversity

	% of properties
West	39.98
East	25.90
South	23.42
Midwest	10.70

## Property type

	% of account
Office	39.57
Retail	21.39
Industrial Park	17.31
Apartments	17.28
Other	4.45

# U.S. Property Separate Account-R2 as of 12/31/2012

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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.

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**Past performance is no guarantee of future results.** Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect fees or expenses. Individuals cannot invest directly in an index.

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, withdrawals may be delayed for up to 3 years.

# LargeCap S&P 500 Index Separate Account-R2 as of 12/31/2012

## Investment Strategy

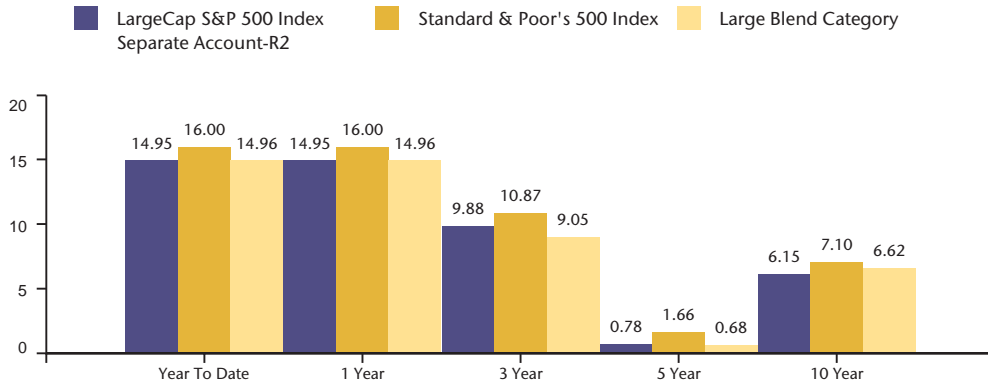
The investment option normally invests the majority of assets in common stocks of companies that compose the S&P 500 Index. Management attempts to mirror the investment performance of the index by allocating assets in approximately the same weightings as the S&P 500 Index. Over the long-term, management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



## Portfolio managers

**Thomas L. Kruchten**, CFA. Since 03/01/2011. B.A., University of Northern Iowa

## Long-term returns % as of 12/31/2012



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	14.95	14.95	9.88	0.78	6.15
Standard & Poor's 500 Index %	16.00	16.00	10.87	1.66	7.10
Large Blend Category %	14.96	14.96	9.05	0.68	6.62
Morningstar Percentile Rankings	-	56	36	51	67
# of Funds in Category	1686	1686	1506	1324	836
Annual Returns	2012	2011	2010	2009	2008
Total Return %	14.95	1.22	14.01	25.34	-37.47
Standard & Poor's 500 Index %	16.00	2.11	15.06	26.46	-37.00
Large Blend Category %	14.96	-1.27	14.01	28.17	-37.79
Morningstar Percentile Rankings	56	29	48	66	50
# of Funds in Category	1686	1786	2010	2027	2086

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Blend

## Morningstar Style Box™

As of 11/30/2012

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2012 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	-0.89	-0.87
Beta	1.00	1.00
R-Squared	100.00	100.00
Standard Deviation	15.27	18.98
Mean	9.88	0.78
Sharpe Ratio	0.69	0.12
Excess Return	-0.99	-0.88
Tracking Error	0.04	0.07
Information Ratio	-22.52	-12.73

## Operations

Total Investment Expense Net	0.90%
Total Investment Expense Gross	0.90%
Inception Date	01/01/1990
Total Net Assets (mil)	\$8,638.67



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.



# LargeCap S&P 500 Index Separate Account-R2 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution		Asset Type	Net %	Short %	Long %
		U.S. Stocks	96.93	0.00	96.93
		Other	2.21	0.04	2.25
		Non-U.S. Stocks	0.84	0.00	0.84
		Cash	0.02	0.00	0.02

Top ten holdings	% of net assets
1. Apple, Inc.	4.23
2. Exxon Mobil Corporation	3.16
3. Separate Account Li-Mm	2.15
4. General Electric Co	1.72
5. Chevron Corp	1.61
6. International Business Machines Corp	1.58
7. Microsoft Corporation	1.56
8. AT&T Inc	1.52
9. Johnson & Johnson	1.49
10. Procter & Gamble Co	1.48
% of net assets in top ten holdings*	20.50

## Analysis

# of Stock Hldgs	499
# of Bond Hldgs	0
# of Other Hldgs	6
AvgMktCap (mil)	\$55,107.18
Turnover Ratio	2%
P/C Ratio	7.03
P/E Ratio	14.14
P/B Ratio	2.04

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets	
<b>Cyclical</b>	<b>28.35</b>	<b>Defensive</b>	<b>27.24</b>	<b>Sensitive</b>	<b>44.40</b>	
Consumer Cyclical	10.32	Healthcare	12.03	Technology	17.77	
Basic Materials	3.28	Consumer Defensive	11.77	Industrials	10.97	
Financial Svcs	12.72	Utilities	3.44	Energy	11.18	
Real Estate	2.03			Comm Svcs	4.48	

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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 or by visiting principal.com.*

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

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**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. **Tracking Error** - 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.

**Average Market Cap** - The overall "size" of a stock investment option's portfolio. It is the geometric mean of the market capitalization for all of the stocks it owns and is calculated by raising the market capitalization of each stock to a power equal to that stock's stake in the portfolio. The resulting numbers are multiplied together to produce the geometric mean of the market caps of the stocks in the portfolio, which is reported as average market capitalization.

**Price/Cash Flow Ratio** - An investment option's current price divided by the trailing 12 month cash flow per share. **Price/Earnings Ratio** - The weighted average of the price/earnings ratios of the stocks in an investment option's portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. **Price/Book Ratio** - The weighted average of the price/book ratios of all the stocks in an investment option's portfolio. The P/B ratio of a company is calculated by dividing the market price of its stock by the company's per-share book value. Stocks with negative book values are excluded from this calculation.

† 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.

# LargeCap Blend II Separate Account-R3 as of 12/31/2012

## Investment Strategy

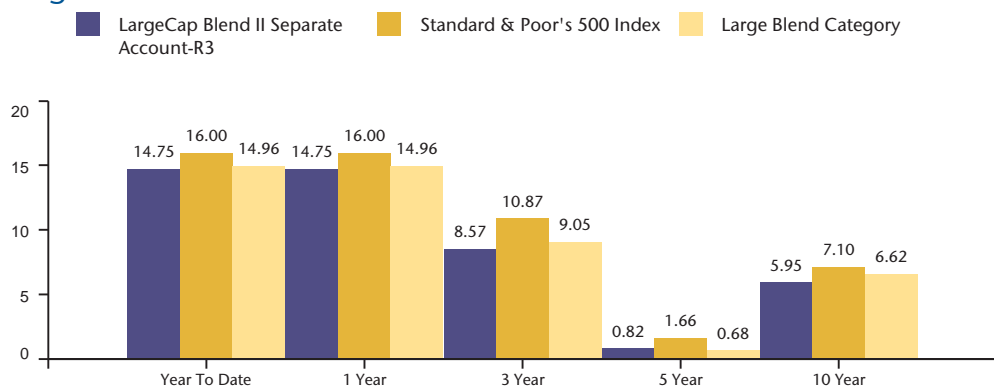
The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets in equity securities of companies with large market capitalizations (those with market capitalizations within the range of companies in the S&P 500 Index) at the time of purchase. It will also invest in securities of foreign issuers. The fund invests its assets in equity securities with both growth and/or value characteristics. Investing in value equity securities is an investment strategy that emphasizes buying equity securities that appear to be undervalued.



## 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 (Seller)  
**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 12/31/2012



## 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 Participant Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different or where a contractual cap and/or waiver date is given, 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 %	14.75	14.75	8.57	0.82	5.95
Standard & Poor's 500 Index %	16.00	16.00	10.87	1.66	7.10
Large Blend Category %	14.96	14.96	9.05	0.68	6.62
Morningstar Percentile Rankings	-	59	61	50	73
# of Funds in Category	1686	1686	1506	1324	836
Annual Returns	2012	2011	2010	2009	2008
Total Return %	14.75	-1.06	12.73	28.85	-36.85
Standard & Poor's 500 Index %	16.00	2.11	15.06	26.46	-37.00
Large Blend Category %	14.96	-1.27	14.01	28.17	-37.79
Morningstar Percentile Rankings	59	52	69	39	35
# of Funds in Category	1686	1786	2010	2027	2086

Morningstar percentile rankings are based on total returns.

## Morningstar category

Large Blend

## Morningstar Style Box™

As of 11/30/2012

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2012 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	-2.34	-0.83
Beta	1.02	1.01
R-Squared	99.82	99.66
Standard Deviation	15.70	19.17
Mean	8.57	0.82
Sharpe Ratio	0.60	0.12
Excess Return	-2.30	-0.84
Tracking Error	0.77	1.12
Information Ratio	-2.99	-0.76

## Operations

Total Investment Expense Net	1.31%
Total Investment Expense Gross	1.33%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,040.95



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

# LargeCap Blend II Separate Account-R3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	93.43	0.00	93.43
	Non-U.S. Stocks	6.23	0.00	6.23
	Other	0.97	0.00	0.97
	Cash	-0.63	2.76	2.13

## Top ten holdings

	% of net assets
1. Apple Inc	4.38
2. Exxon Mobil Corporation	3.45
3. S&P500 Emini Fut Dec12	2.76
4. Pfizer Inc	2.37
5. Google, Inc. Class A	2.15
6. Wells Fargo & Co	2.08
7. Philip Morris International, Inc.	1.90
8. Johnson & Johnson	1.82
9. General Electric Co	1.71
10. International Business Machines Corp	1.56
% of net assets in top ten holdings*	24.19

## Analysis

# of Stock Hldgs	454
# of Bond Hldgs	0
# of Other Hldgs	11
AvgMktCap (mil)	\$58,458.01
Turnover Ratio	44%
P/C Ratio	7.29
P/E Ratio	14.30
P/B Ratio	2.09

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets	
<b>Cyclical</b>	<b>31.28</b>	<b>Defensive</b>	<b>27.57</b>	<b>Sensitive</b>	<b>41.14</b>	
Consumer Cyclical	12.19	Healthcare	12.26	Technology	17.48	
Basic Materials	3.59	Consumer Defensive	11.92	Industrials	10.04	
Financial Svcs	13.65	Utilities	3.39	Energy	10.34	
Real Estate	1.85			Comm Svcs	3.28	

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

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

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**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. **Tracking Error** - 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.

**Average Market Cap** - The overall "size" of a stock investment option's portfolio. It is the geometric mean of the market capitalization for all of the stocks it owns and is calculated by raising the market capitalization of each stock to a power equal to that stock's stake in the portfolio. The resulting numbers are multiplied together to produce the geometric mean of the market caps of the stocks in the portfolio, which is reported as average market capitalization.

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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.

# LargeCap Value III Separate Account-R3 as of 12/31/2012

## Investment Strategy

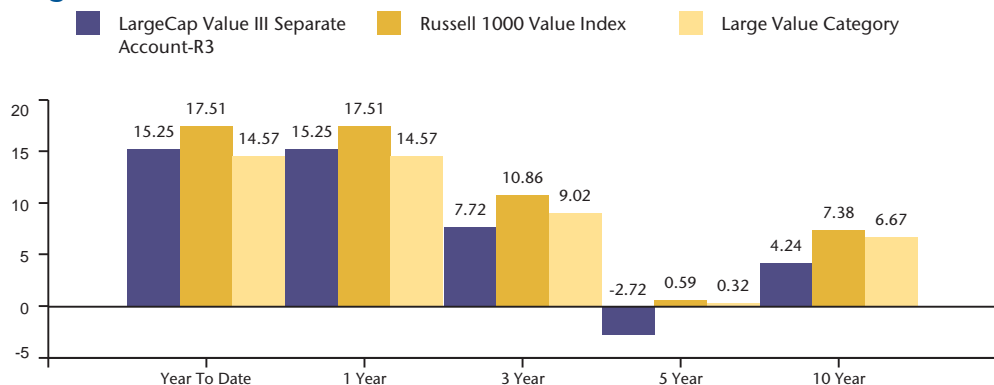
The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in companies with large market capitalizations similar to companies in the Russell 1000(R) Value Index at the time of purchase. It invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued.



## Portfolio managers

**Mark R. Freeman**, CFA. Since 07/15/2008. M.S., Louisiana State University  
**Mariateresa Monaco** Since 06/02/2009. M.B.A., Massachusetts Institute of Technology  
**James P. Barrow** Since 12/16/2011. B.S., University of South Carolina  
**Timothy J. Culler**, CFA. Since 12/16/2011. M.A., Miami University  
**Mark Giambrone**, CPA. Since 12/16/2011. M.B.A., University of Chicago

## Long-term returns % as of 12/31/2012



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	15.25	15.25	7.72	-2.72	4.24
Russell 1000 Value Index %	17.51	17.51	10.86	0.59	7.38
Large Value Category %	14.57	14.57	9.02	0.32	6.67
Morningstar Percentile Rankings	-	45	76	93	97
# of Funds in Category	1208	1208	1051	930	591
Annual Returns	2012	2011	2010	2009	2008
Total Return %	15.25	-3.47	12.36	18.39	-41.15
Russell 1000 Value Index %	17.51	0.39	15.51	19.69	-36.85
Large Value Category %	14.57	-0.75	13.66	24.13	-37.09
Morningstar Percentile Rankings	45	71	65	77	81
# of Funds in Category	1208	1258	1240	1272	1433

Morningstar percentile rankings are based on total returns.

## Morningstar category

Large Value

## Morningstar Style Box™

As of 11/30/2012

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2012 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	-3.44	-3.32
Beta	1.06	1.01
R-Squared	99.52	99.06
Standard Deviation	16.75	20.40
Mean	7.72	-2.72
Sharpe Ratio	0.52	-0.05
Excess Return	-3.14	-3.31
Tracking Error	1.52	1.99
Information Ratio	-2.06	-1.67

## Operations

Total Investment Expense Net	1.35%
Total Investment Expense Gross	1.36%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	12/29/2000
Total Net Assets (mil)	\$740.84



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# LargeCap Value III Separate Account-R3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution		Asset Type	Net %	Short %	Long %
		U.S. Stocks	91.15	0.00	91.15
		Non-U.S. Stocks	8.74	0.00	8.74
		Other	0.85	0.00	0.85
		Cash	-0.75	3.26	2.51

Top ten holdings	% of net assets
1. S&P500 Emini Fut Dec12	3.26
2. Johnson & Johnson	2.52
3. Wells Fargo & Co	2.43
4. JPMorgan Chase & Co	2.40
5. Pfizer Inc	2.27
6. Occidental Petroleum Corporation	2.11
7. Chevron Corp	1.97
8. Exxon Mobil Corporation	1.86
9. AT&T Inc	1.75
10. Microsoft Corporation	1.74
% of net assets in top ten holdings*	22.31

## Analysis

# of Stock Hldgs	495
# of Bond Hldgs	0
# of Other Hldgs	10
AvgMktCap (mil)	\$49,545.87
Turnover Ratio	58%
P/C Ratio	5.76
P/E Ratio	12.29
P/B Ratio	1.45

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets	
<b>Cyclical</b>	<b>30.70</b>	<b>Defensive</b>	<b>29.71</b>	<b>Sensitive</b>	<b>39.59</b>	
Consumer Cyclical	6.00	Healthcare	16.35	Technology	9.35	
Basic Materials	1.92	Consumer Defensive	9.75	Industrials	11.73	
Financial Svcs	21.30	Utilities	3.61	Energy	13.62	
Real Estate	1.48			Comm Svcs	4.89	

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

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# LargeCap Growth I Separate Account-R3 as of 12/31/2012

## Investment Strategy

The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with large market capitalizations (those with market capitalization ranges similar to the companies in the Russell 1000(R) Growth Index) at the time of purchase. It invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average. The fund may also invest in securities of foreign companies.



## 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 12/31/2012



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	15.85	15.85	11.04	4.12	7.16
Russell 1000 Growth Index %	15.26	15.26	11.35	3.12	7.52
Large Growth Category %	15.34	15.34	9.30	1.12	7.12
Morningstar Percentile Rankings	-	41	20	8	44
# of Funds in Category	1681	1681	1503	1301	863
Annual Returns	2012	2011	2010	2009	2008
Total Return %	15.85	-0.87	19.23	51.30	-40.93
Russell 1000 Growth Index %	15.26	2.64	16.71	37.21	-38.44
Large Growth Category %	15.34	-2.46	15.53	35.68	-40.67
Morningstar Percentile Rankings	41	37	19	6	54
# of Funds in Category	1681	1683	1718	1796	1809

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Growth

## Morningstar Style Box™

As of 11/30/2012

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2012 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	-1.52	0.97
Beta	1.14	1.11
R-Squared	97.55	96.61
Standard Deviation	18.30	21.78
Mean	11.04	4.12
Sharpe Ratio	0.66	0.28
Excess Return	-0.31	1.00
Tracking Error	3.60	4.54
Information Ratio	-0.08	0.22

## Operations

Total Investment Expense Net	1.18%
Total Investment Expense Gross	1.20%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	12/29/2000
Total Net Assets (mil)	\$5,171.28



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# LargeCap Growth I Separate Account-R3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution		Asset Type	Net %	Short %	Long %
■	U.S. Stocks	93.10	0.00	93.10	
■	Non-U.S. Stocks	6.80	0.00	6.80	
■	Other	0.92	0.00	0.92	
■	Cash	-0.82	3.23	2.40	

## Top ten holdings

	% of net assets
1. Apple Inc	7.17
2. Google, Inc. Class A	4.31
3. S&P500 Emini Fut Dec12	3.23
4. MasterCard Incorporated Class A	2.83
5. Qualcomm, Inc.	2.76
6. Danaher Corporation	2.60
7. Express Scripts	2.44
8. Starbucks Corporation	2.25
9. Amazon.com Inc	1.78
10. Salesforce.com, Inc.	1.77
<b>% of net assets in top ten holdings*</b>	<b>31.13</b>

## Analysis

# of Stock Hldgs	411
# of Bond Hldgs	0
# of Other Hldgs	9
AvgMktCap (mil)	\$32,181.00
Turnover Ratio	34%
P/C Ratio	11.34
P/E Ratio	20.00
P/B Ratio	3.69

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets	
<b>Cyclical</b>	<b>23.64</b>	<b>Defensive</b>	<b>20.06</b>	<b>Sensitive</b>	<b>56.30</b>	
Consumer Cyclical	15.66	Healthcare	13.72	Technology	32.48	
Basic Materials	1.78	Consumer Defensive	6.32	Industrials	15.00	
Financial Svcs	5.86	Utilities	0.02	Energy	7.15	
Real Estate	0.34			Comm Svcs	1.67	

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# American Century Equity Income A Fund as of 12/31/2012

## Investment Strategy

The investment seeks current income; capital appreciation is a secondary objective. The fund invests in equity securities of companies with a favorable income-paying history that have prospects for income payments to continue or increase. The portfolio managers also look for equity securities of companies that they believe are undervalued and have the potential for an increase in price.



American Century  
Investments®

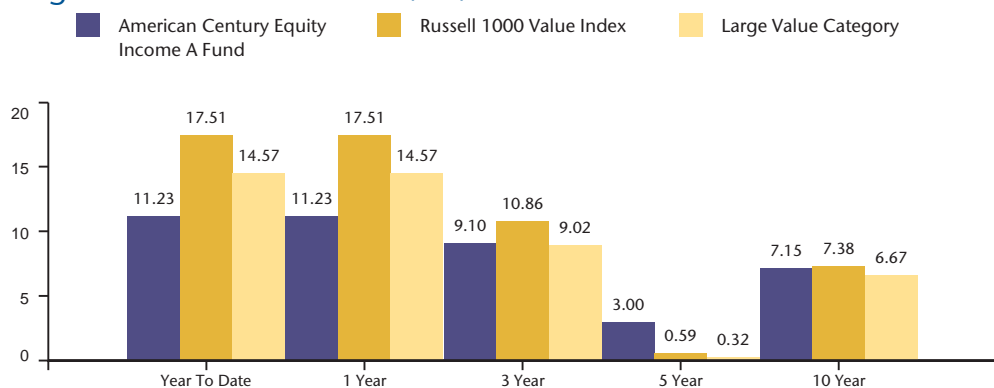
## Portfolio managers

**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 12/31/2012



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	11.23	11.23	9.10	3.00	7.15
Russell 1000 Value Index %	17.51	17.51	10.86	0.59	7.38
Large Value Category %	14.57	14.57	9.02	0.32	6.67
Morningstar Percentile Rankings	-	86	50	9	33
# of Funds in Category	1208	1208	1051	930	591
Annual Returns	2012	2011	2010	2009	2008
Total Return %	11.23	3.31	13.01	11.95	-20.25
Russell 1000 Value Index %	17.51	0.39	15.51	19.69	-36.85
Large Value Category %	14.57	-0.75	13.66	24.13	-37.09
Morningstar Percentile Rankings	86	21	56	96	1
# of Funds in Category	1208	1258	1240	1272	1433

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Value

## Morningstar Style Box™

As of 09/30/2012

### Investment style

Value	Blend	Growth	Market capitalization	
■				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2012 Relative to  
Russell 1000 Value Index

	3Yr	5Yr
Alpha	1.63	2.01
Beta	0.66	0.62
R-Squared	95.64	93.37
Standard Deviation	10.61	12.99
Mean	9.10	3.00
Sharpe Ratio	0.87	0.26
Excess Return	-1.76	2.41
Tracking Error	5.80	8.34
Information Ratio	-0.30	0.29

## Operations

Total Investment Expense Net	1.20%
Total Investment Expense Gross	1.20%
Inception Date	03/07/1997
Total Net Assets (mil)	\$9,621.11
12b-1 Fees	0.25%
Ticker	TWEAX



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.



# American Century Equity Income A Fund as of 12/31/2012

## Portfolio information<sup>†</sup>

Composition as of 09/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	61.86	0.00	61.86
	Convertibles	12.29	0.00	12.29
	Preferred	11.17	0.00	11.17
	Non-U.S. Stocks	8.19	0.00	8.19
	Other	2.62	0.00	2.62
	Cash	2.40	0.00	2.40
	U.S. Bonds	1.47	0.00	1.47

Top ten holdings	% of net assets
1. Wells Fargo & Co, San Francisco Ca Pfd	5.25
2. Exxon Mobil Corporation	4.98
3. Procter & Gamble Co	4.13
4. Johnson & Johnson	4.10
5. Stanley Uts 18	2.52
6. Chevron Corp	2.35
7. AT&T Inc	2.28
8. Chubb Corp	2.08
9. Marsh & McLennan Companies, Inc.	2.05
10. JPMorgan Chase & Co	2.04
% of net assets in top ten holdings*	31.77

Analysis		Stock Sector Breakdown			
		% of net assets		% of net assets	
# of Stock Hldgs	75	<b>Cyclical</b>	<b>26.98</b>	<b>Defensive</b>	<b>31.58</b>
# of Bond Hldgs	1	Consumer Cyclical	1.95	Healthcare	12.77
# of Other Hldgs	34	Basic Materials	3.74	Consumer Defensive	9.56
AvgMktCap (mil)	\$44,115.17	Financial Svcs	20.23	Utilities	9.25
Turnover Ratio	115%	Real Estate	1.06	Energy	18.97
P/C Ratio	6.74			Comm Svcs	6.15
P/E Ratio	13.30				
P/B Ratio	1.72				
				<b>Sensitive</b>	<b>41.44</b>
				Technology	5.25
				Industrials	11.07

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

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**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. **Tracking Error** - 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.

**Average Market Cap** - The overall "size" of a stock investment option's portfolio. It is the geometric mean of the market capitalization for all of the stocks it owns and is calculated by raising the market capitalization of each stock to a power equal to that stock's stake in the portfolio. The resulting numbers are multiplied together to produce the geometric mean of the market caps of the stocks in the portfolio, which is reported as average market capitalization.

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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. This investment option is closed to new investors.

# American Funds Growth Fund of America R3 Fund as of 12/31/2012

## Investment Strategy

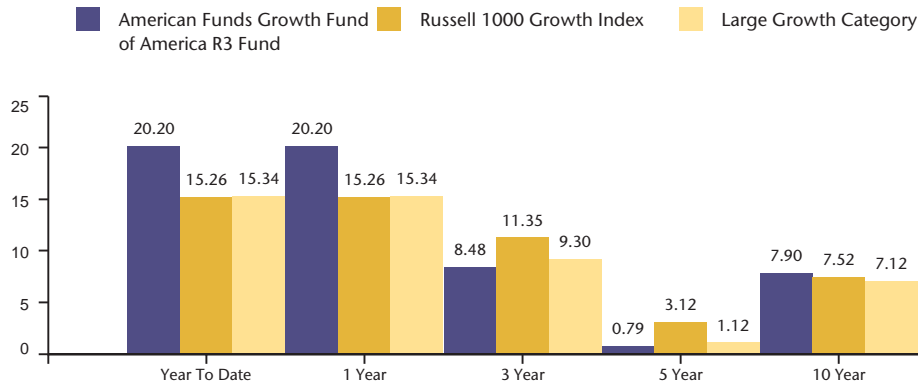
The investment seeks growth of capital. The fund invests primarily in common stocks and seeks to invest in companies that appear to offer superior opportunities for growth of capital. It may invest a portion of its assets in securities of issuers domiciled outside the United States. The investment adviser uses a system of multiple portfolio counselors in managing the fund's assets. Under this approach, the portfolio of the fund is divided into segments managed by individual counselors who decide how their respective segments will be invested.



### Portfolio managers

**James E. Drasdo** Since 11/01/1985.  
**James F. Rothenberg**, CFA. Since 11/01/1988. M.B.A., Harvard University  
**Don D. O'Neal** Since 11/01/1993.  
**Gregg E. Ireland** Since 11/01/2004.  
**Carl M. Kawaja** Since 12/31/2010. B.A., Brown University

## Long-term returns % as of 12/31/2012



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	20.20	20.20	8.48	0.79	7.90
Russell 1000 Growth Index %	15.26	15.26	11.35	3.12	7.52
Large Growth Category %	15.34	15.34	9.30	1.12	7.12
Morningstar Percentile Rankings	-	8	65	58	28
# of Funds in Category	1681	1681	1503	1301	863
Annual Returns	2012	2011	2010	2009	2008
Total Return %	20.20	-5.14	11.95	34.12	-39.24
Russell 1000 Growth Index %	15.26	2.64	16.71	37.21	-38.44
Large Growth Category %	15.34	-2.46	15.53	35.68	-40.67
Morningstar Percentile Rankings	8	75	80	51	40
# of Funds in Category	1681	1683	1718	1796	1809

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Growth

## Morningstar Style Box™

As of 09/30/2012

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2012 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	-2.50	-2.23
Beta	0.99	0.98
R-Squared	96.68	97.66
Standard Deviation	16.02	19.16
Mean	8.48	0.79
Sharpe Ratio	0.58	0.12
Excess Return	-2.87	-2.32
Tracking Error	2.92	2.96
Information Ratio	-0.98	-0.79

## Operations

Total Investment Expense Net	0.98%
Total Investment Expense Gross	0.98%
Inception Date	05/21/2002
Extended Performance	
Inception Date <sup>#</sup>	01/01/1959
Total Net Assets (mil)	\$113,162.21
12b-1 Fees	0.50%
Ticker	RGACX



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# American Funds Growth Fund of America R3 Fund as of 12/31/2012

## Portfolio information†

Composition as of 09/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	73.21	0.00	73.21
	Non-U.S. Stocks	15.70	0.00	15.70
	Cash	9.64	0.00	9.64
	Other	1.08	0.00	1.08
	U.S. Bonds	0.37	0.00	0.37
0 25 50 75				

Top ten holdings	% of net assets
1. Amazon.com Inc	3.43
2. Apple Inc	3.00
3. Gilead Sciences Inc	3.00
4. Home Depot, Inc.	2.45
5. Google, Inc. Class A	2.25
6. Comcast Corp Class A	2.22
7. Oracle Corporation	2.22
8. Philip Morris International, Inc.	1.74
9. EOG Resources	1.39
10. Costco Wholesale Corporation	1.20
% of net assets in top ten holdings*	22.89

## Analysis

# of Stock Hldgs	290
# of Bond Hldgs	7
# of Other Hldgs	149
AvgMktCap (mil)	\$39,541.80
Turnover Ratio	18%
P/C Ratio	7.63
P/E Ratio	16.53
P/B Ratio	2.46

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets	
<b>Cyclical</b>	<b>29.04</b>	<b>Defensive</b>	<b>22.43</b>	<b>Sensitive</b>	<b>48.52</b>	
Consumer Cyclical	15.89	Healthcare	16.20	Technology	19.05	
Basic Materials	4.43	Consumer Defensive	6.11	Industrials	9.73	
Financial Svcs	8.71	Utilities	0.12	Energy	11.50	
Real Estate	0.01			Comm Svcs	8.24	

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# MidCap Growth III Separate Account-R3 as of 12/31/2012

## Investment Strategy

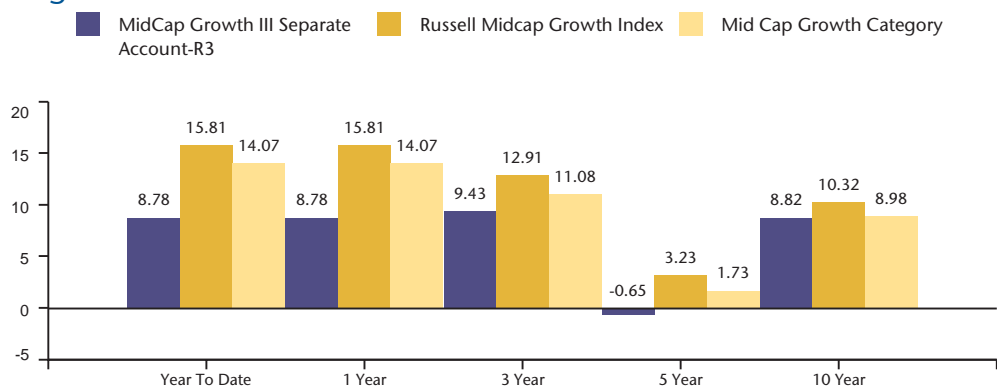
The investment seeks long-term growth of capital. The fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with medium market capitalizations (those with market capitalizations similar to companies in the Russell Midcap(R) Growth Index) at the time of purchase. It invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average. The fund may actively trade portfolio securities.



## Portfolio managers

**Christopher K. McHugh** Since 12/06/2000. M.B.A., St. Joseph's University  
**Bruce I. Jacobs** Since 05/01/2009. Ph.D., University of Pennsylvania (Wharton)  
**Ken Levy, CFA.** Since 05/01/2009. M.B.A., University of Pennsylvania (Wharton)  
**Mariateresa Monaco** Since 06/02/2009. M.B.A., Massachusetts Institute of Technology

## Long-term returns % as of 12/31/2012



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	8.78	8.78	9.43	-0.65	8.82
Russell Midcap Growth Index %	15.81	15.81	12.91	3.23	10.32
Mid Cap Growth Category %	14.07	14.07	11.08	1.73	8.98
Morningstar Percentile Rankings	-	91	72	80	53
# of Funds in Category	737	737	671	591	431
Annual Returns	2012	2011	2010	2009	2008
Total Return %	8.78	-4.96	26.75	44.22	-48.77
Russell Midcap Growth Index %	15.81	-1.65	26.38	46.29	-44.32
Mid Cap Growth Category %	14.07	-3.96	24.61	39.11	-43.77
Morningstar Percentile Rankings	91	59	37	33	82
# of Funds in Category	737	751	759	812	934

Morningstar percentile rankings are based on total returns.

## Morningstar category

Mid Cap Growth

## Morningstar Style Box™

As of 11/30/2012

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2012 Relative to Russell Midcap Growth Index

	3Yr	5Yr
Alpha	-3.66	-3.80
Beta	1.05	1.03
R-Squared	98.71	98.31
Standard Deviation	19.22	23.94
Mean	9.43	-0.65
Sharpe Ratio	0.56	0.08
Excess Return	-3.47	-3.88
Tracking Error	2.37	3.18
Information Ratio	-1.46	-1.22

## Operations

Total Investment Expense Net	1.52%
Total Investment Expense Gross	1.54%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	10/28/1999
Total Net Assets (mil)	\$1,422.80



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# MidCap Growth III Separate Account-R3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution		Asset Type	Net %	Short %	Long %
		U.S. Stocks	90.73	0.00	90.73
		Non-U.S. Stocks	9.24	0.00	9.24
		Other	0.95	0.00	0.95
		Cash	-0.93	3.59	2.66

## Top ten holdings

	% of net assets
1. S&P Mid 400 Emini Dec12	3.59
2. PPG Industries, Inc.	1.69
3. LinkedIn Corp	1.48
4. Concho Resources, Inc.	1.39
5. Alexion Pharmaceuticals, Inc.	1.35
6. F5 Networks, Inc.	1.27
7. IntercontinentalExchange, Inc.	1.23
8. Cavium Inc	1.23
9. Ralph Lauren Corp	1.23
10. Tractor Supply	1.20
% of net assets in top ten holdings*	15.66

## Analysis

# of Stock Hldgs	432
# of Bond Hldgs	0
# of Other Hldgs	9
AvgMktCap (mil)	\$6,601.90
Turnover Ratio	128%
P/C Ratio	11.34
P/E Ratio	19.78
P/B Ratio	3.57

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets	
<b>Cyclical</b>	<b>37.31</b>	<b>Defensive</b>	<b>18.32</b>	<b>Sensitive</b>	<b>44.37</b>	
Consumer Cyclical	23.90	Healthcare	10.81	Technology	21.91	
Basic Materials	5.16	Consumer Defensive	7.45	Industrials	15.05	
Financial Svcs	5.76	Utilities	0.06	Energy	5.21	
Real Estate	2.49			Comm Svcs	2.20	

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

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

*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 or by visiting principal.com.*

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## Investment Strategy

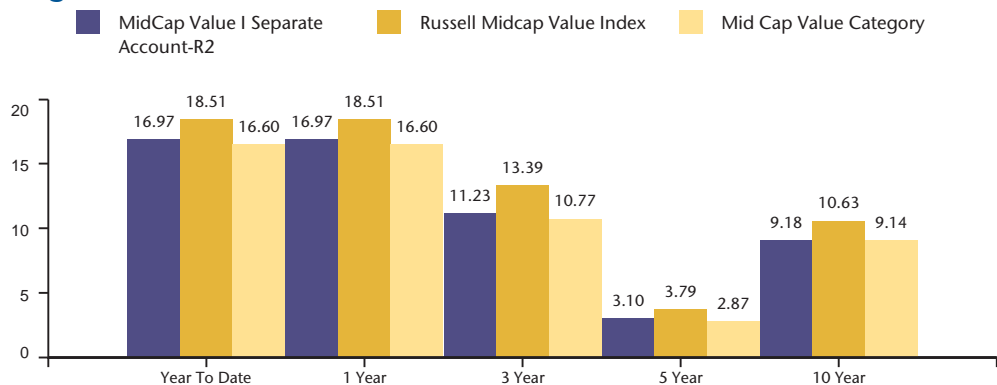
The investment seeks long-term growth of capital. The fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in a diversified portfolio of equity securities of companies with a medium market capitalization (those with market capitalizations similar to companies in the Russell Midcap(R) Value Index) at the time of purchase. It invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued. The fund will also invest in real estate investment trusts.



## Portfolio managers

**Andrew I. Braun** Since 12/29/2003. M.B.A., New York University  
**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  
**Dolores Bamford, CFA.** Since 03/02/2009. M.S., Massachusetts Institute of Technology (Sloan)  
**Mariateresa Monaco** Since 06/02/2009. M.B.A., Massachusetts Institute of Technology

## Long-term returns % as of 12/31/2012



## 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 Participant Contact Center at 1-800-547-7754.*

*In situations where the net and gross total investment expense figures are different or where a contractual cap and/or waiver date is given, 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 %	16.97	16.97	11.23	3.10	9.18
Russell Midcap Value Index %	18.51	18.51	13.39	3.79	10.63
Mid Cap Value Category %	16.60	16.60	10.77	2.87	9.14
Morningstar Percentile Rankings	-	45	43	50	49
# of Funds in Category	425	425	357	311	177
Annual Returns	2012	2011	2010	2009	2008
Total Return %	16.97	-4.65	23.38	32.83	-36.26
Russell Midcap Value Index %	18.51	-1.38	24.75	34.21	-38.44
Mid Cap Value Category %	16.60	-3.96	21.92	35.41	-36.77
Morningstar Percentile Rankings	45	55	35	57	45
# of Funds in Category	425	422	420	416	442

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Mid Cap Value

## Morningstar Style Box™

As of 11/30/2012

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2012 Relative to Russell Midcap Value Index

	3Yr	5Yr
Alpha	-2.26	-0.58
Beta	1.03	0.92
R-Squared	99.52	97.91
Standard Deviation	17.51	21.62
Mean	11.23	3.10
Sharpe Ratio	0.69	0.23
Excess Return	-2.15	-0.69
Tracking Error	1.31	3.62
Information Ratio	-1.66	-0.19

## Operations

Total Investment Expense Net	1.73%
Total Investment Expense Gross	1.75%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	07/01/1999
Total Net Assets (mil)	\$1,674.07



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

# MidCap Value I Separate Account-R2 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution		Asset Type	Net %	Short %	Long %
		U.S. Stocks	95.17	0.00	95.17
		Non-U.S. Stocks	4.64	0.00	4.64
		Other	0.40	0.00	0.40
		Cash	-0.22	3.39	3.16

## Top ten holdings

	% of net assets
1. S&P Mid 400 Emini Dec12	3.39
2. Invesco Ltd.	1.39
3. Ventas Inc	1.17
4. M&T Bank Corp	1.10
5. Xcel Energy Inc	1.07
6. PPL Corp	1.05
7. Marathon Petroleum Corp	1.00
8. Dover Corporation	0.97
9. SLM Corp	0.90
10. AvalonBay Communities Inc	0.90
<b>% of net assets in top ten holdings*</b>	<b>12.93</b>

## Analysis

# of Stock Hldgs	672
# of Bond Hldgs	0
# of Other Hldgs	8
AvgMktCap (mil)	\$7,480.56
Turnover Ratio	87%
P/C Ratio	7.03
P/E Ratio	14.41
P/B Ratio	1.46

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets	
<b>Cyclical</b>	<b>46.79</b>	<b>Defensive</b>	<b>22.61</b>	<b>Sensitive</b>	<b>30.60</b>	
Consumer Cyclical	11.68	Healthcare	7.29	Technology	10.05	
Basic Materials	4.37	Consumer Defensive	5.05	Industrials	11.58	
Financial Svcs	18.98	Utilities	10.27	Energy	7.91	
Real Estate	11.76			Comm Svcs	1.06	

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

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

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

**Past performance is no guarantee of future results.** Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect fees or expenses. Individuals cannot invest directly in an 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. **Tracking Error** - 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.

**Average Market Cap** - The overall "size" of a stock investment option's portfolio. It is the geometric mean of the market capitalization for all of the stocks it owns and is calculated by raising the market capitalization of each stock to a power equal to that stock's stake in the portfolio. The resulting numbers are multiplied together to produce the geometric mean of the market caps of the stocks in the portfolio, which is reported as average market capitalization.

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# SmallCap Growth II Separate Account-R3 as of 12/31/2012

## Investment Strategy

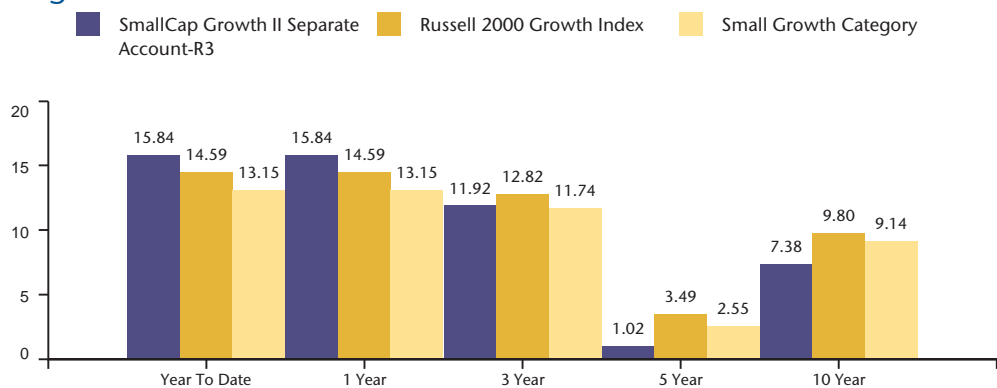
The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with small market capitalizations (those with market capitalizations equal to or smaller than the greater of 1) \$2.5 billion or 2) the highest market capitalization of the companies in the Russell 2000(R) Growth Index) at the time of purchase. It invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average.



## 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  
**Mariateresa Monaco** Since 06/02/2009. M.B.A., Massachusetts Institute of Technology

## Long-term returns % as of 12/31/2012



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	15.84	15.84	11.92	1.02	7.38
Russell 2000 Growth Index %	14.59	14.59	12.82	3.49	9.80
Small Growth Category %	13.15	13.15	11.74	2.55	9.14
Morningstar Percentile Rankings	-	25	50	72	86
# of Funds in Category	743	743	658	570	384
Annual Returns	2012	2011	2010	2009	2008
Total Return %	15.84	-4.89	27.24	30.60	-42.55
Russell 2000 Growth Index %	14.59	-2.91	29.09	34.47	-38.54
Small Growth Category %	13.15	-3.55	26.98	35.46	-41.55
Morningstar Percentile Rankings	25	63	47	68	60
# of Funds in Category	743	764	758	778	834

Morningstar percentile rankings are based on total returns.

## Morningstar category

Small Growth

## Morningstar Style Box™

As of 11/30/2012

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2012 Relative to Russell 2000 Growth Index

	3Yr	5Yr
Alpha	-1.06	-2.31
Beta	1.03	1.00
R-Squared	97.18	97.55
Standard Deviation	22.04	25.10
Mean	11.92	1.02
Sharpe Ratio	0.62	0.15
Excess Return	-0.90	-2.47
Tracking Error	3.77	3.93
Information Ratio	-0.24	-0.63

## Operations

Total Investment Expense Net	1.58%
Total Investment Expense Gross	1.60%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	12/29/2000
Total Net Assets (mil)	\$146.99



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# SmallCap Growth II Separate Account-R3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	94.96	0.00	94.96
	Non-U.S. Stocks	5.19	0.00	5.19
	Other	1.50	0.00	1.50
	Cash	-1.65	5.02	3.37

## Top ten holdings

	% of net assets
1. Russell 2000 Mini Dec12	5.02
2. MWI Veterinary Supply, Inc.	2.90
3. IPG Photonics Corporation	1.77
4. Middleby Corporation	1.73
5. Jazz Pharmaceuticals PLC	1.68
6. Faro Technologies, Inc.	1.55
7. Acadia Healthcare Company, Inc.	1.49
8. Wesco International, Inc.	1.44
9. Triumph Group, Inc.	1.38
10. Bank of the Ozarks, Inc.	1.33
% of net assets in top ten holdings*	20.30

## Analysis

# of Stock Hldgs	850
# of Bond Hldgs	0
# of Other Hldgs	8
AvgMktCap (mil)	\$1,238.30
Turnover Ratio	89%
P/C Ratio	10.33
P/E Ratio	21.23
P/B Ratio	2.33

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets	
<b>Cyclical</b>	<b>35.43</b>	<b>Defensive</b>	<b>26.30</b>	<b>Sensitive</b>	<b>38.26</b>	
Consumer Cyclical	19.91	Healthcare	22.85	Technology	20.34	
Basic Materials	4.84	Consumer Defensive	3.34	Industrials	12.66	
Financial Svcs	7.88	Utilities	0.11	Energy	5.03	
Real Estate	2.80			Comm Svcs	0.23	

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# SmallCap Value II Separate Account-R3 as of 12/31/2012

## Investment Strategy

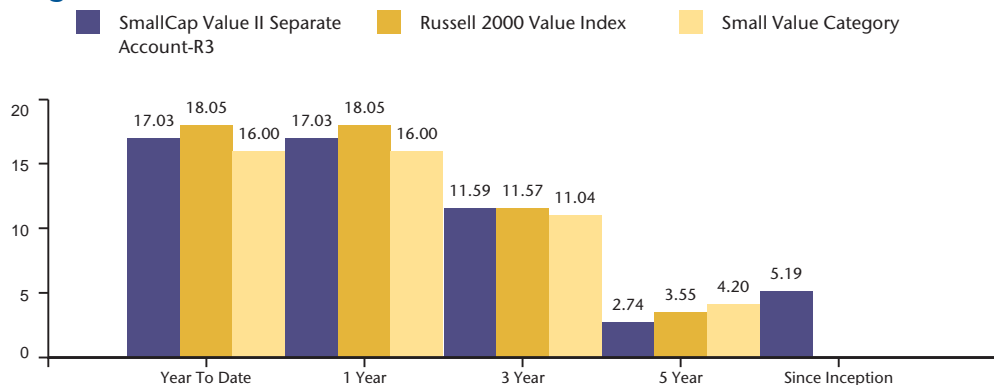
The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of U.S. companies with small market capitalizations (those with market capitalizations similar to companies in the Russell 2000(R) Value Index) or in securities with market capitalizations of \$3.5 billion or less at the time of purchase. It invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued. The fund will also invest in real estate investment trusts.



## Portfolio managers

**Chris D. Wallis**, CPA, CFA. Since 10/03/2005. M.B.A., Harvard University  
**Scott J. Weber**, CFA. Since 10/03/2005. M.B.A., Tulane University  
**Thomas D. Stevens**, CFA. Since 05/01/2009. M.B.A., University of Wisconsin  
**Mariateresa Monaco** Since 06/02/2009. M.B.A., Massachusetts Institute of Technology  
**Hal W. Reynolds**, CFA. Since 03/01/2010. M.B.A., University of Pittsburgh

## Long-term returns % as of 12/31/2012



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	17.03	17.03	11.59	2.74	5.19
Russell 2000 Value Index %	18.05	18.05	11.57	3.55	-
Small Value Category %	16.00	16.00	11.04	4.20	-
Morningstar Percentile Rankings	-	37	47	79	-
# of Funds in Category	357	357	279	247	-
Annual Returns	2012	2011	2010	2009	2008
Total Return %	17.03	-6.31	26.74	31.59	-37.40
Russell 2000 Value Index %	18.05	-5.50	24.50	20.58	-28.92
Small Value Category %	16.00	-4.45	26.17	31.32	-32.24
Morningstar Percentile Rankings	37	72	38	38	82
# of Funds in Category	357	352	342	370	438

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Small Value

## Morningstar Style Box™

As of 11/30/2012

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2012 Relative to Russell 2000 Value Index

	3Yr	5Yr
Alpha	-0.25	-0.75
Beta	1.03	1.03
R-Squared	99.39	98.73
Standard Deviation	20.88	25.81
Mean	11.59	2.74
Sharpe Ratio	0.62	0.22
Excess Return	0.02	-0.80
Tracking Error	1.75	3.04
Information Ratio	0.01	-0.27

## Operations

Total Investment Expense Net	1.60%
Total Investment Expense Gross	1.68%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	06/01/2004
Total Net Assets (mil)	\$1,147.51



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# SmallCap Value II Separate Account-R3 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution		Asset Type	Net %	Short %	Long %
		U.S. Stocks	94.34	0.00	94.34
		Non-U.S. Stocks	5.51	0.00	5.51
		Other	0.11	0.00	0.11
		Cash	0.04	4.76	4.81

## Top ten holdings

	% of net assets
1. Russell 2000 Mini Dec12	4.76
2. CNO Financial Group, Inc.	0.90
3. Webster Financial Corp	0.67
4. Ares Capital Corporation	0.66
5. Corrections Corporation of America	0.64
6. Firstmerit Corp	0.63
7. Group 1 Automotive Inc	0.60
8. Actuant Corp Class A	0.57
9. Silgan Holdings, Inc.	0.56
10. Rent-A-Center, Inc.	0.55
<b>% of net assets in top ten holdings*</b>	<b>10.55</b>

## Analysis

# of Stock Hldgs	1688
# of Bond Hldgs	0
# of Other Hldgs	12
AvgMktCap (mil)	\$1,079.52
Turnover Ratio	53%
P/C Ratio	5.47
P/E Ratio	13.89
P/B Ratio	1.14

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets	
<b>Cyclical</b>	<b>52.01</b>	<b>Defensive</b>	<b>11.55</b>	<b>Sensitive</b>	<b>36.43</b>	
Consumer Cyclical	14.45	Healthcare	4.56	Technology	10.60	
Basic Materials	6.35	Consumer Defensive	3.76	Industrials	19.49	
Financial Svcs	24.85	Utilities	3.23	Energy	5.65	
Real Estate	6.36			Comm Svcs	0.69	

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# Diversified International Separate Account-R2 as of 12/31/2012

## Investment Strategy

The investment option normally invests the majority of assets in companies in at least three different countries. It invests in securities of companies with their principal place of business or principal office outside of the United States; companies for which the principal securities trade on a foreign exchange; and companies, regardless of where their securities are traded, that derive 50% or more of their total revenue from goods or services produced or sold outside of the United States. The Separate Account may invest in securities of companies with small to medium market capitalizations.

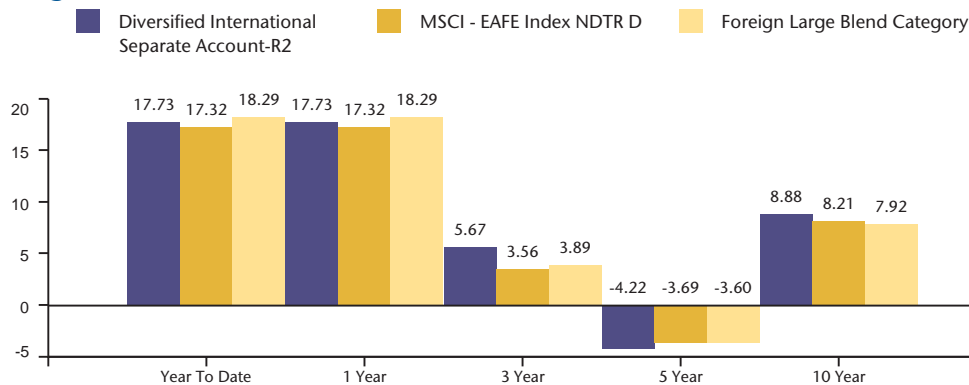


### Portfolio managers

**Paul H. Blankenhagen**, CFA. Since 12/01/2003. M.B.A., Drake University

**Juliet Cohn** Since 05/01/2004. B.A., Trinity College

## Long-term returns % as of 12/31/2012



## 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 Participant Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different or where a contractual cap and/or waiver date is given, 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 %	17.73	17.73	5.67	-4.22	8.88
MSCI - EAFE Index NDTR D %	17.32	17.32	3.56	-3.69	8.21
Foreign Large Blend Category %	18.29	18.29	3.89	-3.60	7.92
Morningstar Percentile Rankings	-	58	18	64	26
# of Funds in Category	786	786	713	589	325
Annual Returns	2012	2011	2010	2009	2008
Total Return %	17.73	-11.64	13.41	26.82	-46.13
MSCI - EAFE Index NDTR D %	17.32	-12.14	7.75	31.78	-43.38
Foreign Large Blend Category %	18.29	-13.97	10.24	31.24	-43.99
Morningstar Percentile Rankings	58	21	22	74	72
# of Funds in Category	786	817	829	823	778

Morningstar percentile rankings are based on total returns.

## Morningstar category

Foreign Large Blend

## Morningstar Style Box™

As of 11/30/2012

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2012 Relative to MSCI - EAFE Index NDTR D

	3Yr	5Yr
Alpha	2.11	-0.46
Beta	0.98	1.00
R-Squared	96.61	96.88
Standard Deviation	19.58	23.77
Mean	5.67	-4.22
Sharpe Ratio	0.37	-0.08
Excess Return	2.11	-0.52
Tracking Error	3.63	4.21
Information Ratio	0.58	-0.13

## Operations

Total Investment Expense Net	1.65%
Total Investment Expense Gross	1.65%
Inception Date	05/20/1987
Total Net Assets (mil)	\$2,348.71



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

# Diversified International Separate Account-R2 as of 12/31/2012

## Portfolio information†

Composition as of 11/30/2012

Asset Distribution		Asset Type	Net %	Short %	Long %
		Non-U.S. Stocks	97.70	0.00	97.70
		Other	1.74	0.03	1.77
		U.S. Stocks	0.37	0.00	0.37
		Cash	0.19	0.00	0.19

Top ten holdings	% of net assets
1. HSBC Holdings PLC	1.61
2. Roche Holding AG	1.51
3. Nestle SA	1.28
4. BHP Billiton Ltd	1.24
5. Basf SE	1.22
6. Sanofi	1.17
7. Samsung Electronics Co Ltd	1.16
8. Sap AG	1.08
9. Novartis AG	1.06
10. Toyota Motor Corp	1.02
% of net assets in top ten holdings*	12.36

### Analysis

# of Stock Hldgs	404
# of Bond Hldgs	0
# of Other Hldgs	12
AvgMktCap (mil)	\$23,987.34
Turnover Ratio	66%
P/C Ratio	4.53
P/E Ratio	11.68
P/B Ratio	1.46

### Top 5 Countries

Country	% of net assets
Japan	14.61
Canada	10.18
United Kingdom	9.01
Germany	8.99
Switzerland	6.19

### Regional exposure

Region	% of net assets
Europe	43.11
Pacific Rim	22.69
Japan	14.61
Other	14.52
Latin America	4.64
United States	0.41

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

The full name of this investment option is Principal Diversified International 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 or by visiting [principal.com](http://principal.com).*

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.

**Past performance is no guarantee of future results.** Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect fees or expenses. Individuals cannot invest directly in an 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. **Tracking Error** - 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.

**Average Market Cap** - The overall "size" of a stock investment option's portfolio. It is the geometric mean of the market capitalization for all of the stocks it owns and is calculated by raising the market capitalization of each stock to a power equal to that stock's stake in the portfolio. The resulting numbers are multiplied together to produce the geometric mean of the market caps of the stocks in the portfolio, which is reported as average market capitalization.

**Price/Cash Flow Ratio** - An investment option's current price divided by the trailing 12 month cash flow per share. **Price/Earnings Ratio** - The weighted average of the price/earnings ratios of the stocks in an investment option's portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. **Price/Book Ratio** - The weighted average of the price/book ratios of all the stocks in an investment option's portfolio. The P/B ratio of a company is calculated by dividing the market price of its stock by the company's per-share book value. Stocks with negative book values are excluded from this calculation.

# American Funds EuroPacific Growth R3 Fund as of 12/31/2012

## Investment Strategy

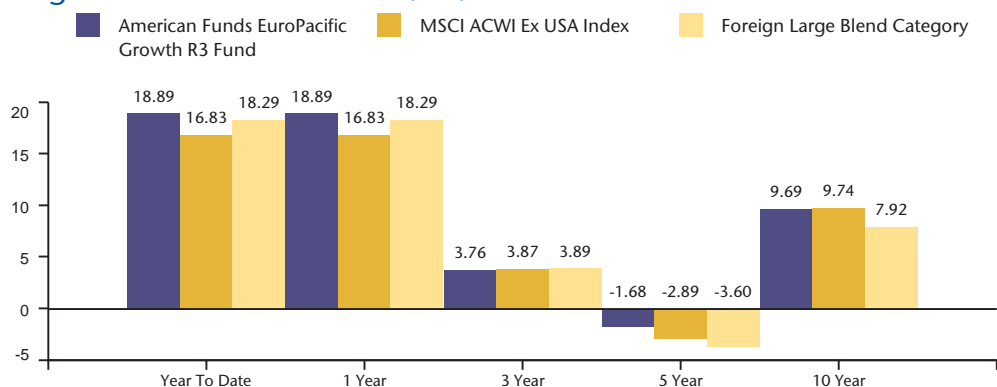
The investment seeks long-term growth of capital. The fund invests primarily in common stocks of issuers in Europe and the Pacific Basin that the investment adviser believes have the potential for growth. Growth stocks are stocks that the investment adviser believes have the potential for above-average capital appreciation. 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.



### 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 12/31/2012



## 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 Participant Contact Center at 1-800-547-7754.*

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	18.89	18.89	3.76	-1.68	9.69
MSCI ACWI Ex USA Index %	16.83	16.83	3.87	-2.89	9.74
Foreign Large Blend Category %	18.29	18.29	3.89	-3.60	7.92
Morningstar Percentile Rankings	-	35	54	17	17
# of Funds in Category	786	786	713	589	325
Annual Returns	2012	2011	2010	2009	2008
Total Return %	18.89	-13.85	9.07	38.71	-40.71
MSCI ACWI Ex USA Index %	16.83	-13.71	11.15	41.45	-45.53
Foreign Large Blend Category %	18.29	-13.97	10.24	31.24	-43.99
Morningstar Percentile Rankings	35	49	61	16	15
# of Funds in Category	786	817	829	823	778

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Foreign Large Blend

## Morningstar Style Box™

As of 09/30/2012

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 12/31/2012 Relative to MSCI ACWI Ex USA Index

	3Yr	5Yr
Alpha	0.00	0.74
Beta	0.96	0.91
R-Squared	98.14	97.42
Standard Deviation	18.92	22.34
Mean	3.76	-1.68
Sharpe Ratio	0.28	0.02
Excess Return	-0.10	1.20
Tracking Error	2.70	4.22
Information Ratio	-0.04	0.29

## Operations

Total Investment Expense Net	1.14%
Total Investment Expense Gross	1.14%
Inception Date	05/21/2002
Extended Performance	
Inception Date#	04/16/1984
Total Net Assets (mil)	\$101,611.87
12b-1 Fees	0.50%
Ticker	RERCX



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

# American Funds EuroPacific Growth R3 Fund as of 12/31/2012

## Portfolio information†

Composition as of 09/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	Non-U.S. Stocks	89.64	0.00	89.64
	Cash	8.31	0.00	8.31
	Other	1.28	0.00	1.28
	U.S. Bonds	0.63	0.00	0.63
	U.S. Stocks	0.10	0.00	0.10
	Preferred	0.04	0.00	0.04

Top ten holdings	% of net assets
1. Novo Nordisk A/S	3.53
2. Samsung Electronics Co Ltd	2.44
3. Novartis AG	2.12
4. SOFTBANK Corp	1.80
5. Bayer AG	1.67
6. Nestle SA	1.58
7. America Movil, S.A.B. de C.V. ADR	1.52
8. Anheuser-Busch Inbev SA	1.44
9. British American Tobacco PLC	1.30
10. Taiwan Semiconductor Manufacturing	1.29
% of net assets in top ten holdings*	18.70

Analysis	Top 5 Countries	% of net assets	Regional exposure	% of net assets
# of Stock Hldgs	United Kingdom	11.16	Europe	49.80
# of Bond Hldgs	Japan	10.03	Pacific Rim	28.45
# of Other Hldgs	Germany	7.97	Japan	10.11
AvgMktCap (mil)	Switzerland	7.60	Other	8.13
Turnover Ratio	China	7.37	Latin America	3.39
P/C Ratio			United States	0.12
P/E Ratio				
P/B Ratio				

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.

*Investors should carefully consider a mutual fund's investment objectives, risks, charges and expenses prior to investing. A prospectus, or summary prospectus if available, containing this and other information can be obtained by contacting a financial professional, visiting [principal.com](http://principal.com), or by calling 800-547-7754. Read the prospectus carefully before investing.*

MSCI ACWI Ex USA Index is a free float-adjusted market capitalization index that is designed to measure the combined equity market performance of developed and emerging market countries excluding the US.

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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.

## **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>89-92</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>93</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 457(b) RETIREMENT PLANS  
 STATE OF LOUISIANA

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

		401(a) Basic Plan										
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	10-YEAR TOTALS
<b>ADDITIONS</b>												
Investment Income		\$643,368	\$460,486	\$339,933	\$715,655	\$397,280	(\$2,236,217)	\$1,334,564	\$845,590	(\$270,294)	\$896,094	\$3,126,459
Less investment management fees		(16,394)	(16,597)	(19,262)	(10,660)	(11,577)	(10,218)	(8,961)	(5,261)	(2,934)	(1,318)	(103,182)
<b>Net investment income</b>		626,974	443,889	320,671	704,995	385,703	(2,246,435)	1,325,603	840,329	(273,228)	894,776	3,023,277
<b>Contributions:</b>												
Participant		303,707	314,814	313,385	309,674	321,024	323,826	327,100	323,152	314,409	300,862	3,151,953
Employer		244,926	255,937	252,012	250,170	257,292	260,984	263,792	260,609	253,557	242,632	2,541,911
<b>Total additions</b>		1,175,607	1,014,640	886,068	1,264,839	964,019	(1,661,625)	1,916,495	1,424,090	294,738	1,438,270	8,717,141
<b>DEDUCTIONS</b>												
Benefits paid to participants		(162,764)	(121,847)	(530,300)	(272,881)	(400,802)	(451,899)	(136,404)	(675,991)	(622,947)	(335,667)	(3,711,502)
<b>CHANGES IN NET POSITION</b>		1,012,843	892,793	355,768	991,958	563,217	(2,113,524)	1,780,091	748,099	(328,209)	1,102,603	
<b>NET POSITION AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>		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	6,800,070	
<b>NET POSITION AVAILABLE FOR BENEFITS, END OF YEAR</b>		\$3,909,877	\$4,802,670	\$5,158,438	\$6,150,396	\$6,713,613	\$4,600,089	\$6,380,180	\$7,128,279	\$6,800,070	\$7,902,673	
<b>AVERAGE INVESTMENT RETURNS *</b>		18.42%	10.19%	6.44%	12.47%	6.00%	-39.71%	24.15%	12.44%	-3.92%	12.17%	

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

LOUISIANA LOTTERY CORPORATION  
 BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS  
 STATE OF LOUISIANA

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

		401(a) Supplemental Plan											
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	10-YEAR TOTALS	
09	<b>ADDITIONS</b>												
	Investment Income	\$420,643	\$250,442	\$183,925	\$382,901	\$237,927	(\$1,329,029)	\$723,265	\$484,591	(\$150,975)	\$504,263	\$1,707,953	
	Less investment management fees	(5,034)										(5,034)	
	<b>Net investment income</b>	415,609	250,442	183,925	382,901	237,927	(1,329,029)	723,265	484,591	(150,975)	504,263	1,702,919	
	<b>Contributions:</b>												
	Participant	11,120			11,928	3,698	953	18,973	13,883	29,786	25,225	115,566	
	Employer	207,411	315,609	310,377	295,718	301,853	314,337	319,334	312,500	314,191	308,166	2,999,496	
	<b>Total additions</b>	634,140	566,051	494,302	690,547	543,478	(1,013,739)	1,061,572	810,974	193,002	837,654	4,817,981	
	<b>DEDUCTIONS</b>												
	Benefits paid to participants	(87,395)	(57,837)	(254,924)	(128,503)	(193,500)	(144,922)	(129,501)	(362,157)	(413,270)	(202,292)	(1,974,301)	
<b>CHANGES IN NET POSITION</b>	546,745	508,214	239,378	562,044	349,978	(1,158,661)	932,071	448,817	(220,268)	635,362			
<b>NET POSITION AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	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	3,839,701			
<b>NET POSITION AVAILABLE FOR BENEFITS, END OF YEAR</b>	\$2,178,128	\$2,686,342	\$2,925,720	\$3,487,764	\$3,837,742	\$2,679,081	\$3,611,152	\$4,059,969	\$3,839,701	\$4,475,063			
<b>AVERAGE INVESTMENT RETURNS *</b>	21.82%	10.30%	6.55%	11.94%	6.50%	-40.79%	23.00%	12.63%	-3.82%	12.13%			

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

LOUISIANA LOTTERY CORPORATION  
 BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS  
 STATE OF LOUISIANA

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

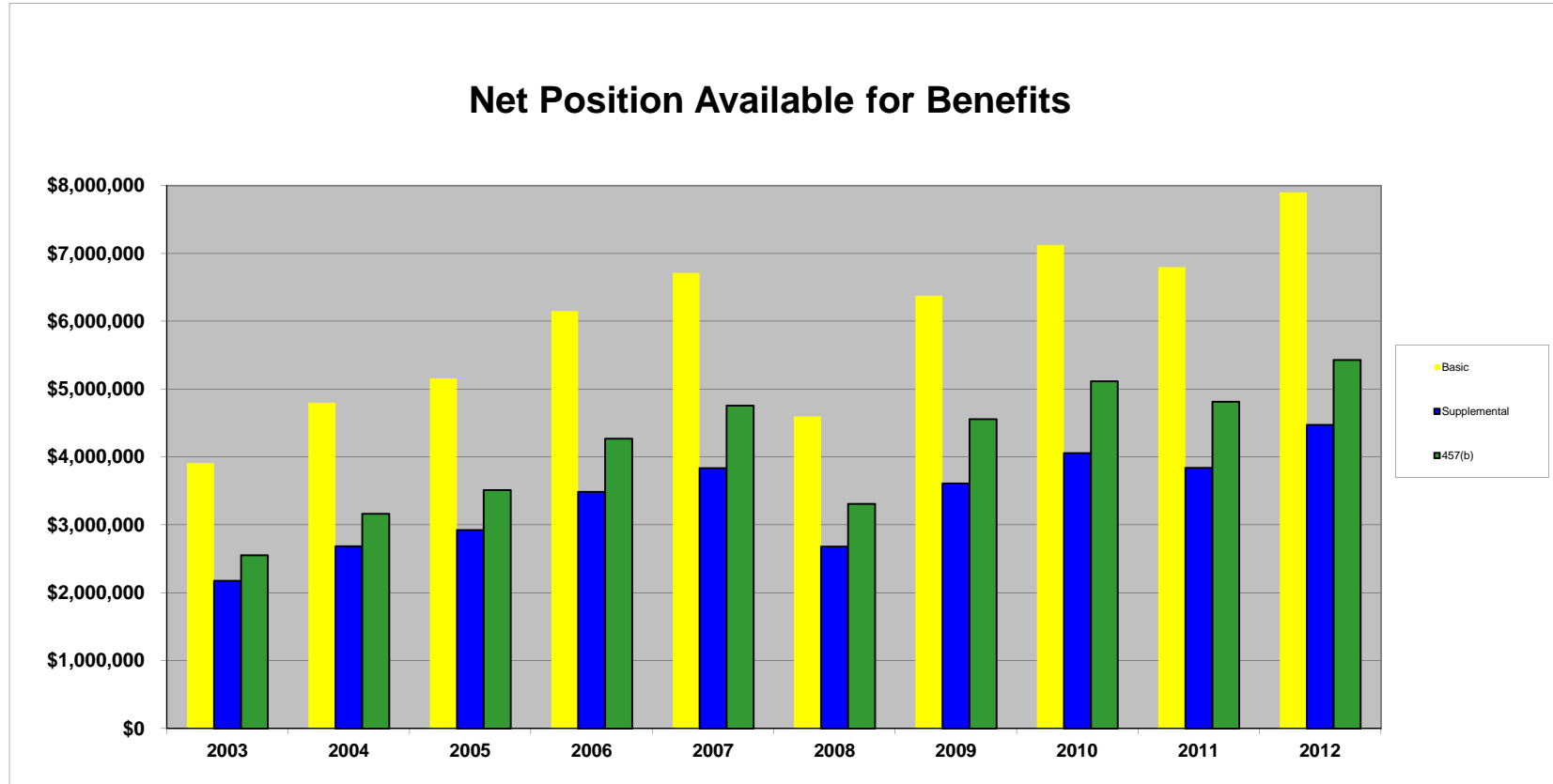
		457(b) Retirement Plan											
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	10-YEAR TOTALS	
61	<b>ADDITIONS</b>												
	Investment Income	\$498,346	\$302,284	\$229,580	\$463,995	\$300,559	(\$1,642,628)	\$932,255	\$618,697	(\$178,963)	\$611,586	\$2,135,711	
	Less investment management fees	(5,268)										(5,268)	
	<b>Net investment income</b>	493,078	302,284	229,580	463,995	300,559	(1,642,628)	932,255	618,697	(178,963)	611,586	2,130,443	
	<b>Contributions:</b>												
	Participant	218,754	257,406	286,868	313,367	336,897	367,608	336,770	315,143	309,563	268,443	3,010,819	
	Employer	103,966	111,488	113,261	111,085	117,225	122,485	121,961	119,748	117,745	109,700	1,148,664	
	<b>Total additions</b>	815,798	671,178	629,709	888,447	754,681	(1,152,535)	1,390,986	1,053,588	248,345	989,729	6,289,926	
	<b>DEDUCTIONS</b>												
	Benefits paid to participants	(65,202)	(59,465)	(278,548)	(131,561)	(268,516)	(296,816)	(140,684)	(498,306)	(547,670)	(375,906)	(2,662,674)	
<b>CHANGES IN NET POSITION</b>	750,596	611,713	351,161	756,886	486,165	(1,449,351)	1,250,302	555,282	(299,325)	613,823			
<b>NET POSITION AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	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	4,815,447			
<b>NET POSITION AVAILABLE FOR BENEFITS, END OF YEAR</b>	\$2,552,614	\$3,164,327	\$3,515,488	\$4,272,374	\$4,758,539	\$3,309,188	\$4,559,490	\$5,114,772	\$4,815,447	\$5,429,270			
<b>AVERAGE INVESTMENT RETURNS *</b>	22.65%	10.58%	6.87%	11.92%	6.66%	-40.72%	23.70%	12.79%	-3.60%	11.94%			

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

LOUISIANA LOTTERY CORPORATION  
BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS  
STATE OF LOUISIANA

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

### Net Position Available for Benefits



LOUISIANA LOTTERY CORPORATION  
 BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS  
 STATE OF LOUISIANA

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<i>401(a) Basic Plan</i>										
<b>Number of Participants</b>	167	179	153	140	138	135	130	124	119	115
<b>Total Annual Participant Deferrals</b>	\$303,707	\$314,814	\$313,385	\$309,674	\$321,024	\$323,826	\$327,100	\$323,152	\$314,409	\$300,862
<b>Net Position Available for Benefits</b>	\$3,909,877	\$4,802,670	\$5,158,438	\$6,150,396	\$6,713,613	\$4,600,089	\$6,380,180	\$7,128,279	\$6,800,070	\$7,902,673

<i>401(a) Supplemental Plan</i>										
<b>Number of Participants</b>	141	149	120	107	113	107	102	100	105	105
<b>Total Annual Employer Contributions</b>	\$207,411	\$315,609	\$310,377	\$295,718	\$301,853	\$314,337	\$319,334	\$312,500	\$314,191	\$308,166
<b>Net Position Available for Benefits</b>	\$2,178,128	\$2,686,342	\$2,925,720	\$3,487,764	\$3,837,742	\$2,679,081	\$3,611,152	\$4,059,969	\$3,839,701	\$4,475,063

<i>457(b) Retirement Plan</i>										
<b>Number of Participants</b>	132	141	114	106	112	106	99	97	100	99
<b>Total Annual Participant Deferrals</b>	\$218,754	\$257,406	\$286,868	\$313,367	\$336,897	\$367,608	\$336,770	\$315,143	\$309,563	\$268,443
<b>Annual Compensation Corporation Total</b>	\$4,997,706	\$5,190,889	\$5,195,158	\$5,081,568	\$5,269,727	\$5,456,872	\$5,460,432	\$5,407,531	\$5,256,684	\$5,043,751
<b>Average Deferral Percentage</b>	4.38%	4.96%	5.52%	6.17%	6.39%	6.74%	6.17%	5.83%	5.89%	5.32%
<b>Net Position Available for Benefits</b>	\$2,552,614	\$3,164,327	\$3,515,488	\$4,272,374	\$4,758,539	\$3,309,188	\$4,559,490	\$5,114,772	\$4,815,447	\$5,429,270

**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 17, 2013

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*

**LOUISIANA LOTTERY CORPORATION  
BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS  
STATE OF LOUISIANA  
Baton Rouge, Louisiana**

We have audited, in accordance with the 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, the financial statements of the Louisiana Lottery Corporation Basic, Supplemental, and 457(b) Retirement Plans (the Plans) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated June 17, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Plans' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control. Accordingly, we do not express an opinion on the effectiveness of the Plans' internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plans' internal control and compliance. Accordingly, this report is not suitable for any other purpose. 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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