

Principal Financial Advisors, Inc.



Investment Advisory Report
City of Hallandale Beach Professional/Management
Retirement Plan



Contract No. 4-47771

October 01, 2008 - December 31, 2008

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Principal Financial Advisors, Inc. Overview

Making informed and effective asset allocation decisions may be one of the most important – and challenging – endeavors an employer undertakes for their retirement plan. This decision is key in determining whether the plan will meet its long-term investment goals and objectives. At the Principal Financial Group® (The Principal®), we understand the challenges and pressures employers face as a retirement plan sponsor, including the selection of optimal investment options.

For over 20 years, Principal Financial Advisors, Inc., a registered investment advisor, and a member company of the Principal Financial Group® has been providing asset allocation solutions for clients. Today, we manage over \$5.9 billion in assets overall and have over 400 clients using our advisory services for retirement plans.

Our mission is to provide high quality investment advisory and consulting services to help clients meet their goals and objectives by offering premier investment managers and customized asset allocation solutions.

The investment advisory services of Principal Financial Advisors, Inc., are consistent with the following core beliefs:

- 1) Strategic asset allocation decisions are key determinants of investor success.
- 2) Liability analysis and plan sponsor attributes dictate asset allocation decisions for defined benefit plans.
- 3) Diversification by asset class, style, and manager is the primary tool for limiting investment risk.
- 4) Value is added through manager selection.

Principal Financial Advisors, Inc., provides:

- 1) Benefits of the Principal Due Diligence ProgramSM provided by Principal Life Insurance Company.
- 2) Asset liability analysis for defined benefit plans and scenarios to help meet your plan's goals.
- 3) Assumption of fiduciary responsibility for asset allocation decisions.*
- 4) Experienced investment personnel.
- 5) Comprehensive reporting and top-tier client service.

Principal Financial Advisors, Inc., focuses on long-term asset allocation strategies with the goal of providing optimal return and risk scenarios to help meet your defined benefit plan's goals.

* The plan sponsor remains the named fiduciary of the plan, but Principal Financial Advisors, Inc., has been selected as the plan's investment advisor.

Portfolio and Strategic Asset Allocation Review

Investment Review - Allocation 10/01/2008 through 12/31/2008					
Investment Advisor	Investment Option	Beginning Balance	Breakdown %	Ending Balance	Breakdown %
Large U.S. Equity					
Large Value					
AllianceBernstein / Westwood	LargeCap Value III Separate Account-R6 ^{2, 19, 24, 32}	\$353,231	4.63%	\$297,886	4.75%
UBS Global Asset Mgmt (NY)	LargeCap Value I Separate Account-R6 ¹⁷	\$727,808	9.54%	\$572,900	9.14%
Large Blend					
Goldman Sachs Asset Mgt	LargeCap Blend I Separate Account-R6 ⁹	\$687,282	9.01%	\$545,465	8.70%
Large Growth					
Columbus Circle Investors	LargeCap Growth Separate Account-R6 ^{13, 26}	\$541,532	7.10%	\$425,015	6.78%
T. Rowe Price Associates, Inc.	LargeCap Growth I Separate Account-R6 ^{2, 11}	\$530,919	6.96%	\$440,583	7.03%
Small/Mid U.S. Equity					
Mid Cap Value					
Principal Global/Barrow Hanley	MidCap Value III Separate Account-R6 ^{1, 15, 27}	\$141,708	1.86%	\$115,299	1.84%
Mid Cap Growth					
Turner/Mellon Capital Mgmt	MidCap Growth III Separate Account-R6 ^{1, 14, 28, 33}	\$128,992	1.69%	\$113,193	1.80%
Small Value					
JP Morgan/Mellon Capital Mgmt	SmallCap Value I Separate Account-R6 ^{1, 2, 18}	\$155,708	2.04%	\$119,520	1.91%
Small Growth					
UBS/Emerald/Essex	SmallCap Growth II Separate Account-R6 ^{1, 2, 7}	\$150,072	1.97%	\$116,099	1.85%
International Equity					
Diversified Emerging Markets					
Principal Global Investors	International Emerging Markets Separate Account-R6 ³	\$84,153	1.10%	\$84,864	1.35%
Foreign Large Blend					
Fidelity (Pyramis Global Adv)	International I Separate Account-R6 ^{3, 17, 21, 30}	\$430,254	5.64%	\$394,911	6.30%
Foreign Large Growth					
Principal Global Investors	International Growth Separate Account-R6 ^{2, 3}	\$404,265	5.30%	\$390,264	6.22%
Real Estate					
Owned Real Estate					
Principal Real Estate Inv	U.S. Property Separate Account-R6 ⁵	\$494,877	6.49%	\$440,302	7.02%
Real Estate					
Principal Real Estate Inv	Real Estate Securities Separate Account-R6 ^{2, 8}	\$193,946	2.54%	\$148,679	2.37%
Fixed Income					
High Yield Bond					
JP Morgan/Lehman Brothers	High Yield I Separate Account-R6 ^{4, 17, 20, 22, 23, 31}	\$358,795	4.70%	\$278,113	4.43%

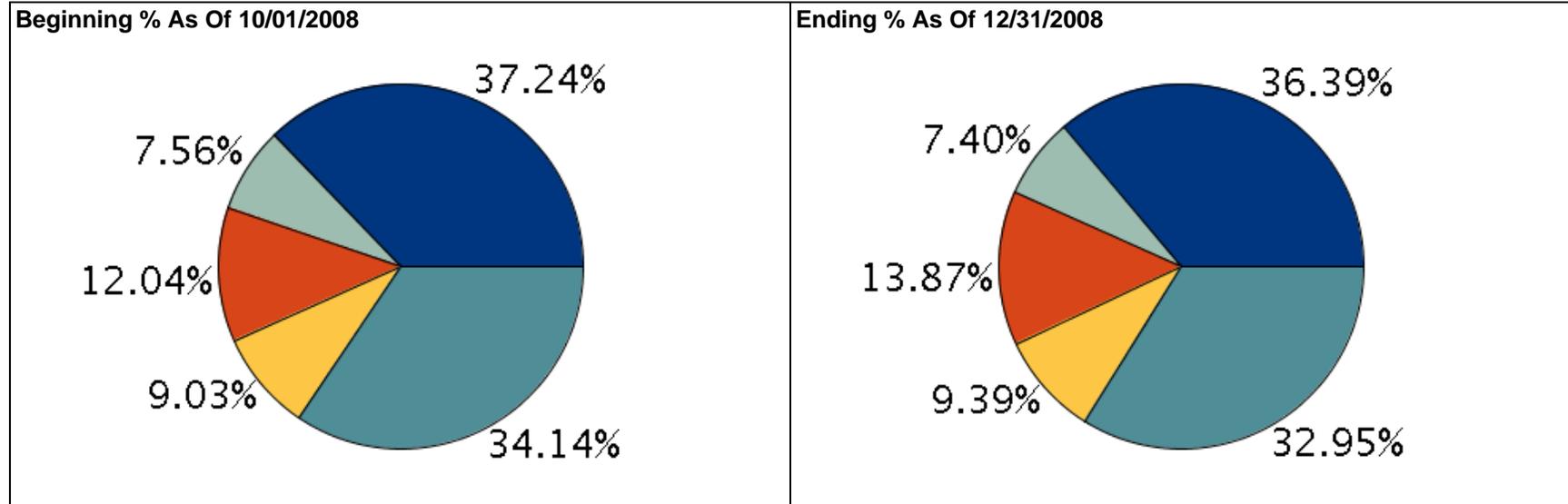
Portfolio and Strategic Asset Allocation Review

Investment Review - Allocation 10/01/2008 through 12/31/2008					
Investment Advisor	Investment Option	Beginning Balance	Breakdown %	Ending Balance	Breakdown %
Intermediate-Term Bond					
PIMCO	Core Plus Bond I Separate Account-R6 ^{17, 20, 23}	\$0	0.00%	\$171,499	2.73%
Principal Global Investors	Bond and Mortgage Separate Account-I2 ^{20, 23}	\$1,747,190	22.90%	\$1,201,266	19.15%
Spectrum	Preferred Securities Separate Account-R6 ^{2, 20, 23}	\$109,584	1.44%	\$108,401	1.73%
Inflation-Protected Bond					
BlackRock Financial Mgmt, Inc.	Inflation Protection Separate Account-R6 ^{17, 20, 23, 34}	\$388,861	5.10%	\$307,079	4.90%
TOTAL		\$7,629,177	100%	\$6,271,338	100%

Please see important disclosures at the end of this presentation.

Portfolio and Strategic Asset Allocation Review

Asset Class Breakdown



- Large U.S. Equity
- Small/Mid U.S. Equity
- International Equity
- Real Estate
- Fixed Income

Holdings of International Separate Accounts by Region as of December 31, 2008

Asia 5.447%

China	1.814%
India	0.609%
Indonesia	0.175%
Malaysia	0.112%
Pakistan	-
Philippines	-
South Korea	1.456%
Taiwan	1.046%
Thailand	0.235%

Europe 59.037%

Austria	0.307%
Belgium	0.681%
Denmark	1.248%
Finland	0.746%
France	7.312%
Germany	6.468%
Greece	0.728%
Ireland	0.363%
Italy	2.359%
Luxembourg	0.293%
Netherlands	3.491%
Norway	0.504%
Portugal	0.488%
Spain	4.050%
Sweden	1.101%
Switzerland	9.609%
United Kingdom	19.288%

Latin America 2.030%

Argentina	-
Brazil	1.394%
Chile	0.123%
Colombia	0.034%
Mexico	0.415%
Peru	0.065%

North America 1.351%

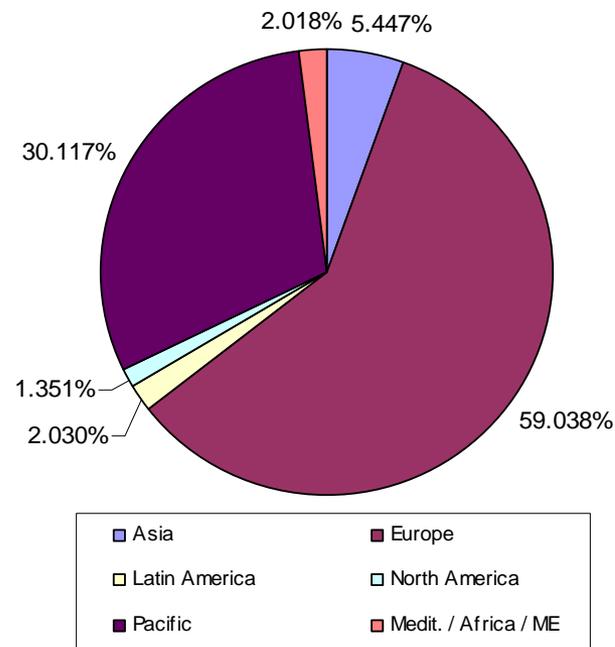
Canada	1.019%
United States	0.332%

Pacific 30.117%

Australia	5.445%
Hong Kong	1.649%
Japan	22.680%
New Zealand	-
Singapore	0.342%

Medit. / Africa / ME 2.018%

Cyprus	-
Czech Republic	0.193%
Egypt	-
Hungary	-
Iceland	-
Israel	0.408%
Jordan	-
Morocco	-
Nigeria	-
Poland	0.091%
Qatar	-
Russia	0.363%
Slovenia	-
South Africa	0.725%
Turkey	0.237%



Portfolio and Strategic Asset Allocation Review

This section of your report includes all investment options with plan assets as of the end of the reporting period.

Large U.S. Equity		
Large Value	Large Blend	Large Growth
<p>LargeCap Value III Separate Account-R6 ^{2, 19, 24, 32}</p>  <p>LargeCap Value I Separate Account-R6 ¹⁷</p> 	<p>LargeCap Blend I Separate Account-R6 ⁹</p> 	<p>LargeCap Growth Separate Account-R6 ^{13, 26}</p>  <p>LargeCap Growth I Separate Account-R6 ^{2, 11}</p> 
Small/Mid U.S. Equity		
Mid Cap Value	Mid Cap Blend	Mid Cap Growth
<p>MidCap Value III Separate Account-R6 ^{1, 15, 27}</p> 		<p>MidCap Growth III Separate Account-R6 ^{1, 14, 28, 33}</p> 
Small Value	Small Blend	Small Growth
<p>SmallCap Value I Separate Account-R6 ^{1, 2, 18}</p> 		<p>SmallCap Growth II Separate Account-R6 ^{1, 2, 7}</p> 

Portfolio and Strategic Asset Allocation Review

International Equity	Real Estate	Balanced/Asset Allocation
<p>International I Separate Account-R6^{3, 17, 21, 30}</p>  <p>International Emerging Markets Separate Account-R6³</p> <p>International Growth Separate Account-R6^{2, 3}</p> 	<p>Real Estate Securities Separate Account-R6^{2, 8}</p> <p>U.S. Property Separate Account-R6⁵</p> <p>Principal Real Estate Investors</p>	
Short-Term Fixed Income	Fixed Income	
	<p>Inflation Protection Separate Account-R6^{17, 20, 23, 34}</p>  <p>High Yield I Separate Account-R6^{4, 17, 20, 22, 23, 31}</p> <p>J.P.Morgan LEHMAN BROTHERS ASSET MANAGEMENT Asset Management</p> <p>Core Plus Bond I Separate Account-R6^{17, 20, 23}</p>  <p>The Authority On Bonds™</p> <p>Bond and Mortgage Separate Account-I2^{20, 23}</p>  <p>Preferred Securities Separate Account-R6^{2, 20, 23}</p> 	

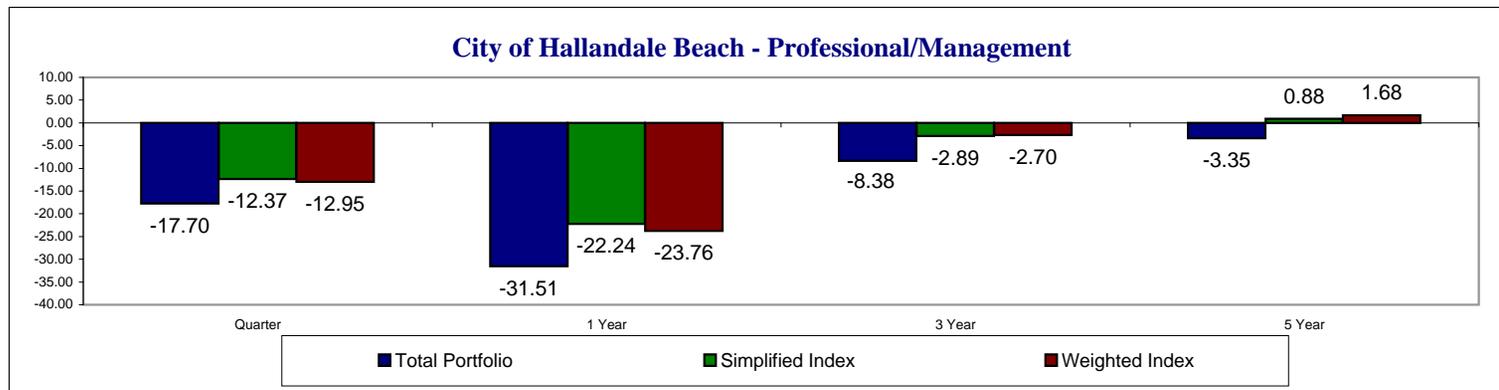
Please see important disclosures at the end of this presentation.

Portfolio Performance Review

Return Information as of 12/31/2008

Time and Dollar Weighted Returns				
(returns achieved by your plan)	Quarter	1 Year	3 Year	5 Year
Total Portfolio	-17.70	-31.51	-8.38	-3.35
Simplified Index	-12.37	-22.24	-2.89	0.88
Weighted Index	-12.95	-23.76	-2.70	1.68
Difference - Simplified Index	-5.33	-9.27	-5.49	-4.23
Difference - Weighted Index	-4.75	-7.75	-5.68	-5.03

Portfolio's Fixed Income Return	-8.64	-15.63	-3.78	-1.82
Barclays Capital Aggregate Bd Index	4.57	5.24	5.51	4.65
Portfolio's U.S. Equity Return	-23.45	-39.74	-12.90	-6.42
Russell 3000 Index	-22.78	-37.31	-8.63	-1.95
Portfolio's International Equity Return	-21.29	-46.12	-12.22	-3.59
MSCI - EAFE Index NDTR D	-19.96	-43.39	-7.35	1.66
Portfolio's Real Estate Return	-16.89	-17.94	0.85	6.51
Blended Real Estate Benchmark (75% NCREIF Open, 25% MSCI US REIT)	-15.86	-14.71	3.07	8.74



We calculated performance of your plan assets with information provided to us by Principal Life Insurance Company from your December 31, 2008 Contractholder Fund Statement.

Please see important disclosures at the end of this presentation.

Investment Option Performance

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.

The gross total investment expense figure does not reflect any waivers or caps on the mutual fund or underlying mutual fund in which a Separate Account invests. Returns displayed are always based on net total investment expense.

For more performance information, including most recent month-end performance, visit the Principal Sponsor Service CenterSM at www.principal.com, contact your representative of the Principal Financial Group® (The Principal®), or call our Client Contact Center at 1-800-547-7754.

Investment Advisor	Investment Option	Rates of Return through 12/31/2008							Percentile Rankings as of 12/31/2008					Total Inv. Expense Gross	
		Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception	Inception Date	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.		
Large U.S. Equity															
Large Value															
AllianceBernstein / Westwood	LargeCap Value III Separate Account-R6 ^{2, 19, 24, 32}	-21.57	-40.90	-11.58	-3.83	-	-0.55	12/29/2000	-	80	82	83	-	0.92	
	Russell 1000 Value Index	-22.18	-36.85	-8.32	-0.79	1.36	-	-	-	-	-	-	-	-	
UBS Global Asset Mgmt (NY)	LargeCap Value I Separate Account-R6 ¹⁷	-25.01	-39.34	-10.45	-	-	-2.75	06/01/2004	-	70	73	-	-	0.96	
	Russell 1000 Value Index	-22.18	-36.85	-8.32	-0.79	1.36	-	-	-	-	-	-	-	-	
	Morningstar Category Average - Large Value	-21.60	-37.09	-8.92	-1.79	0.90	Total Funds in Category	1518	1433	1185	963	451	-		
Large Blend															
Goldman Sachs Asset Mgt	LargeCap Blend I Separate Account-R6 ⁹	-20.92	-35.84	-9.56	-2.45	-3.89	3.45	06/01/1995	-	26	63	50	95	0.76	
	Standard & Poor's 500 Index	-21.94	-37.00	-8.36	-2.19	-1.38	-	-	-	-	-	-	-	-	
	Morningstar Category Average - Large Blend	-22.07	-37.79	-9.03	-2.47	-0.84	Total Funds in Category	2220	2086	1748	1365	683	-		
Large Growth															
Columbus Circle Investors	LargeCap Growth Separate Account-R6 ^{13, 26}	-25.96	-42.84	-8.30	-1.20	-3.29	3.91	06/01/1995	-	71	25	16	59	0.71	
	Russell 1000 Growth Index	-22.79	-38.44	-9.11	-3.42	-4.27	-	-	-	-	-	-	-	-	
T. Rowe Price Associates, Inc.	LargeCap Growth I Separate Account-R6 ^{2, 11}	-22.78	-40.69	-12.08	-4.44	-	-5.96	12/29/2000	-	51	75	66	-	0.89	
	Russell 1000 Growth Index	-22.79	-38.44	-9.11	-3.42	-4.27	-	-	-	-	-	-	-	-	
	Morningstar Category Average - Large Growth	-23.31	-40.67	-10.28	-3.37	-2.46	Total Funds in Category	1911	1809	1507	1243	608	-		
Small/Mid U.S. Equity															
Mid Cap Value															
Principal Global/Barrow Hanley	MidCap Value III Separate Account-R6 ^{1, 15, 27}	-22.37	-35.92	-9.59	-0.55	1.66	8.53	01/01/1991	-	41	49	46	100	0.81	
	Russell Midcap Value Index	-27.19	-38.44	-9.98	0.33	4.44	-	-	-	-	-	-	-	-	
	Morningstar Category Average - Mid Cap Value	-24.01	-36.77	-9.93	-1.07	5.23	Total Funds in Category	464	442	338	234	81	-		

Investment Option Performance

Investment Advisor	Investment Option	Rates of Return through 12/31/2008							Percentile Rankings as of 12/31/2008					Total Inv. Expense Gross
		Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception	Inception Date	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	
Mid Cap Growth														
Turner/Mellon Capital Mgmt	MidCap Growth III Separate Account-R6 ^{1, 14, 28, 33}	-28.69	-48.56	-12.06	-3.30	-	-2.16	10/28/1999	-	81	65	66	-	1.16
	Russell Midcap Growth Index	-27.36	-44.32	-11.79	-2.33	-0.19	-	-	-	-	-	-	-	-
	Morningstar Category Average - Mid Cap Growth	-26.47	-43.77	-10.92	-2.44	0.79	Total Funds in Category	964	934	821	674	335	-	
Small Value														
JP Morgan/Mellon Capital Mgmt	SmallCap Value I Separate Account-R6 ^{1, 2, 18}	-25.40	-32.24	-10.17	-1.06	-	6.07	12/31/2002	-	56	60	56	-	1.17
	Russell 2000 Value Index	-24.89	-28.92	-7.49	0.27	6.11	-	-	-	-	-	-	-	
	Morningstar Category Average - Small Value	-25.17	-32.24	-9.63	-0.97	5.51	Total Funds in Category	456	438	341	269	121	-	
Small Growth														
UBS/Emerald/Essex	SmallCap Growth II Separate Account-R6 ^{1, 2, 7}	-29.85	-42.31	-12.80	-4.69	-	-4.62	12/29/2000	-	58	70	66	-	1.16
	Russell 2000 Growth Index	-27.45	-38.54	-9.32	-2.35	-0.76	-	-	-	-	-	-	-	
	Morningstar Category Average - Small Growth	-26.65	-41.55	-11.35	-3.52	1.51	Total Funds in Category	868	834	704	574	291	-	
International Equity														
Diversified Emerging Markets														
Principal Global Investors	International Emerging Markets Separate Account-R6 ³	-28.02	-54.93	-4.53	8.11	9.04	7.90	01/01/1995	-	55	27	19	43	1.51
	MSCI - Emerging Markets NDTR D Index	-27.60	-53.33	-4.91	7.65	9.01	-	-	-	-	-	-	-	
	Morningstar Category Average - Diversified Emerging Markets	-29.45	-54.44	-6.38	6.13	8.74	Total Funds in Category	349	312	233	192	111	-	
Foreign Large Blend														
Fidelity (Pyramis Global Adv)	International I Separate Account-R6 ^{3, 17, 21, 30}	-21.87	-44.35	-6.82	1.68	-	0.69	07/01/1999	-	55	34	41	-	1.28
	MSCI - EAFE Index NDTR D	-19.95	-43.38	-7.35	1.66	0.80	-	-	-	-	-	-	-	
	Morningstar Category Average - Foreign Large Blend	-20.94	-43.99	-7.67	1.21	0.90	Total Funds in Category	844	778	570	452	238	-	
Foreign Large Growth														
Principal Global Investors	International Growth Separate Account-R6 ^{2, 3}	-23.27	-47.02	-9.60	2.05	-	0.22	12/29/2000	-	50	67	26	-	1.16
	MSCI World Ex US Growth Index	-20.96	-42.88	-6.28	1.83	-0.87	-	-	-	-	-	-	-	
	Morningstar Category Average - Foreign Large Growth	-22.92	-46.56	-8.21	0.61	0.66	Total Funds in Category	276	251	209	164	80	-	
Real Estate														
Owned Real Estate														
Principal Real Estate Inv	U.S. Property Separate Account-R6 ⁵	-11.03	-13.23	4.25	8.62	8.39	7.03	01/01/1982	-	-	-	-	-	1.15
	NCREIF Open End Benchmark	-8.77	-8.00	6.91	10.50	9.64	-	-	-	-	-	-	-	
Real Estate														
Principal Real Estate Inv	Real Estate Securities Separate Account-R6 ^{2, 8}	-33.89	-32.82	-9.07	2.99	-	8.10	12/31/2002	-	5	6	5	-	1.13
	MSCI US REIT Index	-39.05	-37.97	-11.15	0.67	7.19	-	-	-	-	-	-	-	
	Morningstar Category Average - Real Estate	-38.54	-39.55	-12.82	-0.66	6.76	Total Funds in Category	275	265	229	191	84	-	

Investment Option Performance

Investment Advisor	Investment Option	Rates of Return through 12/31/2008							Percentile Rankings as of 12/31/2008					Total Inv. Expense Gross	
		Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception	Inception Date	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.		
	Fixed Income														
	High Yield Bond														
JP Morgan/Lehman Brothers	High Yield I Separate Account-R6 ^{4, 17, 20, 22, 23, 31}	-14.44	-20.12	-3.85	-	-	-1.96	12/31/2004	-	14	16	-	-	0.82	
	Barclays Capital US Corp High Yld 2% Issuer Capped Index	-18.06	-25.88	-5.66	-0.84	2.28	-	-	-	-	-	-	-	-	
	Morningstar Category Average - High Yield Bond	-18.48	-26.41	-6.59	-1.84	1.12	Total Funds in Category	583	559	479	405	253	-		
	Intermediate-Term Bond														
PIMCO	Core Plus Bond I Separate Account-R6 ^{17, 20, 23}	5.93	-	-	-	-	5.93	09/30/2008	-	-	-	-	-	0.77	
	Barclays Capital Aggregate Bond Index	4.58	5.24	5.51	4.65	5.63	-	-	-	-	-	-	-	-	
Principal Global Investors	Bond and Mortgage Separate Account-I2 ^{20, 23}	-6.76	-13.06	-1.85	0.38	3.60	7.92	02/01/1983	-	89	85	81	70	0.55	
	Barclays Capital Aggregate Bond Index	4.58	5.24	5.51	4.65	5.63	-	-	-	-	-	-	-	-	
Spectrum	Preferred Securities Separate Account-R6 ^{2, 20, 23}	-0.76	-22.42	-8.71	-4.26	-	-1.16	05/31/2002	-	97	98	98	-	0.91	
	Preferreds Blended Index	1.32	-27.53	-10.81	-5.24	-	-	-	-	-	-	-	-	-	
	Morningstar Category Average - Intermediate-Term Bond	-0.61	-4.70	1.08	1.81	4.01	Total Funds in Category	1190	1135	991	857	458	-		
	Inflation-Protected Bond														
BlackRock Financial Mgmt, Inc.	Inflation Protection Separate Account-R6 ^{17, 20, 23, 34}	-10.31	-18.00	-4.55	-	-	-2.88	12/31/2004	-	93	94	-	-	0.57	
	Barclays Capital US Treas TIPS Index	-3.48	-2.35	3.06	4.07	6.79	-	-	-	-	-	-	-	-	
	Morningstar Category Average - Inflation-Protected Bond	-3.79	-4.08	1.87	3.14	5.38	Total Funds in Category	161	160	133	64	13	-		

This section of your report includes all investment options with plan assets as of the end of the reporting period.

Please see important disclosures at the end of this presentation.

Calendar Year Performance Report

For performance information, including most recent month-end performance, visit the Principal Sponsor Service CenterSM at www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

Investment Advisor	Investment Option	Calendar Year Performance											Inception Date
		2008	2007	2006	2005	2004	2003	2002	2001	2000	1999		
Large U.S. Equity													
Large Value													
AllianceBernstein / Westwood	LargeCap Value III Separate Account-R6 ^{2, 19, 24, 32}	-40.90	-3.91	21.72	5.18	13.18	27.48	-13.58	5.52	-	-	-	12/29/2000
UBS Global Asset Mgmt (NY)	LargeCap Value I Separate Account-R6 ¹⁷	-39.34	0.31	18.01	9.75	-	-	-	-	-	-	-	06/01/2004
	Morningstar Category Average - Large Value	-37.09	1.42	18.15	5.95	12.97	28.44	-18.69	-4.99	7.87	6.72		
	Total Funds in Category	1433	1432	1371	1296	1220	1050	961	892	809	638		
Large Blend													
Goldman Sachs Asset Mgt	LargeCap Blend I Separate Account-R6 ⁹	-35.84	0.62	14.60	6.51	12.12	28.46	-25.25	-17.62	-12.19	9.58		06/01/1995
	Morningstar Category Average - Large Blend	-37.79	6.16	14.17	5.88	10.02	27.05	-22.25	-13.50	-6.31	20.16		
	Total Funds in Category	2086	2090	1980	1743	1611	1526	1468	1345	1089	989		
Large Growth													
Columbus Circle Investors	LargeCap Growth Separate Account-R6 ^{13, 26}	-42.84	23.02	9.67	11.82	9.16	25.98	-28.87	-25.55	-10.07	26.66		06/01/1995
T. Rowe Price Associates, Inc.	LargeCap Growth I Separate Account-R6 ^{2, 11}	-40.69	8.18	5.93	7.44	9.12	24.01	-27.76	-14.36	-	-		12/29/2000
	Morningstar Category Average - Large Growth	-40.67	13.35	7.05	6.71	7.81	28.66	-27.64	-22.30	-13.05	38.87		
	Total Funds in Category	1809	1748	1642	1495	1400	1311	1234	1064	805	633		
Small/Mid U.S. Equity													
Mid Cap Value													
Principal Global/Barrow Hanley	MidCap Value III Separate Account-R6 ^{1, 15, 27}	-35.92	-0.59	16.00	13.15	16.34	29.08	-7.99	3.63	6.29	-7.34		01/01/1991
	Morningstar Category Average - Mid Cap Value	-36.77	0.83	15.87	8.82	17.85	33.85	-13.25	6.67	18.45	8.50		
	Total Funds in Category	442	405	375	310	320	331	311	261	233	223		
Mid Cap Growth													
Turner/Mellon Capital Mgmt	MidCap Growth III Separate Account-R6 ^{1, 14, 28, 33}	-48.56	24.40	6.26	11.59	11.41	49.44	-32.65	-28.17	-3.54	-		10/28/1999
	Morningstar Category Average - Mid Cap Growth	-43.77	15.09	9.00	9.84	13.23	35.96	-27.24	-19.98	-4.78	60.49		
	Total Funds in Category	934	967	994	936	903	890	786	714	549	420		
Small Value													
JP Morgan/Mellon Capital Mgmt	SmallCap Value I Separate Account-R6 ^{1, 2, 18}	-32.24	-9.49	18.19	6.32	23.03	50.29	-	-	-	-		12/31/2002
	Morningstar Category Average - Small Value	-32.24	-6.08	16.27	6.40	21.14	42.38	-10.12	15.92	18.64	6.78		
	Total Funds in Category	438	438	389	348	307	303	273	261	241	229		
Small Growth													
UBS/Emerald/Essex	SmallCap Growth II Separate Account-R6 ^{1, 2, 7}	-42.31	5.64	8.79	6.88	11.00	45.09	-24.62	-20.42	-	-		12/29/2000
	Morningstar Category Average - Small Growth	-41.55	7.59	10.81	6.02	12.41	45.54	-27.88	-8.91	-3.85	64.77		
	Total Funds in Category	834	829	763	723	711	696	630	560	470	365		
International Equity													
Diversified Emerging Markets													
Principal Global Investors	International Emerging Markets Separate Account-R6 ³	-54.93	41.60	36.36	35.09	25.63	58.03	-7.18	-4.68	-29.19	62.51		01/01/1995
	Morningstar Category Average - Diversified Emerging Markets	-54.44	36.68	32.06	31.54	23.54	55.19	-6.05	-3.83	-30.33	70.56		
	Total Funds in Category	312	274	242	212	202	196	184	175	159	150		

Calendar Year Performance Report

For performance information, including most recent month-end performance, visit the Principal Sponsor Service CenterSM at www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

Investment Advisor	Investment Option	Calendar Year Performance										Inception Date
		2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	
Foreign Large Blend												
Fidelity (Pyramis Global Adv)	International I Separate Account-R6 ^{3, 17, 21, 30}	-44.35	15.06	26.36	13.40	18.44	44.11	-20.25	-20.29	-18.60	41.90	07/01/1999
	Morningstar Category Average - Foreign Large Blend	-43.99	12.71	24.77	14.72	17.39	33.58	-16.69	-21.67	-16.34	40.28	
	Total Funds in Category	778	743	657	608	551	504	482	439	396	340	
Foreign Large Growth												
Principal Global Investors	International Growth Separate Account-R6 ^{2, 3}	-47.02	12.32	24.16	22.14	22.64	38.97	-16.18	-21.06	-	-	12/29/2000
	Morningstar Category Average - Foreign Large Growth	-46.56	16.26	23.95	15.23	16.23	33.83	-19.15	-24.05	-21.04	49.56	
	Total Funds in Category	251	220	243	213	221	226	214	191	161	149	
Real Estate												
Owned Real Estate												
Principal Real Estate Inv	U.S. Property Separate Account-R6 ⁵	-13.23	13.42	15.14	18.61	12.52	8.26	3.77	6.56	12.01	10.35	01/01/1982
	Morningstar Category Average - Owned Real Estate	9.95	26.92	-2.83	-	-	-	-	-	-	-	
	Total Funds in Category	-	-	-	-	-	-	-	-	-	-	
Real Estate												
Principal Real Estate Inv	Real Estate Securities Separate Account-R6 ^{2, 8}	-32.82	-17.73	36.03	15.28	33.69	37.83	-	-	-	-	12/31/2002
	Morningstar Category Average - Real Estate	-39.55	-14.66	33.58	11.51	32.02	36.80	4.54	10.00	27.02	-2.76	
	Total Funds in Category	265	372	306	279	252	206	168	152	138	125	
Fixed Income												
High Yield Bond												
JP Morgan/Lehman Brothers	High Yield I Separate Account-R6 ^{4, 17, 20, 22, 23, 31}	-20.12	2.37	8.71	3.91	-	-	-	-	-	-	12/31/2004
	Morningstar Category Average - High Yield Bond	-26.41	1.47	10.14	2.59	9.99	24.36	-1.52	2.39	-7.12	5.05	
	Total Funds in Category	559	542	549	518	493	455	425	414	365	342	
Intermediate-Term Bond												
PIMCO	Core Plus Bond I Separate Account-R6 ^{17, 20, 23}	-	-	-	-	-	-	-	-	-	-	09/30/2008
Principal Global Investors	Bond and Mortgage Separate Account-I2 ^{20, 23}	-13.06	3.83	4.72	2.64	5.02	5.21	9.91	8.40	11.99	-0.41	02/01/1983
Spectrum	Preferred Securities Separate Account-R6 ^{2, 20, 23}	-22.42	-8.14	6.77	1.46	4.20	10.55	-	-	-	-	05/31/2002
	Morningstar Category Average - Intermediate-Term Bond	-4.70	4.70	4.15	1.80	3.91	5.10	8.04	7.64	9.44	-1.35	
	Total Funds in Category	1135	1097	1092	1043	1035	952	784	706	614	561	
Inflation-Protected Bond												
BlackRock Financial Mgmt, Inc.	Inflation Protection Separate Account-R6 ^{17, 20, 23, 34}	-18.00	5.77	0.27	2.28	-	-	-	-	-	-	12/31/2004
	Morningstar Category Average - Inflation-Protected Bond	-4.08	9.86	0.09	2.09	7.48	7.15	14.81	7.27	12.36	1.80	
	Total Funds in Category	160	156	140	109	69	44	18	15	13	13	

Please see important disclosures at the end of this presentation.

Calendar Year Percentile Ranks

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Investment Advisor	Investment Option	Calendar Year Percentile Ranks										Inception Date
		2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	
Large U.S. Equity												
Large Value												
AllianceBernstein / Westwood	LargeCap Value III Separate Account-R6 ^{2, 19, 24, 32}	80	85	10	55	45	52	13	7	-	-	12/29/2000
UBS Global Asset Mgmt (NY)	LargeCap Value I Separate Account-R6 ¹⁷	70	61	53	16	-	-	-	-	-	-	06/01/2004
Large Blend												
Goldman Sachs Asset Mgt	LargeCap Blend I Separate Account-R6 ⁹	26	90	46	38	21	28	82	82	84	87	06/01/1995
Large Growth												
Columbus Circle Investors	LargeCap Growth Separate Account-R6 ^{13, 26}	71	9	25	14	36	59	59	68	36	68	06/01/1995
T. Rowe Price Associates, Inc.	LargeCap Growth I Separate Account-R6 ^{2, 11}	51	75	63	40	37	75	51	19	-	-	12/29/2000
Small/Mid U.S. Equity												
Mid Cap Value												
Principal Global/Barrow Hanley	MidCap Value III Separate Account-R6 ^{1, 15, 27}	41	65	46	9	55	70	18	60	84	96	01/01/1991
Mid Cap Growth												
Turner/Mellon Capital Mgmt	MidCap Growth III Separate Account-R6 ^{1, 14, 28, 33}	81	12	69	37	65	5	78	74	44	-	10/28/1999
Small Value												
JP Morgan/Mellon Capital Mgmt	SmallCap Value I Separate Account-R6 ^{1, 2, 18}	56	75	40	55	33	16	-	-	-	-	12/31/2002
Small Growth												
UBS/Emerald/Essex	SmallCap Growth II Separate Account-R6 ^{1, 2, 7}	58	58	63	42	60	44	35	82	-	-	12/29/2000
International Equity												
Diversified Emerging Markets												
Principal Global Investors	International Emerging Markets Separate Account-R6 ³	55	20	17	29	34	27	59	62	38	66	01/01/1995
Foreign Large Blend												
Fidelity (Pyramis Global Adv)	International I Separate Account-R6 ^{3, 17, 21, 30}	55	27	30	62	37	3	86	39	68	-	07/01/1999
Foreign Large Growth												
Principal Global Investors	International Growth Separate Account-R6 ^{2, 3}	50	80	39	8	8	24	24	27	-	-	12/29/2000
Real Estate												
Owned Real Estate												
Principal Real Estate Inv	U.S. Property Separate Account-R6 ⁵	-	-	-	-	-	-	-	-	-	-	01/01/1982
Real Estate												
Principal Real Estate Inv	Real Estate Securities Separate Account-R6 ^{2, 8}	5	70	30	16	36	32	-	-	-	-	12/31/2002
Fixed Income												
High Yield Bond												
JP Morgan/Lehman Brothers	High Yield I Separate Account-R6 ^{4, 17, 20, 22, 23, 31}	14	34	81	15	-	-	-	-	-	-	12/31/2004
Intermediate-Term Bond												
PIMCO	Core Plus Bond I Separate Account-R6 ^{17, 20, 23}	-	-	-	-	-	-	-	-	-	-	09/30/2008
Principal Global Investors	Bond and Mortgage Separate Account-I2 ^{20, 23}	89	78	19	9	14	34	16	25	8	21	02/01/1983
Spectrum	Preferred Securities Separate Account-R6 ^{2, 20, 23}	97	99	4	67	84	35	-	-	-	-	05/31/2002
Inflation-Protected Bond												
BlackRock Financial Mgmt, Inc.	Inflation Protection Separate Account-R6 ^{17, 20, 23, 34}	93	90	27	37	-	-	-	-	-	-	12/31/2004

Please see important disclosures at the end of this presentation.

Disclosures

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

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- 1. Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.*
- 2. This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.*
- 3. International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.*
- 4. High yield investment options are subject to greater credit risk associated with high yield bonds.*
- 5. This investment option is subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. Payment of principal and earnings may be delayed.*
- 6. This investment option is not guaranteed by the Federal Deposit Insurance Corporation (FDIC), or any other government agency. Although this investment option seeks to preserve the value of an investment, it is possible to lose money by investing in this portfolio.*
- 7. Effective May 1, 2002, this portfolio was sub-advised solely by UBS Global Asset Management. Effective September 1, 2004, Emerald Advisers was added as an additional sub-advisor. Effective June 30, 2006, Essex was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.*
- 8. Real estate investment options are subject to some risks inherent in real estate and Real Estate Investment Trusts, such as risks associated with general and local economic conditions.*
- 9. Effective November 13, 2006, this portfolio is sub-advised by Goldman Sachs Asset Management. From November 18, 2002, to November 16, 2006, the portfolio was sub-advised by Goldman Sachs Asset Management and Wellington Management Company, LLP. The portfolio has had various sub-advisors since its inception. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.*
- 11. Effective August 24, 2004, this portfolio is sub-advised by T. Rowe Price Associates, Inc. Prior to August 24, 2004, the portfolio was sub-advised by Morgan Stanley Investment Management Inc.*
- 13. Effective January 5, 2005, this portfolio is sub-advised by Columbus Circle Investors. Prior to January 5, 2005, the portfolio was sub-advised by Principal Global Investors.*

14. *This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holder investing in the Separate Account. For further information on the underlying mutual fund see the prospectus of the fund.*
15. *Effective July 12, 2005, Barrow Hanley was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.*
17. *This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.*
18. *Effective August 8, 2005, Mellon Capital Management was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.*
19. *From March 1, 2006 to December 31, 2007, Bank of New York served as a sub-advisor for managing the cash portion of this investment option.*
20. *Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. government.*
21. *Effective March 31, 2007, references to Fidelity Management & Research as investment advisor were replaced with Fidelity (Pyramis Global Adv). This is a name change only and does not affect the management, objective, or strategy of this investment option.*
22. *Effective January 2, 2008, this portfolio is co-sub-advised by JP Morgan and Lehman Brothers. Prior to January 2, 2008 Post Advisory Group was a third sub-advisor for this portfolio. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.*
23. *Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.*
24. *Formerly known as Large-Cap Value Separate Account.*
26. *Formerly known as Large Company Growth Separate Account.*
27. *Formerly known as Medium Company Value Separate Account.*
28. *Formerly known as Mid-Cap Growth Separate Account.*
30. *Formerly known as International Separate Account.*
31. *Formerly known as High Yield Separate Account.*
32. *Effective July 15, 2008, Westwood Management Corp. was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.*
33. *Effective November 21, 2008, Mellon Capital Management was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.*
34. *Effective December 31, 2008, this portfolio is sub-advised by BlackRock Financial Management, Inc. Prior to December 31, 2008, the portfolio was sub-advised by Principal Global Investors.*

Benchmark Descriptions

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

Barclays Capital Treasury Bellwethers 3 Month Index is composed of public obligations of the U. S. Treasury with a maturity of three months.

Barclays Capital US Treas TIPS Index consists of inflation-protected securities issued by the U.S. Treasury.

Blended Real Estate Index is composed of 75% NCREIF Open End Index and 25% MSCI US REIT Index. The NCREIF Open-end Benchmark is the open-end fund component of the NCREIF Property Index that consists of U.S. commercial real estate properties that have been acquired, at least in part, on behalf of tax-exempt institutions and are held in a fiduciary environment. The universe of properties includes wholly owned and joint venture investments, operating properties only (no development projects) and investment grade (no-agricultural) income-producing properties in the Multi-family, Industrial, Office and Retail sectors. The MSCI US REIT Index is a capitalization-weighted benchmark index of most actively traded Real Estate Investment Trusts (REITs), designed to measure real estate performance.

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.

MSCI - Emerging Markets NDTR D Index measures equity market performance in the global emerging markets. It consists of 26 emerging market countries in Europe, Latin America and the Pacific Basin.

MSCI US REIT Index is a capitalization-weighted benchmark index of most actively traded Real Estate Investment Trusts (REITs), designed to measure real estate performance.

NCREIF Open End Benchmark is the open-end fund component of the NCREIF Property Index that consists of U.S. commercial real estate properties that have been acquired, at least in part, on behalf of tax-exempt institutions and are held in a fiduciary environment. The universe of properties includes wholly owned and joint venture investments, operating properties only (no development projects) and investment grade (no-agricultural) income-producing properties in the Multi-family, Industrial, Office and Retail sectors.

Preferreds Blended Index is composed of 65% Merrill Lynch Fixed Rate Preferred Securities Index and 35% Barclays Capital U.S. Tier I Capital Securities Index.

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

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.

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

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

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

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.

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.

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

Simplified Index is composed of 60% Russell 3000 Index and 40% Barclays Capital Aggregate Bond Index.

Weighted Index is composed of:

01/01/2004 - 02/28/2007 47.9% Russell 3000 Index, 10% MSCI EAFE Index, 6% NCREIF Open End Index, 2.1% MSCI US REIT Index, and 34% Barclays Capital Aggregate Bond Index.

03/01/2007 - 12/31/2008 44% Russell 3000 Index, 13.9% MSCI EAFE Index, 6% NCREIF Open End Index, 2.1% MSCI US REIT Index, and 34% Barclays Capital Aggregate Bond Index.

LargeCap Value III Separate Account-R6 as of 12/31/2008

Investment Strategy

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



Portfolio managers

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

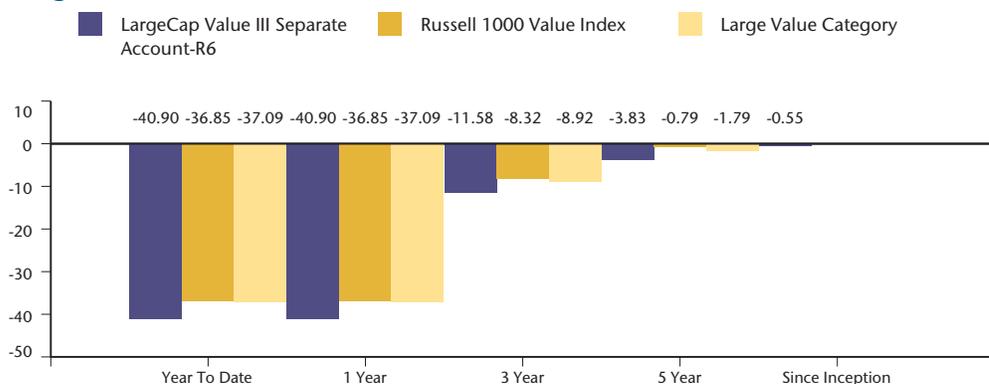
John D. Phillips Jr., CFA. Since 11/01/2002. M.B.A., Harvard U

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

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

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

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



Performance disclosure

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

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

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-40.90	-40.90	-11.58	-3.83	-0.55
Russell 1000 Value Index %	-36.85	-36.85	-8.32	-0.79	-
Large Value Category %	-37.09	-37.09	-8.92	-1.79	-
Morningstar Percentile Rankings	-	80	82	83	-
# of Funds in Category	1433	1433	1185	963	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-40.90	-3.91	21.72	5.18	13.18
Russell 1000 Value Index %	-36.85	-0.17	22.25	7.05	16.49
Large Value Category %	-37.09	1.42	18.15	5.95	12.97
Morningstar Percentile Rankings	80	85	10	55	45
# of Funds in Category	1433	1432	1371	1296	1220

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Value

Morningstar Style Box™

As of 11/30/2008

Investment style

Value	Blend	Growth	Market capitalization
Large			
Medium			
			Small

Risk and Return Statistics

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

	3Yr	5Yr
Alpha	-3.16	-2.93
Beta	1.03	1.03
R-Squared	98.80	98.58
Standard Deviation	16.15	13.63
Mean	-11.59	-3.83
Sharpe Ratio	-0.92	-0.45
Excess Return	-3.27	-3.04
Excess Risk	1.81	1.67
Information Ratio	-1.81	-1.82

Operations

Total Investment Expense Net	0.92%
Total Investment Expense Gross	0.92%
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,751.54



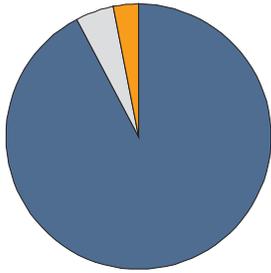
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LargeCap Value III Separate Account-R6 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008

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



Top ten holdings

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

Analysis

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

Stock Sector Breakdown

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

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The full name of this investment option is Principal LargeCap Value III Separate Account-R6.

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

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

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

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

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

Formerly known as Large-Cap Value Separate Account.

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

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

Inflation Protection Separate Account-R6 as of 12/31/2008

Investment Strategy

The investment seeks to provide current income and real (after-inflation) total returns. The fund normally invests primarily in inflation-indexed bonds of varying maturities issued by the U.S. and non-U.S. governments, their agencies or instrumentalities, and U.S. and non-U.S. corporations. It may invest up to 15% of assets in non-investment grade bonds (high-yield or junk bonds) or securities of emerging-market issuers. The fund may also invest up to 25% of assets in non-dollar denominated securities of non-U.S. issuers, and may invest without limit in U.S. dollar denominated securities of non-U.S. issuers.

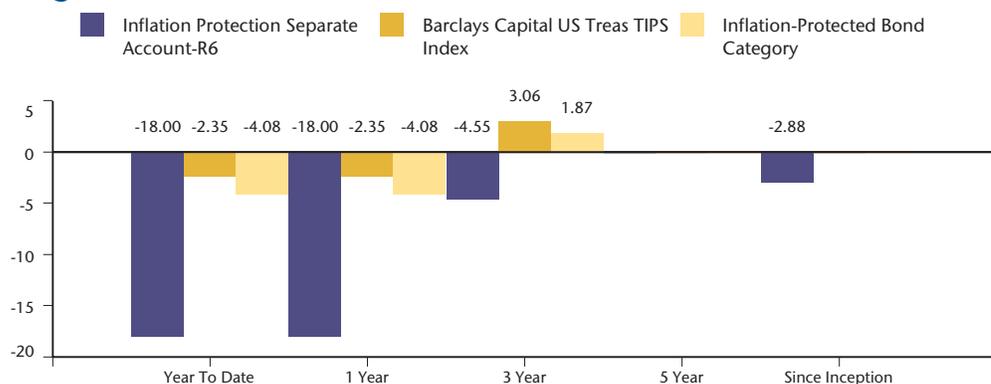
BLACKROCK

Portfolio managers

Stuart Spodek Since 12/31/2008. B.S., Princeton U

Brian Weinstein Since 12/31/2008. B.A., U of Pennsylvania

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



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-18.00	-18.00	-4.55	-	-2.88
Barclays Capital US Treas TIPS Index %	-2.35	-2.35	3.06	4.07	-
Inflation-Protected Bond Category %	-4.08	-4.08	1.87	3.14	-
Morningstar Percentile Rankings	-	93	94	-	-
# of Funds in Category	160	160	133	64	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-18.00	5.77	0.27	2.28	-
Barclays Capital US Treas TIPS Index %	-2.35	11.64	0.41	2.84	8.46
Inflation-Protected Bond Category %	-4.08	9.86	0.09	2.09	7.48
Morningstar Percentile Rankings	93	90	27	37	-
# of Funds in Category	160	156	140	109	69

Morningstar percentile rankings are based on total returns.

Morningstar category
Inflation-Protected Bond

Morningstar Style Box™
As of 11/30/2008

Duration			Quality	
Short	Int	Long		
				High
				Medium
			Low	

Risk and Return Statistics

as of 12/31/2008 Relative to
Barclays Capital US Treas TIPS Index

	3Yr	5Yr
Alpha	-7.52	-
Beta	1.05	-
R-Squared	84.08	-
Standard Deviation	9.30	-
Mean	-4.55	-
Sharpe Ratio	-0.87	-
Excess Risk	3.67	-
Information Ratio	-2.07	-

Operations

Total Investment Expense Net	0.57%
Total Investment Expense Gross	0.57%
Inception Date	12/31/2004
Total Net Assets (mil)	\$386.82

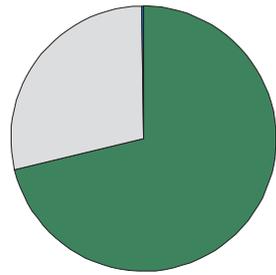


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Inflation Protection Separate Account-R6 as of 12/31/2008

Portfolio information[†]

Composition as of 11/30/2008



% of Assets	
U.S. Bonds	71.20
Cash	28.54
Non-U.S. Bonds	0.25
Other	0.01

Top ten holdings

Top ten holdings	% of net assets
1. Cash Offset For Long Swap Position	33.14
2. US Treasury Note 1.875%	5.03
3. US Treasury Note 2%	4.65
4. US Treasury Note 3%	4.18
5. US TREASURY NOTE	3.95
6. US Treasury Note	3.82
7. US Treasury Bond 2%	3.68
8. US Treasury Note 2%	3.43
9. US Treasury Note 2.625%	3.25
10. US Treasury Bond 2.375%	3.22
% of net assets in top ten holdings*	68.37

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	262
# of Other Hldgs	42
Turnover Ratio	88%

Credit Analysis

As of 11/30/2008

	% Bonds
AAA	67.95
AA	7.11
A	9.00
BBB	10.48
BB	3.59
B	0.95
Below B	0.66
Not Rated	0.27

Statistics

Avg Eff Duration (Yrs)	3.93
Avg Eff Maturity (Yrs)	10.01
Avg Credit Quality	AA
Avg Weighted Coupon	2.49
Avg Weighted Price	91.77

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The full name of this investment option is Principal Inflation Protection Separate Account-R6.

Barclays Capital US Treas TIPS Index consists of inflation-protected securities issued by the U.S. Treasury.

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

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

Effective December 31, 2008, this portfolio is sub-advised by BlackRock Financial Management, Inc. Prior to December 31, 2008, the portfolio was sub-advised by Principal Global Investors.

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

LargeCap Growth Separate Account-R6 as of 12/31/2008

Investment Strategy

The investment option primarily invests in common stocks of large capitalization companies with strong earnings growth potential. It normally invests the majority of assets in companies with large market capitalizations at the time of purchase. Management places strong emphasis on companies it believes are guided by high quality management teams. It also attempts to identify those companies that are market leaders possessing the ability to control pricing and margins in their respective industries. It may invest up to 25% of assets in foreign securities.

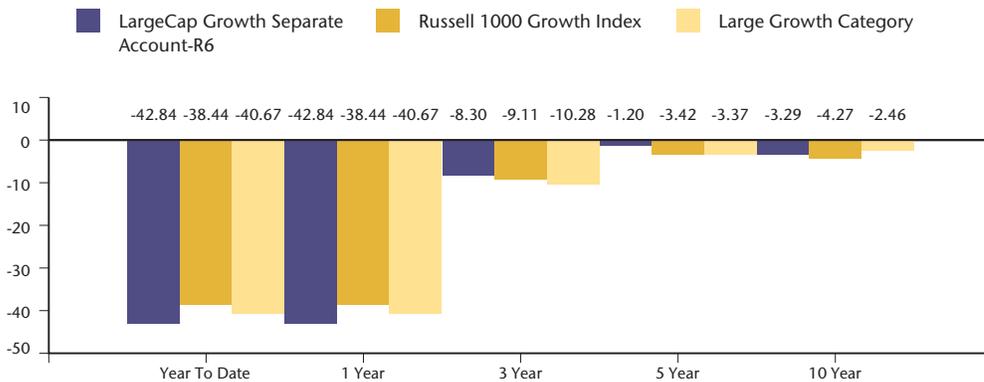


Columbus Circle
Investors

Portfolio managers

Anthony Rizza, CFA. Since 01/01/2005. B.S., U of Connecticut

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



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-42.84	-42.84	-8.30	-1.20	-3.29
Russell 1000 Growth Index %	-38.44	-38.44	-9.11	-3.42	-4.27
Large Growth Category %	-40.67	-40.67	-10.28	-3.37	-2.46
Morningstar Percentile Rankings	-	71	25	16	59
# of Funds in Category	1809	1809	1507	1243	608

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-42.84	23.02	9.67	11.82	9.16
Russell 1000 Growth Index %	-38.44	11.81	9.07	5.26	6.30
Large Growth Category %	-40.67	13.35	7.05	6.71	7.81
Morningstar Percentile Rankings	71	9	25	14	36
# of Funds in Category	1809	1748	1642	1495	1400

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Growth

Morningstar Style Box™

As of 11/30/2008

Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

Risk and Return Statistics

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

	3Yr	5Yr
Alpha	1.53	2.54
Beta	1.04	1.02
R-Squared	91.90	91.60
Standard Deviation	17.97	15.15
Mean	-8.30	-1.21
Sharpe Ratio	-0.60	-0.21
Excess Return	0.81	2.22
Excess Risk	5.08	4.36
Information Ratio	0.16	0.51

Operations

Total Investment Expense Net	0.71%
Total Investment Expense Gross	0.71%
Inception Date	06/01/1995
Total Net Assets (mil)	\$985.24



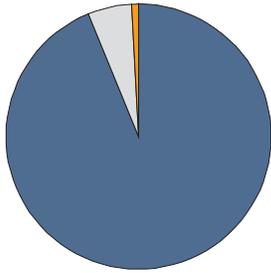
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LargeCap Growth Separate Account-R6 as of 12/31/2008

Portfolio information†

Composition as of
11/30/2008

% of Assets	
U.S. Stocks	93.75
Cash	5.38
Non-U.S. Stocks	0.87



Top ten holdings

	% of net assets
1. Wal-Mart Stores, Inc.	5.45
2. J.P. Morgan Chase & Co.	4.56
3. General Mills, Inc.	3.40
4. McDonald's Corporation	3.37
5. Coca-Cola Company	3.17
6. Baxter International Inc.	3.13
7. Devon Energy Corporation	3.09
8. Hewlett-Packard Company	3.00
9. Gilead Sciences, Inc.	2.81
10. Apple, Inc.	2.81
% of net assets in top ten holdings*	34.79

Analysis

# of Stock Hldgs	45
# of Bond Hldgs	0
# of Other Hldgs	1
GeoAvgCap (mil)	\$37,339.06
Turnover Ratio	88%
P/C Ratio	7.86
P/E Ratio	12.68
P/B Ratio	1.84

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.04	Healthcare	19.66	Consumer Goods	9.50
Hardware	15.14	Consumer Services	10.71	Industrial Materials	7.16
Media	0.00	Business Services	7.81	Energy	7.82
Telecom	1.09	Financial Services	18.07	Utilities	0.00

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The full name of this investment option is Principal LargeCap Growth Separate Account-R6.

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

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Effective January 5, 2005, this portfolio is sub-advised by Columbus Circle Investors. Prior to January 5, 2005, the portfolio was sub-advised by Principal Global Investors.

Formerly known as Large Company Growth Separate Account.

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

International I Separate Account-R6 as of 12/31/2008

Investment Strategy

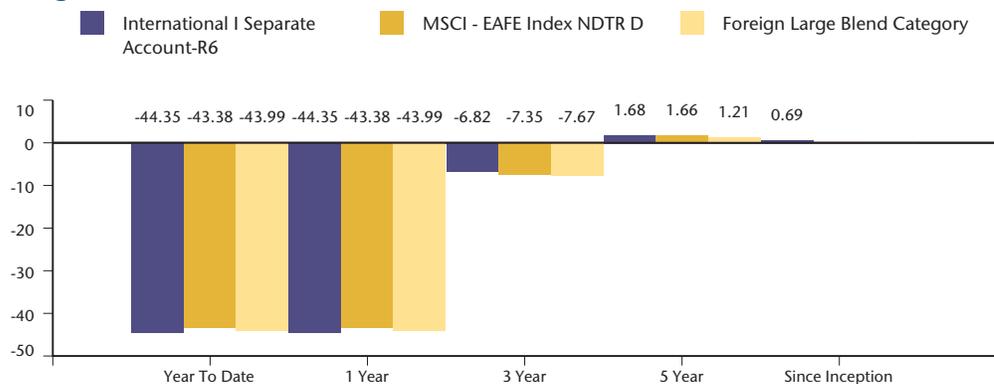
The investment seeks long-term growth of capital. The fund normally invests the fund's assets primarily in non-U.S. securities. Pyramis normally invests the fund's assets primarily in common stocks of companies with large market capitalizations (those with market capitalizations similar to companies in the MSCI EAFE (Europe, Australia and Far East) index at the time of purchase. It normally diversifies the investments across different countries and regions.



Portfolio managers

Cesar Hernandez, CFA. Since 12/29/2003. M.B.A., Babson College

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



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-44.35	-44.35	-6.82	1.68	0.69
MSCI - EAFE Index NDTR D %	-43.38	-43.38	-7.35	1.66	-
Foreign Large Blend Category %	-43.99	-43.99	-7.67	1.21	-
Morningstar Percentile Rankings	-	55	34	41	-
# of Funds in Category	778	778	570	452	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-44.35	15.06	26.36	13.40	18.44
MSCI - EAFE Index NDTR D %	-43.38	11.17	26.34	13.54	20.25
Foreign Large Blend Category %	-43.99	12.71	24.77	14.72	17.39
Morningstar Percentile Rankings	55	27	30	62	37
# of Funds in Category	778	743	657	608	551

Morningstar percentile rankings are based on total returns.

Morningstar category

Foreign Large Blend

Morningstar Style Box™

As of 11/30/2008

Investment style

	Value	Blend	Growth	
		█		Large
				Medium
				Small

Market capitalization

Risk and Return Statistics

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

	3Yr	5Yr
Alpha	1.29	0.18
Beta	1.05	1.04
R-Squared	98.16	97.82
Standard Deviation	20.66	17.32
Mean	-6.82	1.67
Sharpe Ratio	-0.42	0.00
Excess Return	0.53	0.01
Excess Risk	2.94	2.62
Information Ratio	0.18	0.01

Operations

Total Investment Expense Net	1.28%
Total Investment Expense Gross	1.28%
Inception Date	07/01/1999
Total Net Assets (mil)	\$1,016.53



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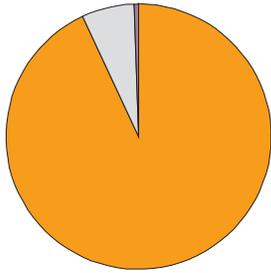
International I Separate Account-R6 as of 12/31/2008

Portfolio information†

Composition as of
11/30/2008

% of Assets

Non-U.S. Stocks	93.08
Cash	6.37
Preferred	0.55



Top ten holdings

	% of net assets
1. Emini Msci Eafe (Fut)	2.90
2. Nestle	2.68
3. Royal Dutch Shell PLC	2.49
4. Telefonica, S.A.	1.96
5. Vodafone Group PLC	1.91
6. HSBC Holdings PLC	1.80
7. Roche Holding Ltd	1.54
8. E.ON	1.48
9. Novartis	1.45
10. Eni	1.44
% of net assets in top ten holdings*	19.66

Analysis

# of Stock Hldgs	264
# of Bond Hldgs	0
# of Other Hldgs	5
GeoAvgCap (mil)	\$21,088.76
Turnover Ratio	91%
P/C Ratio	4.69
P/E Ratio	9.80
P/B Ratio	1.13

Top 5 Countries

	% of net assets
Japan	24.08
United Kingdom	21.91
Switzerland	10.14
Germany	9.34
France	8.67

Regional exposure

	% of net assets
Europe	67.08
Japan	24.08
Pacific Rim	8.84

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

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

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Effective March 31, 2007, references to Fidelity Management & Research as investment advisor were replaced with Fidelity (Pyramis Global Adv). This is a name change only and does not affect the management, objective, or strategy of this investment option.

Formerly known as International Separate Account.

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

LargeCap Blend I Separate Account-R6 as of 12/31/2008

Investment Strategy

The investment seeks capital growth and invests primarily in common stocks of large capitalization companies. It normally invests the majority of assets in companies with market capitalizations similar to those of companies in the S&P 500 Index. Management focuses its stock selection on established companies that it believes have a sustainable competitive advantage. It may invest up to 25% of assets in foreign securities.



Asset Management

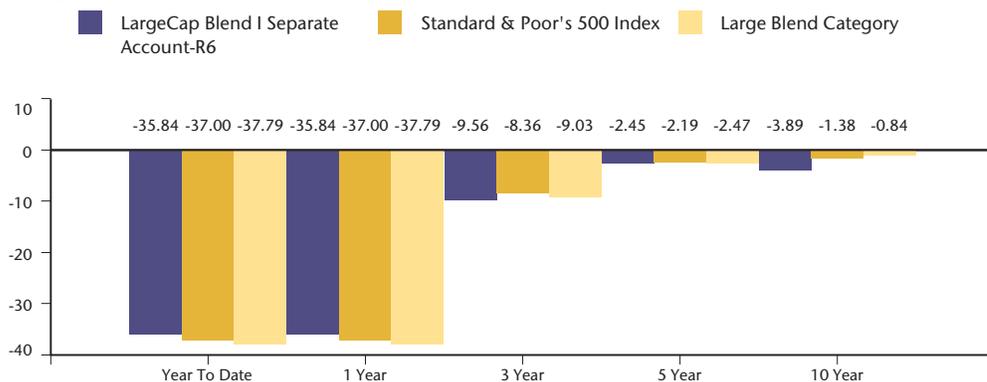
Portfolio managers

Robert C. Jones, CFA. Since 12/16/2002. M.B.A., U of Michigan

Andrew Alford Since 02/29/2008. Ph.D, U of Chicago

Mark M. Carhart, CFA. Since 02/29/2008. Ph.D., U of Chicago

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



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-35.84	-35.84	-9.56	-2.45	-3.89
Standard & Poor's 500 Index %	-37.00	-37.00	-8.36	-2.19	-1.38
Large Blend Category %	-37.79	-37.79	-9.03	-2.47	-0.84
Morningstar Percentile Rankings	-	26	63	50	95
# of Funds in Category	2086	2086	1748	1365	683

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-35.84	0.62	14.60	6.51	12.12
Standard & Poor's 500 Index %	-37.00	5.49	15.79	4.91	10.88
Large Blend Category %	-37.79	6.16	14.17	5.88	10.02
Morningstar Percentile Rankings	26	90	46	38	21
# of Funds in Category	2086	2090	1980	1743	1611

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Blend

Morningstar Style Box™

As of 11/30/2008

Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

Risk and Return Statistics

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

	3Yr	5Yr
Alpha	-1.54	-0.29
Beta	0.98	1.00
R-Squared	98.84	98.43
Standard Deviation	15.10	12.89
Mean	-9.56	-2.45
Sharpe Ratio	-0.84	-0.37
Excess Return	-1.20	-0.27
Excess Risk	1.63	1.60
Information Ratio	-0.74	-0.17

Operations

Total Investment Expense Net	0.76%
Total Investment Expense Gross	0.76%
Inception Date	06/01/1995
Total Net Assets (mil)	\$1,183.26



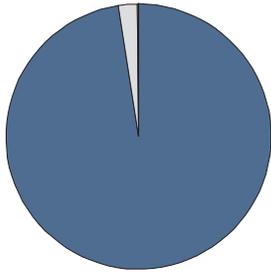
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LargeCap Blend I Separate Account-R6 as of 12/31/2008

Portfolio information[†]

Composition as of
11/30/2008

% of Assets	
U.S. Stocks	97.53
Cash	2.26
Non-U.S. Stocks	0.21



Top ten holdings	% of net assets
1. ExxonMobil Corporation	4.96
2. Procter & Gamble Company	2.46
3. AT&T, Inc.	2.42
4. McDonald's Corporation	1.97
5. Pfizer Inc.	1.96
6. Chevron Corporation	1.94
7. General Electric Company	1.87
8. Microsoft Corporation	1.66
9. Verizon Communications Inc.	1.61
10. Wells Fargo Company	1.47
% of net assets in top ten holdings*	22.32

Analysis	
# of Stock Hldgs	286
# of Bond Hldgs	0
# of Other Hldgs	2
GeoAvgCap (mil)	\$36,843.78
Turnover Ratio	93%
P/C Ratio	5.61
P/E Ratio	10.03
P/B Ratio	1.50

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	4.23	Healthcare	14.84	Consumer Goods	10.01
Hardware	8.42	Consumer Services	8.43	Industrial Materials	9.34
Media	3.14	Business Services	4.87	Energy	15.38
Telecom	4.48	Financial Services	13.56	Utilities	3.30

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

The full name of this investment option is Principal LargeCap Blend I Separate Account-R6.

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

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

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Effective November 13, 2006, this portfolio is sub-advised by Goldman Sachs Asset Management. From November 18, 2002, to November 16, 2006, the portfolio was sub-advised by Goldman Sachs Asset Management and Wellington Management Company, LLP. The portfolio has had various sub-advisors since its inception. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

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

High Yield I Separate Account-R6 as of 12/31/2008

Investment Strategy

The investment seeks high current income. The fund invests at least 80% of its assets in high yield, below investment grade quality debt and other income-producing securities including, corporate bonds, convertible securities, preferred securities, asset-backed securities and securities of companies in bankruptcy proceedings or otherwise in the process of debt restructuring. Loans of portfolio securities may not exceed 33 1/3% of the value of total assets. It primarily invests in securities rated Ba1 or lower by Moody's Investor Service, Inc. or BB+ or lower by Standard & Poor's Rating Service.

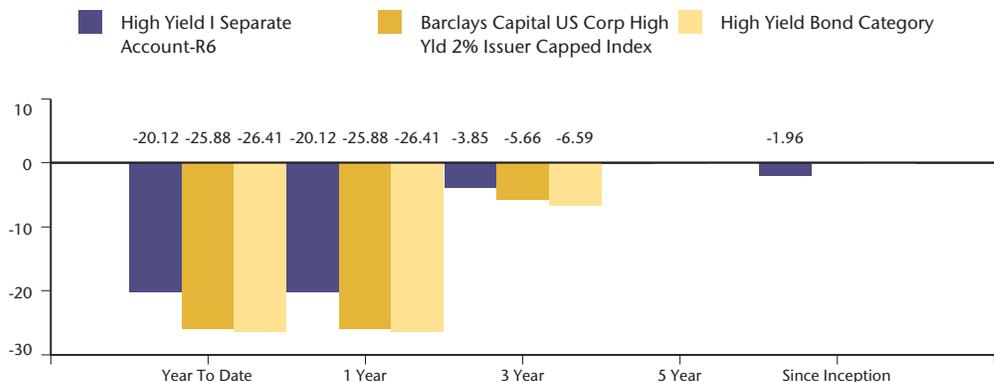


LEHMAN BROTHERS
ASSET MANAGEMENT

Portfolio managers

Ann H. Benjamin Since 07/19/2007. M.B.A., Carnegie Mellon U
James E. Gibson Since 07/19/2007. B.S., University of Western Ontario, Canada
William J. Morgan Since 07/19/2007. M.B.A., Xavier C
Thomas P. O'Reilly, CFA. Since 07/19/2007. M.B.A., Loyola U
James Shanahan Since 07/19/2007. J.D., U of Cincinnati College of Law

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



Performance disclosure

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

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

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-20.12	-20.12	-3.85	-	-1.96
Barclays Capital US Corp High Yld 2% Issuer Capped Index %	-25.88	-25.88	-5.66	-0.84	-
High Yield Bond Category %	-26.41	-26.41	-6.59	-1.84	-
Morningstar Percentile Rankings	-	14	16	-	-
# of Funds in Category	559	559	479	405	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-20.12	2.37	8.71	3.91	-
Barclays Capital US Corp High Yld 2% Issuer Capped Index %	-25.88	-	-	-	-
High Yield Bond Category %	-26.41	1.47	10.14	2.59	9.99
Morningstar Percentile Rankings	14	34	81	15	-
# of Funds in Category	559	542	549	518	493

Morningstar percentile rankings are based on total returns.

Morningstar category

High Yield Bond

Morningstar Style Box™

As of 11/30/2008



Risk and Return Statistics

as of 12/31/2008 Relative to Barclays Capital US Corp High Yld 2% Issuer Capped Index

	3Yr	5Yr
Alpha	-0.28	-
Beta	0.79	-
R-Squared	99.13	-
Standard Deviation	10.55	-
Mean	-3.86	-
Sharpe Ratio	-0.68	-
Excess Risk	2.95	-
Information Ratio	0.61	-

Operations

Total Investment Expense Net	0.82%
Total Investment Expense Gross	0.82%
Inception Date	12/31/2004
Total Net Assets (mil)	\$648.17

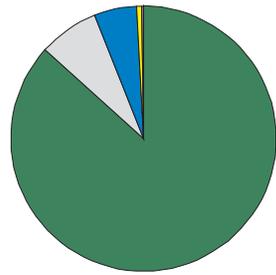


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High Yield I Separate Account-R6 as of 12/31/2008

Portfolio information[†]

Composition as of 11/30/2008



% of Assets	
U.S. Bonds	86.70
Cash	7.26
Non-U.S. Bonds	5.15
Other	0.59
Preferred	0.30

Top ten holdings

Top ten holdings	% of net assets
1. Directv Hldgs 8.375%	2.09
2. Roseton Danskammer Pt 2001 7.67%	1.25
3. Kinder Morgan 6.5%	1.23
4. Ball 6.875%	1.21
5. Aes 144A 8.75%	1.11
6. Hca Inc; Term Loan A	1.07
7. Engy Future Hldgs 144A 11.25%	1.03
8. Chesapeake Engy 7.5%	0.95
9. WILLIAMS PARTNERS L P/WILLIAMS	0.89
10. L-3 Comms 7.625%	0.86
% of net assets in top ten holdings*	11.70

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	498
# of Other Hldgs	16
Turnover Ratio	69%

Credit Analysis

As of 11/30/2008

	% Bonds
AAA	5.30
AA	0.24
A	0.57
BBB	2.42
BB	37.97
B	41.10
Below B	12.00
Not Rated	0.40

Statistics

Avg Eff Duration (Yrs)	3.65
Avg Eff Maturity (Yrs)	6.02
Avg Credit Quality	BB
Avg Weighted Coupon	7.75
Avg Weighted Price	72.39

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The full name of this investment option is Principal High Yield I Separate Account-R6.

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

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High yield investment options are subject to greater credit risk associated with high yield bonds.

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

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

Effective January 2, 2008, this portfolio is co-sub-advised by JP Morgan and Lehman Brothers. Prior to January 2, 2008 Post Advisory Group was a third sub-advisor for this portfolio. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

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

Formerly known as High Yield Separate Account.

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

SmallCap Value I Separate Account-R6 as of 12/31/2008

Investment Strategy

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



Portfolio managers

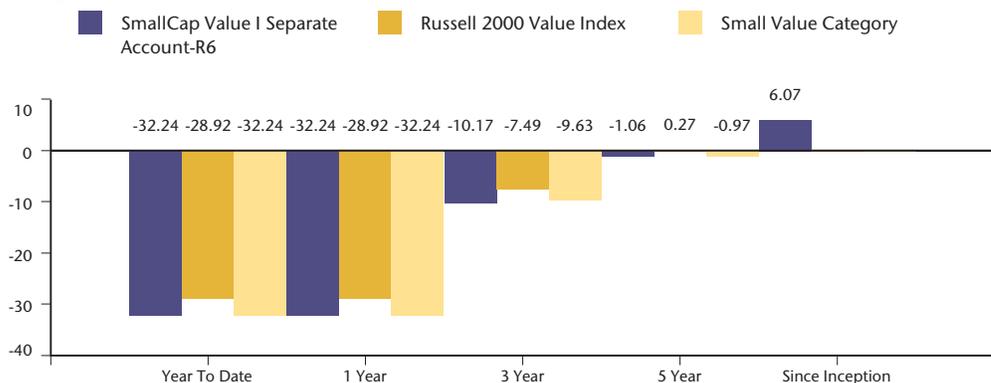
Christopher T. Blum, CFA. Since 12/30/2002. B.B.A., Bernard M. Baruch School for Business

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

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

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

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



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-32.24	-32.24	-10.17	-1.06	6.07
Russell 2000 Value Index %	-28.92	-28.92	-7.49	0.27	-
Small Value Category %	-32.24	-32.24	-9.63	-0.97	-
Morningstar Percentile Rankings	-	56	60	56	-
# of Funds in Category	438	438	341	269	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-32.24	-9.49	18.19	6.32	23.03
Russell 2000 Value Index %	-28.92	-9.78	23.48	4.71	22.25
Small Value Category %	-32.24	-6.08	16.27	6.40	21.14
Morningstar Percentile Rankings	56	75	40	55	33
# of Funds in Category	438	438	389	348	307

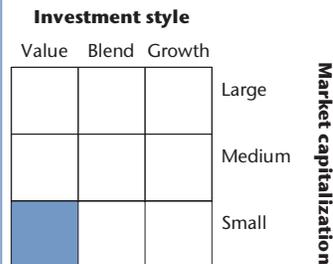
Morningstar percentile rankings are based on total returns.

Morningstar category

Small Value

Morningstar Style Box™

As of 11/30/2008



Risk and Return Statistics

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

	3Yr	5Yr
Alpha	-3.04	-1.35
Beta	0.99	0.99
R-Squared	98.76	98.81
Standard Deviation	19.34	17.30
Mean	-10.18	-1.07
Sharpe Ratio	-0.65	-0.16
Excess Return	-2.69	-1.34
Excess Risk	2.14	1.89
Information Ratio	-1.26	-0.71

Operations

Total Investment Expense Net	1.17%
Total Investment Expense Gross	1.17%
Inception Date	12/31/2002
Total Net Assets (mil)	\$303.79



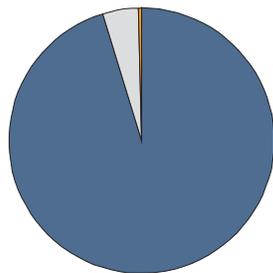
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SmallCap Value I Separate Account-R6 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008

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



Top ten holdings

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

Analysis

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

Stock Sector Breakdown

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

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

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

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

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

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

Core Plus Bond I Separate Account-R6 as of 12/31/2008

Investment Strategy

The investment seeks maximum total return, consistent with preservation of capital and prudent investment management. The fund normally invests at least 80% of net assets in a diversified portfolio of fixed-income instruments of varying maturities, which may be represented by forwards or derivatives such as options, futures contracts, or swap agreements. The average portfolio duration of the fund normally varies within two years (plus or minus) of the duration of the Lehman Brothers Aggregate Bond index. The fund may also invest up to 20% of total assets in high yield securities rated Ba or lower by Moody's, or BB or lower by S&P.

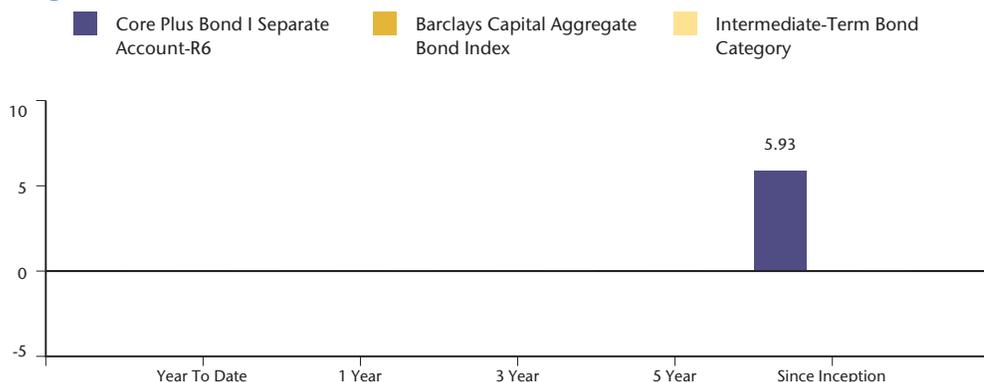
P I M C O

The Authority On Bonds™

Portfolio managers

William H. Gross, CFA. Since 09/30/2008. M.S., U of California-Los Angeles

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



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-	-	-	-	5.93
Barclays Capital Aggregate Bond Index %	5.24	5.24	5.51	4.65	-
Intermediate-Term Bond Category %	-4.70	-4.70	1.08	1.81	-
Morningstar Percentile Rankings	-	-	-	-	-
# of Funds in Category	1135	1135	991	857	-

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

Morningstar percentile rankings are based on total returns.

Morningstar category
Intermediate-Term Bond

Morningstar Style Box™

Data not available

Risk and Return Statistics

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

	3Yr	5Yr
Alpha	-	-
Beta	-	-
R-Squared	-	-
Standard Deviation	-	-
Mean	-	-
Sharpe Ratio	-	-
Excess Risk	-	-
Information Ratio	-	-

Operations

Total Investment Expense Net	0.77%
Total Investment Expense Gross	0.77%
Contractual Cap Expiration Date	02/28/2010
Inception Date	09/30/2008
Total Net Assets (mil)	\$297.67



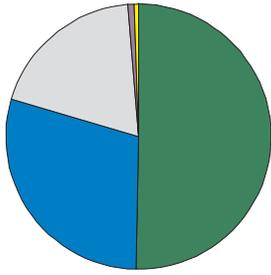
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Core Plus Bond I Separate Account-R6 as of 12/31/2008

Portfolio information†

Composition as of
11/30/2008

% of Assets	
U.S. Bonds	50.31
Non-U.S. Bonds	29.27
Cash	19.09
Preferred	0.76
Other	0.56



Top ten holdings	% of net assets
1. EURODOLLAR DEC 08	62.78
2. FNMA 5%	27.86
3. FHLBA	17.75
4. FHLBA	14.47
5. FNMA 5%	9.30
6. FHLB 5%	6.19
7. US Treasury Bond 2.375%	5.73
8. FNMA 5%	2.22
9. US Treasury Note 3%	1.79
10. US Treasury Bond 1.75%	1.68
% of net assets in top ten holdings*	149.76

Analysis	
# of Stock Hldgs	0
# of Bond Hldgs	49
# of Other Hldgs	18

Credit Analysis

As of	% Bonds
AAA	91.79
AA	1.83
A	4.79
BBB	1.05
BB	0.00
B	0.00
Below B	0.00
Not Rated	0.54

Statistics

Avg Eff Duration (Yrs)	4.14
Avg Eff Maturity (Yrs)	5.98
Avg Credit Quality	AAA
Avg Weighted Coupon	4.70
Avg Weighted Price	98.93

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The full name of this investment option is Principal Core Plus Bond I Separate Account-R6.

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

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

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

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

Bond and Mortgage Separate Account-I2 as of 12/31/2008

Investment Strategy

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



Portfolio managers

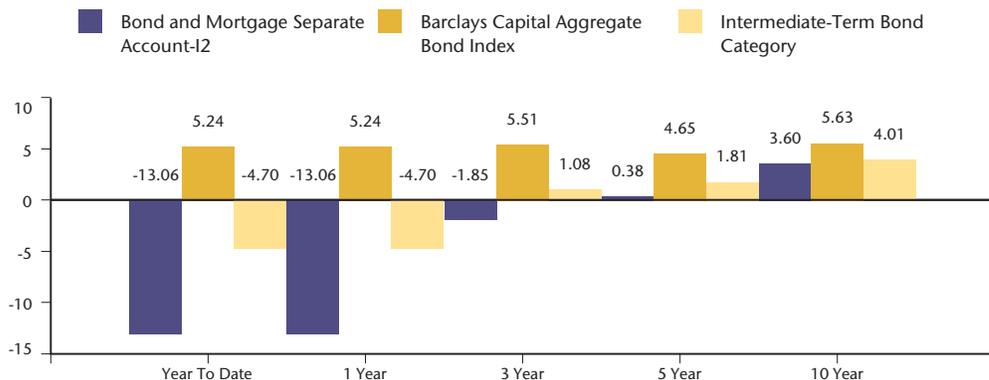
William C. Armstrong, CFA. Since 01/01/1997. Master, U of Iowa

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

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

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

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



Performance disclosure

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

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

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-13.06	-13.06	-1.85	0.38	3.60
Barclays Capital Aggregate Bond Index %	5.24	5.24	5.51	4.65	5.63
Intermediate-Term Bond Category %	-4.70	-4.70	1.08	1.81	4.01
Morningstar Percentile Rankings	-	89	85	81	70
# of Funds in Category	1135	1135	991	857	458

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-13.06	3.83	4.72	2.64	5.02
Barclays Capital Aggregate Bond Index %	5.24	6.97	4.33	2.43	4.34
Intermediate-Term Bond Category %	-4.70	4.70	4.15	1.80	3.91
Morningstar Percentile Rankings	89	78	19	9	14
# of Funds in Category	1135	1097	1092	1043	1035

Morningstar percentile rankings are based on total returns.

Morningstar category
Intermediate-Term Bond

Morningstar Style Box™
As of 11/30/2008

Duration			Quality	
Short	Int	Long		
				High
				Medium
			Low	

Risk and Return Statistics

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

	3Yr	5Yr
Alpha	-6.83	-3.89
Beta	0.81	0.84
R-Squared	37.36	46.52
Standard Deviation	5.65	4.88
Mean	-1.85	0.38
Sharpe Ratio	-0.99	-0.56
Excess Risk	4.37	3.55
Information Ratio	-1.68	-1.20

Operations

Total Investment Expense Net	0.55%
Total Investment Expense Gross	0.55%
Inception Date	02/01/1983
Total Net Assets (mil)	\$4,517.86

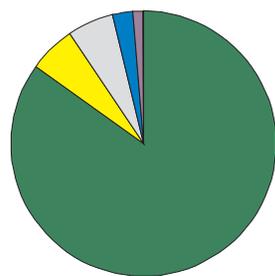


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Bond and Mortgage Separate Account-I2 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008



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

Top ten holdings

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

Analysis

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

Credit Analysis

As of 11/30/2008

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

Statistics

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

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The full name of this investment option is Principal Bond and Mortgage Separate Account-I2.

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

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

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

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

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

International Emerging Markets Separate Account-R6

as of 12/31/2008

Investment Strategy

The investment option normally invests the majority of assets in equities of companies in emerging market countries. It invests in securities of companies with their principal place of business or principal office in emerging market countries; companies for which the principal securities trade in an emerging market; or companies, regardless of where their securities are traded, that derive 50% of their total revenue from either goods or services produced in emerging market countries. The fund may invest in securities of companies with small to medium market capitalizations.



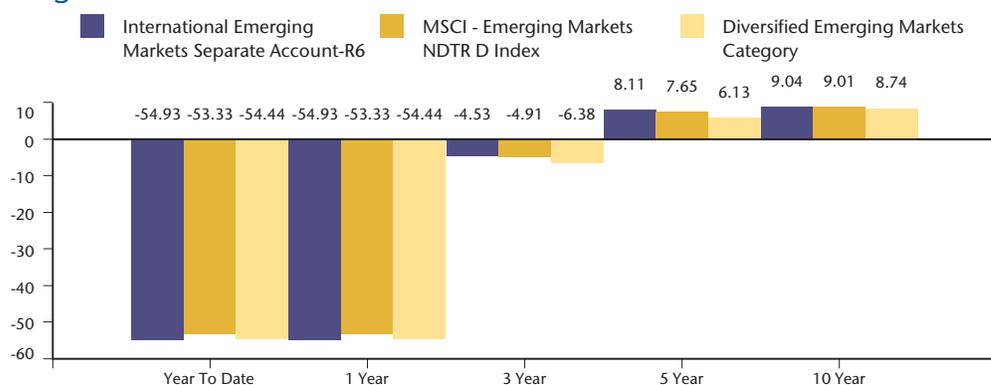
Portfolio managers

Michael L. Reynal Since 02/01/2001. M.B.A., Dartmouth C

Michael Ade, CFA. Since 05/30/2007. B.S., U of Wisconsin

Mihail Dobrinov, CFA. Since 05/30/2007. M.B.A., U of Iowa

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



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-54.93	-54.93	-4.53	8.11	9.04
MSCI - Emerging Markets NDTR D Index %	-53.33	-53.33	-4.91	7.65	9.01
Diversified Emerging Markets Category %	-54.44	-54.44	-6.38	6.13	8.74
Morningstar Percentile Rankings	-	55	27	19	43
# of Funds in Category	312	312	233	192	111

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-54.93	41.60	36.36	35.09	25.63
MSCI - Emerging Markets NDTR D Index %	-53.33	39.39	32.17	34.00	25.55
Diversified Emerging Markets Category %	-54.44	36.68	32.06	31.54	23.54
Morningstar Percentile Rankings	55	20	17	29	34
# of Funds in Category	312	274	242	212	202

Morningstar percentile rankings are based on total returns.

Morningstar category
Diversified Emerging Markets

Morningstar Style Box™
As of 11/30/2008

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

Risk and Return Statistics

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

	3Yr	5Yr
Alpha	0.55	0.45
Beta	1.01	1.01
R-Squared	98.92	98.92
Standard Deviation	29.49	25.58
Mean	-4.53	8.11
Sharpe Ratio	-0.13	0.32
Excess Return	0.38	0.45
Excess Risk	3.05	2.65
Information Ratio	0.12	0.17

Operations

Total Investment Expense Net	1.51%
Total Investment Expense Gross	1.51%
Inception Date	01/01/1995
Total Net Assets (mil)	\$562.09



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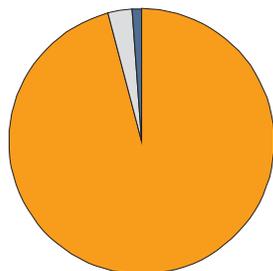
International Emerging Markets Separate Account-R6

as of 12/31/2008

Portfolio information†

Composition as of
11/30/2008

% of Assets	
Non-U.S. Stocks	95.87
Cash	2.97
U.S. Stocks	1.15
Non-U.S. Bonds	0.01



Top ten holdings	% of net assets
1. China Mobile Ltd.	3.05
2. Teva Pharmaceutical Industries, Ltd. ADR	2.93
3. Vale	2.76
4. Brazilian Petroleum Corporation ADR	2.24
5. Gazprom OAO (EDR)	1.97
6. China Construction Bank	1.87
7. Industrial & Commercial Bank of China	1.70
8. Taiwan Semiconductor Mfg.	1.67
9. Samsung Electronics	1.64
10. PetroChina	1.45
% of net assets in top ten holdings*	21.30

Analysis	
# of Stock Hldgs	156
# of Bond Hldgs	1
# of Other Hldgs	1
GeoAvgCap (mil)	\$9,778.06
Turnover Ratio	100%
P/C Ratio	2.97
P/E Ratio	7.38
P/B Ratio	1.24

Top 5 Countries

	% of net assets
Brazil	15.35
South Korea	13.06
China	11.99
Taiwan	11.20
India	6.59

Regional exposure

	% of net assets
Pacific Rim	53.94
Other	22.10
Latin America	21.07
Europe	1.71
United States	1.19

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The full name of this investment option is Principal International Emerging Markets Separate Acct-R6.

MSCI - Emerging Markets NDTR D Index measures equity market performance in the global emerging markets. It consists of 26 emerging market countries in Europe, Latin America and the Pacific Basin.

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

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

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

International Growth Separate Account-R6 as of 12/31/2008

Investment Strategy

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

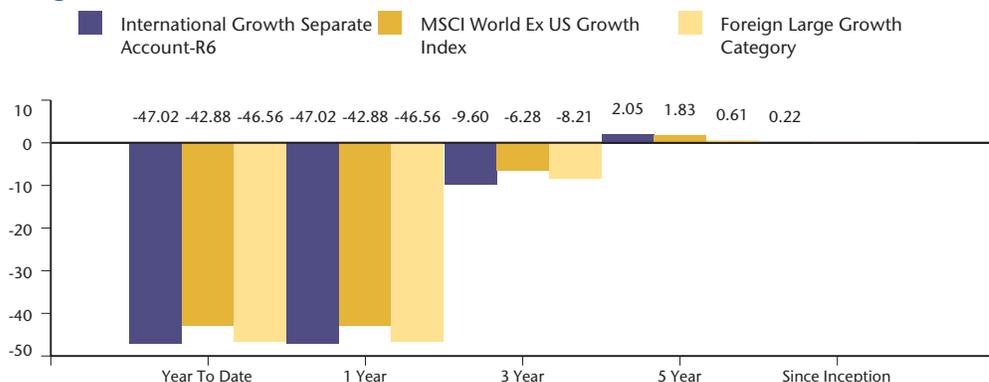


Portfolio managers

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

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

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



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-47.02	-47.02	-9.60	2.05	0.22
MSCI World Ex US Growth Index %	-42.88	-42.88	-6.28	1.83	-
Foreign Large Growth Category %	-46.56	-46.56	-8.21	0.61	-
Morningstar Percentile Rankings	-	50	67	26	-
# of Funds in Category	251	251	209	164	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-47.02	12.32	24.16	22.14	22.64
MSCI World Ex US Growth Index %	-42.88	18.03	22.12	14.41	16.27
Foreign Large Growth Category %	-46.56	16.26	23.95	15.23	16.23
Morningstar Percentile Rankings	50	80	39	8	8
# of Funds in Category	251	220	243	213	221

Morningstar percentile rankings are based on total returns.

Morningstar category

Foreign Large Growth

Morningstar Style Box™

As of 11/30/2008

Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

Risk and Return Statistics

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

	3Yr	5Yr
Alpha	-2.66	0.47
Beta	1.07	1.07
R-Squared	98.23	97.32
Standard Deviation	21.79	18.38
Mean	-9.60	2.05
Sharpe Ratio	-0.52	0.04
Excess Return	-3.32	0.22
Excess Risk	3.19	3.19
Information Ratio	-1.04	0.07

Operations

Total Investment Expense Net	1.16%
Total Investment Expense Gross	1.16%
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,319.02



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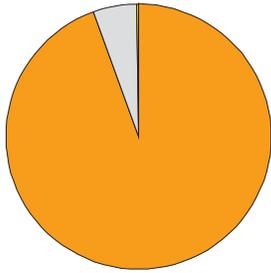
International Growth Separate Account-R6 as of 12/31/2008

Portfolio information†

Composition as of
11/30/2008

% of Assets

Non-U.S. Stocks	94.48
Cash	5.29
Other	0.23



Top ten holdings

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

% of net assets

Analysis

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

Top 5 Countries

% of net assets

Japan	24.22
United Kingdom	23.84
Switzerland	11.10
Germany	6.33
France	5.36

Regional exposure

% of net assets

Europe	64.50
Japan	24.22
Pacific Rim	6.32
Other	4.96

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The full name of this investment option is Principal International Growth Separate Account-R6.

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

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

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

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

MidCap Value III Separate Account-R6 as of 12/31/2008

Investment Strategy

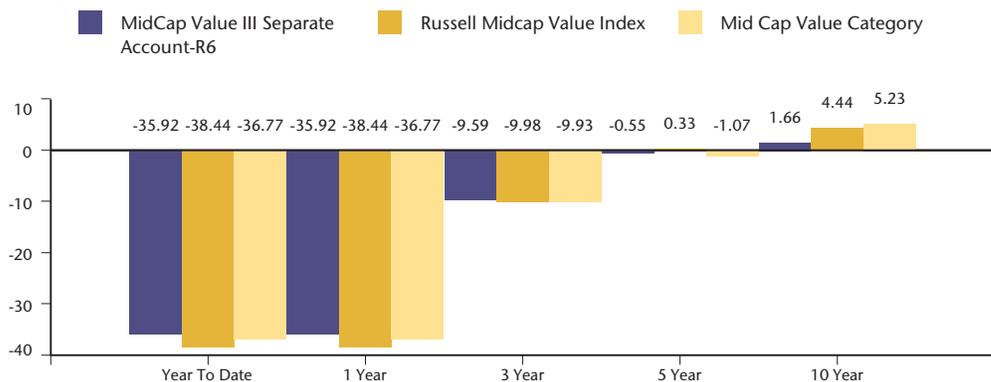
The investment seeks long-term growth of capital and normally invests the majority of assets in companies with market capitalizations similar to those of companies in the Russell MidCap Value Index. Management selects investments primarily on the basis of fundamental security analysis, focusing on the company's financial stability, sales, earnings, dividend trends, return on equity and industry trends. It may invest up to 25% of assets in foreign securities.



Portfolio managers

Jeffery A. Schwart, CPA, CFA. Since 02/01/2005. B.A., Northern Iowa U
Mark Giambrone, CPA. Since 07/01/2005. M.B.A., U of Chicago
James P. Barrow Since 07/12/2005. B.S., U of South Carolina
Stephen Musser Since 05/18/2007. M.B.A., U of Missouri

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



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-35.92	-35.92	-9.59	-0.55	1.66
Russell Midcap Value Index %	-38.44	-38.44	-9.98	0.33	4.44
Mid Cap Value Category %	-36.77	-36.77	-9.93	-1.07	5.23
Morningstar Percentile Rankings	-	41	49	46	100
# of Funds in Category	442	442	338	234	81

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-35.92	-0.59	16.00	13.15	16.34
Russell Midcap Value Index %	-38.44	-1.42	20.22	12.65	23.71
Mid Cap Value Category %	-36.77	0.83	15.87	8.82	17.85
Morningstar Percentile Rankings	41	65	46	9	55
# of Funds in Category	442	405	375	310	320

Morningstar percentile rankings are based on total returns.

Morningstar category

Mid Cap Value

Morningstar Style Box™

As of 11/30/2008

Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

Risk and Return Statistics

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

	3Yr	5Yr
Alpha	-1.50	-0.46
Beta	0.88	0.82
R-Squared	98.37	94.04
Standard Deviation	16.85	10.72
Mean	-9.59	13.53
Sharpe Ratio	-0.74	1.02
Excess Return	0.39	-3.10
Excess Risk	3.13	3.46
Information Ratio	0.13	-0.89

Operations

Total Investment Expense Net	0.81%
Total Investment Expense Gross	0.81%
Inception Date	01/01/1991
Total Net Assets (mil)	\$480.02



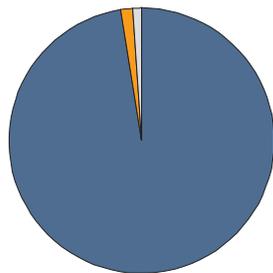
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MidCap Value III Separate Account-R6 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008

% of Assets	
U.S. Stocks	97.47
Non-U.S. Stocks	1.41
Cash	1.12



Top ten holdings	% of net assets
1. Annaly Capital Management, Inc.	2.61
2. Family Dollar Stores, Inc.	2.29
3. Lorillard, Inc.	2.24
4. People's United Financial, Inc.	2.10
5. Omnicare, Inc.	1.95
6. L-3 Communications Holdings, Inc.	1.75
7. Quest Diagnostics, Inc.	1.67
8. Axis Capital Holdings, Ltd.	1.67
9. Xcel Energy, Inc.	1.61
10. Eaton Corporation	1.51
% of net assets in top ten holdings*	19.40

Analysis	
# of Stock Hldgs	183
# of Bond Hldgs	0
# of Other Hldgs	1
GeoAvgCap (mil)	\$4,399.50
Turnover Ratio	90%
P/C Ratio	3.97
P/E Ratio	9.31
P/B Ratio	1.11

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.81	Healthcare	8.27	Consumer Goods	11.06
Hardware	2.78	Consumer Services	10.89	Industrial Materials	11.53
Media	1.43	Business Services	3.39	Energy	5.60
Telecom	1.49	Financial Services	26.33	Utilities	14.42

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

The full name of this investment option is Principal MidCap Value III Separate Account-R6.

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

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

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

Effective July 12, 2005, Barrow Hanley was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

Formerly known as Medium Company Value Separate Account.

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

Real Estate Securities Separate Account-R6 as of 12/31/2008

Investment Strategy

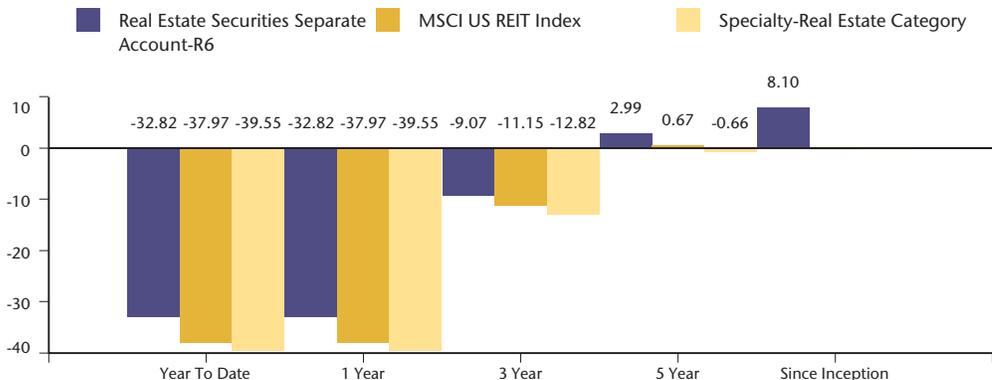
The investment seeks to generate a total return. The fund normally invests at least 80% of the net assets (plus any borrowings for investment purposes) in equity securities of companies principally engaged in the real estate industry, which include real estate investment trusts and companies with substantial real estate holdings such as paper, lumber, hotel and entertainment companies.

Principal Real Estate Investors

Portfolio managers

Kelly D. Rush, CFA. Since 12/06/2000. M.B.A., U of Iowa

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



Performance disclosure

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

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-32.82	-32.82	-9.07	2.99	8.10
MSCI US REIT Index %	-37.97	-37.97	-11.15	0.67	-
Specialty-Real Estate Category %	-39.55	-39.55	-12.82	-0.66	-
Morningstar Percentile Rankings	-	5	6	5	-
# of Funds in Category	265	265	229	191	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-32.82	-17.73	36.03	15.28	33.69
MSCI US REIT Index %	-37.97	-16.82	35.92	12.13	31.49
Specialty-Real Estate Category %	-39.55	-14.66	33.58	11.51	32.02
Morningstar Percentile Rankings	5	70	30	16	36
# of Funds in Category	265	372	306	279	252

Morningstar percentile rankings are based on total returns.

Morningstar category

Specialty-Real Estate

Morningstar Style Box™

As of 11/30/2008

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

Risk and Return Statistics

as of 12/31/2008 Relative to MSCI US REIT Index

	3Yr	5Yr
Alpha	0.02	1.74
Beta	0.88	0.91
R-Squared	98.74	98.37
Standard Deviation	27.39	24.53
Mean	-9.07	2.99
Sharpe Ratio	-0.34	0.12
Excess Return	2.19	2.33
Excess Risk	4.69	3.87
Information Ratio	0.47	0.60

Operations

Total Investment Expense Net	1.13%
Total Investment Expense Gross	1.13%
Inception Date	12/31/2002
Total Net Assets (mil)	\$1,097.06



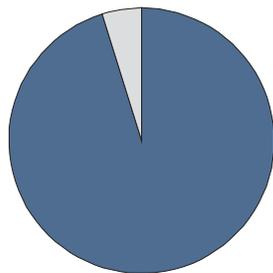
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Real Estate Securities Separate Account-R6 as of 12/31/2008

Portfolio information[†]

Composition as of
11/30/2008

% of Assets	
■ U.S. Stocks	95.14
■ Cash	4.86



Top ten holdings

	% of net assets
1. Public Storage	9.15
2. Simon Property Group, Inc.	9.02
3. Boston Properties, Inc.	7.35
4. Vornado Realty Trust	5.45
5. Federal Realty Investment Trust	5.42
6. Essex Property Trust	4.46
7. AvalonBay Communities, Inc.	4.19
8. Ventas, Inc.	3.76
9. Tanger Factory Outlet Centers	3.64
10. Equity Residential	3.40
% of net assets in top ten holdings*	55.83

% of net assets

Analysis

# of Stock Hldgs	41
# of Bond Hldgs	0
# of Other Hldgs	3
GeoAvgCap (mil)	\$3,303.31
Turnover Ratio	78%
P/C Ratio	7.16
P/E Ratio	20.66
P/B Ratio	1.46

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	0.00	Healthcare	0.00	Consumer Goods	0.00
Hardware	0.00	Consumer Services	0.00	Industrial Materials	0.00
Media	0.00	Business Services	0.00	Energy	0.00
Telecom	0.00	Financial Services	100.00	Utilities	0.00

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The full name of this investment option is Principal Real Estate Securities Separate Account-R6.

MSCI US REIT Index is a capitalization-weighted benchmark index of most actively traded Real Estate Investment Trusts (REITs), designed to measure real estate performance.

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

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

Real estate investment options are subject to some risks inherent in real estate and Real Estate Investment Trusts, such as risks associated with general and local economic conditions.

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

U.S. Property Separate Account-R6 as of 12/31/2008

Investment Strategy

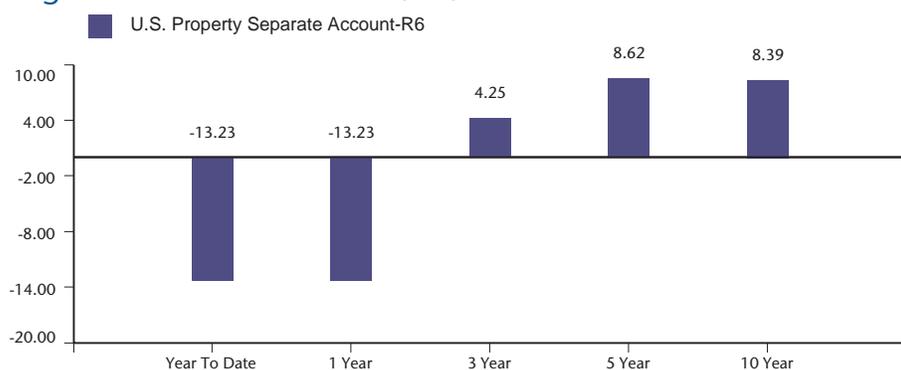
The investment invests the majority of assets on commercial real estate holdings. It focuses on properties that return both lease income and appreciation of the buildings' marketable value. The property holdings usually contain real estate from the multi-family, office, warehouse/manufacturing, and retail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

Principal Real Estate Investors

Portfolio managers

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

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



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-13.23	-13.23	4.25	8.62	8.39

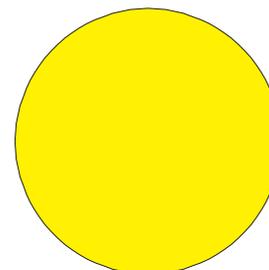
Annual Returns	2008	2007	2006	2005	2004
Total Return %	-13.23	13.42	15.14	18.61	12.52

Operations

Total Investment Expense Net	1.15%
Total Investment Expense Gross	1.15%
Inception Date	01/01/1982
Total Net Assets (mil)	\$5,300.44

Portfolio information

Composition as of 11/30/2008



% of Assets

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

Analysis

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

Portfolio composition

Top ten holdings

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

% of net assets in top ten holdings* 28.86%

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

Geographical diversity

	% of properties
West	47.35
East	23.63
South	18.20
Midwest	10.82

Property type

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

U.S. Property Separate Account-R6 as of 12/31/2008

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

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

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

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

Preferred Securities Separate Account-R6 as of 12/31/2008

Investment Strategy

The investment seeks to provide current income. The fund invests primarily in preferred securities of U.S. companies rated BBB or higher by Standard & Poor's Rating Service ("S&P") or Moody's Investor Service, Inc. ("Moody's") or, if unrated, of comparable quality in the opinion of the Sub-Advisor, Spectrum. It normally invests at least 80% of net assets (plus any borrowings for investment purposes) in preferred securities. The fund focuses primarily on the financial services, Real Estate Investment Trust and utility industries.

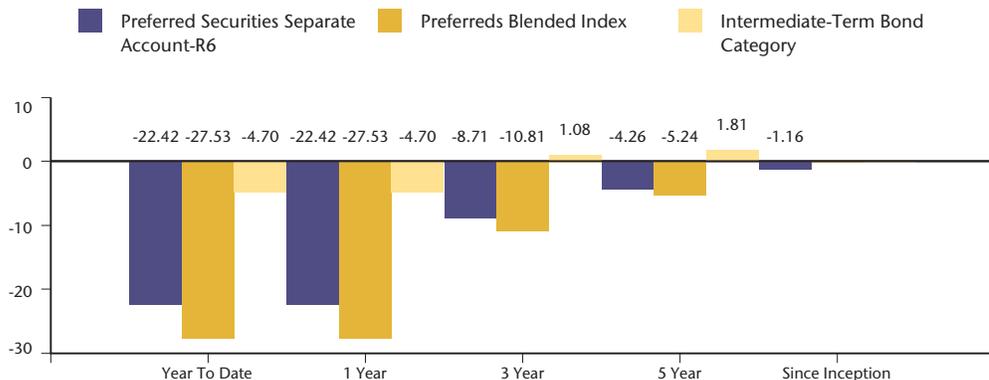
SPECTRUM

Portfolio managers

L. Phillip Jacoby IV Since 05/01/2002. B.S., Boston U

Bernard M. Sussman Since 05/01/2002. M.B.A., Cornell U

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



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-22.42	-22.42	-8.71	-4.26	-1.16
Preferreds Blended Index %	-27.53	-27.53	-10.81	-5.24	-
Intermediate-Term Bond Category %	-4.70	-4.70	1.08	1.81	-
Morningstar Percentile Rankings	-	97	98	98	-
# of Funds in Category	1135	1135	991	857	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-22.42	-8.14	6.77	1.46	4.20
Preferreds Blended Index %	-27.53	-8.57	7.03	1.91	5.67
Intermediate-Term Bond Category %	-4.70	4.70	4.15	1.80	3.91
Morningstar Percentile Rankings	97	99	4	67	84
# of Funds in Category	1135	1097	1092	1043	1035

Morningstar percentile rankings are based on total returns.

Morningstar category
Intermediate-Term Bond

Morningstar Style Box™
As of 11/30/2008

Duration			Quality
Short	Int	Long	
			Medium
			Low

Risk and Return Statistics

as of 12/31/2008 Relative to Preferreds Blended Index

	3Yr	5Yr
Alpha	0.02	-0.26
Beta	0.86	0.86
R-Squared	95.00	95.08
Standard Deviation	14.63	11.76
Mean	-8.71	-4.26
Sharpe Ratio	-0.80	-0.58
Excess Risk	3.99	3.18
Information Ratio	0.53	0.31

Operations

Total Investment Expense Net	0.91%
Total Investment Expense Gross	0.91%
Inception Date	05/31/2002
Total Net Assets (mil)	\$1,338.81

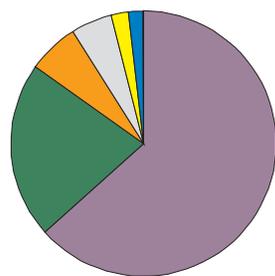


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Preferred Securities Separate Account-R6 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008



Asset Class	% of Assets
Preferred	63.32
U.S. Bonds	21.51
Non-U.S. Stocks	6.23
Cash	4.94
Other	2.15
Non-U.S. Bonds	1.76
U.S. Stocks	0.09

Top ten holdings

Rank	Asset	% of net assets
1.	Xcel Engy Pfd	1.88
2.	BB&T CAP TR V	1.84
3.	Kimco Rlty Pfd	1.70
4.	Qbe Cap Fdg li L P 144A FRN	1.66
5.	Deutsche Bk Contingent Cap Tr li Pfd	1.59
6.	PRUDENTIAL FINL	1.43
7.	JP MORGAN CHASE	1.42
8.	Pnc Cap Tr E Pfd	1.40
9.	Santander Fin Pfd S A Unipersonal Pfd	1.38
10.	General Elec Cap FRN	1.29
% of net assets in top ten holdings*		15.58

Analysis

# of Stock Hldgs	23
# of Bond Hldgs	74
# of Other Hldgs	274
Turnover Ratio	34%

Credit Analysis

As of 11/30/2008

Rating	% Bonds
AAA	13.52
AA	9.93
A	34.63
BBB	41.46
BB	0.32
B	0.00
Below B	0.00
Not Rated	0.15

Statistics

Avg Eff Duration (Yrs)	5.20
Avg Eff Maturity (Yrs)	66.92
Avg Credit Quality	A
Avg Weighted Coupon	7.38
Avg Weighted Price	71.99

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The full name of this investment option is Principal Preferred Securities Separate Account-R6.

Preferreds Blended Index is composed of 65% Merrill Lynch Fixed Rate Preferred Securities Index and 35% Barclays Capital U.S. Tier I Capital Securities Index.

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

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

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

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

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

LargeCap Growth I Separate Account-R6 as of 12/31/2008

Investment Strategy

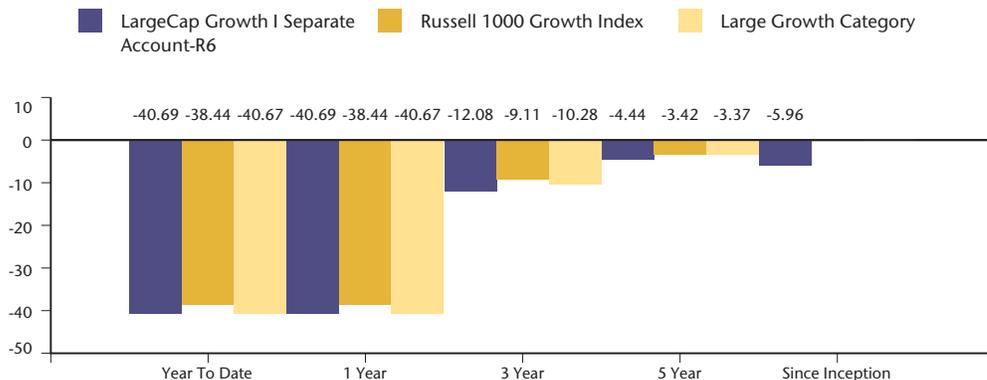
The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets in equity securities of companies with market capitalizations within the range of companies in the Russell 1000 Growth Index at the time of purchase. It invests less than 25% of total assets in foreign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



Portfolio managers

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

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



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-40.69	-40.69	-12.08	-4.44	-5.96
Russell 1000 Growth Index %	-38.44	-38.44	-9.11	-3.42	-
Large Growth Category %	-40.67	-40.67	-10.28	-3.37	-
Morningstar Percentile Rankings	-	51	75	66	-
# of Funds in Category	1809	1809	1507	1243	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-40.69	8.18	5.93	7.44	9.12
Russell 1000 Growth Index %	-38.44	11.81	9.07	5.26	6.30
Large Growth Category %	-40.67	13.35	7.05	6.71	7.81
Morningstar Percentile Rankings	51	75	63	40	37
# of Funds in Category	1809	1748	1642	1495	1400

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Growth

Morningstar Style Box™

As of 11/30/2008

Investment style			Market capitalization
Value	Blend	Growth	
		Large	
		Medium	
		Small	

Risk and Return Statistics

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

	3Yr	5Yr
Alpha	-1.89	-0.27
Beta	1.09	1.09
R-Squared	95.71	93.81
Standard Deviation	18.47	15.91
Mean	-12.07	-4.44
Sharpe Ratio	-0.81	-0.40
Excess Return	-2.96	-1.01
Excess Risk	4.06	4.13
Information Ratio	-0.73	-0.25

Operations

Total Investment Expense Net	0.89%
Total Investment Expense Gross	0.89%
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,163.73



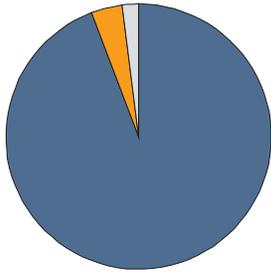
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LargeCap Growth I Separate Account-R6 as of 12/31/2008

Portfolio information†

Composition as of
11/30/2008

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



Top ten holdings

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

% of net
assets

Analysis

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

Stock Sector Breakdown

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

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The full name of this investment option is Principal LargeCap Growth I Separate Account-R6.

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

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

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

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MidCap Growth III Separate Account-R6 as of 12/31/2008

Investment Strategy

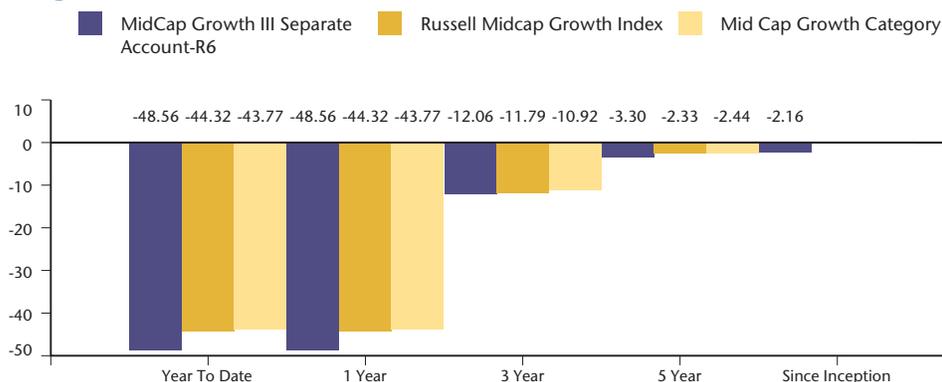
The investment seeks long-term growth of capital. The fund invests primarily in common stocks and other equity securities of U.S. companies with strong earnings growth potential. It normally invests at least 80% of assets in companies with market capitalizations similar to those of companies in the Russell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



Portfolio managers

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

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



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-48.56	-48.56	-12.06	-3.30	-2.16
Russell Midcap Growth Index %	-44.32	-44.32	-11.79	-2.33	-
Mid Cap Growth Category %	-43.77	-43.77	-10.92	-2.44	-
Morningstar Percentile Rankings	-	81	65	66	-
# of Funds in Category	934	934	821	674	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-48.56	24.40	6.26	11.59	11.41
Russell Midcap Growth Index %	-44.32	11.43	10.66	12.10	15.48
Mid Cap Growth Category %	-43.77	15.09	9.00	9.84	13.23
Morningstar Percentile Rankings	81	12	69	37	65
# of Funds in Category	934	967	994	936	903

Morningstar percentile rankings are based on total returns.

Morningstar category

Mid Cap Growth

Morningstar Style Box™

As of 11/30/2008

Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Market capitalization

Risk and Return Statistics

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

	3Yr	5Yr
Alpha	0.32	-0.54
Beta	1.03	1.05
R-Squared	94.37	94.43
Standard Deviation	21.88	19.29
Mean	-12.06	-3.30
Sharpe Ratio	-0.65	-0.24
Excess Return	-0.28	-0.97
Excess Risk	5.18	4.61
Information Ratio	-0.05	-0.21

Operations

Total Investment Expense Net	1.16%
Total Investment Expense Gross	1.16%
Inception Date	10/28/1999
Total Net Assets (mil)	\$690.24

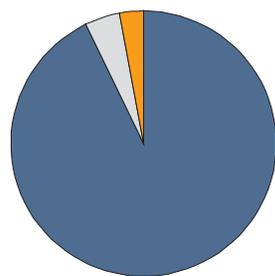


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MidCap Growth III Separate Account-R6 as of 12/31/2008

Portfolio information†

Composition as of 11/30/2008



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

Top ten holdings

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

Analysis

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

Stock Sector Breakdown

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

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The full name of this investment option is Principal MidCap Growth III Separate Account-R6.

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

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

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Formerly known as Mid-Cap Growth Separate Account.

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

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LargeCap Value I Separate Account-R6 as of 12/31/2008

Investment Strategy

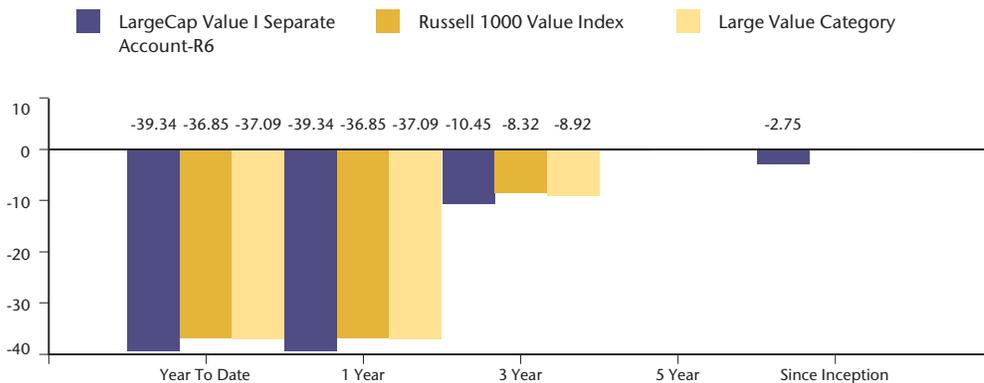
The investment seeks long-term growth of capital. The fund invests primarily in common stocks and other equity securities of large capitalization companies. It normally invests at least 80% of net assets in securities of companies with large market capitalizations (those with market capitalizations similar to companies in the Russell 1000 Value index (as of December 31, 2007 this range was between approximately \$0.5 billion and \$527.8 billion) at the time of purchase. The fund may invest up to 25% of assets in securities of foreign companies.



Portfolio managers

Thomas M. Cole, CFA. Since 06/01/2004. M.B.A., U of Wisconsin
Thomas J. Digenan, CPA, CFA. Since 06/01/2004. M.S., DePaul U
John C. Leonard, CFA. Since 06/01/2004. M.B.A., U of Chicago
Scott C. Hazen, CFA. Since 03/01/2006. M.B.A., U of Chicago

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



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-39.34	-39.34	-10.45	-	-2.75
Russell 1000 Value Index %	-36.85	-36.85	-8.32	-0.79	-
Large Value Category %	-37.09	-37.09	-8.92	-1.79	-
Morningstar Percentile Rankings	-	70	73	-	-
# of Funds in Category	1433	1433	1185	963	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-39.34	0.31	18.01	9.75	-
Russell 1000 Value Index %	-36.85	-0.17	22.25	7.05	16.49
Large Value Category %	-37.09	1.42	18.15	5.95	12.97
Morningstar Percentile Rankings	70	61	53	16	-
# of Funds in Category	1433	1432	1371	1296	1220

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Value

Morningstar Style Box™

As of 11/30/2008

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

Risk and Return Statistics

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

	3Yr	5Yr
Alpha	-1.76	-
Beta	1.04	-
R-Squared	96.01	-
Standard Deviation	16.48	-
Mean	-10.46	-
Sharpe Ratio	-0.82	-
Excess Return	-2.14	-
Excess Risk	3.30	-
Information Ratio	-0.65	-

Operations

Total Investment Expense Net	0.96%
Total Investment Expense Gross	0.96%
Inception Date	06/01/2004
Total Net Assets (mil)	\$891.10



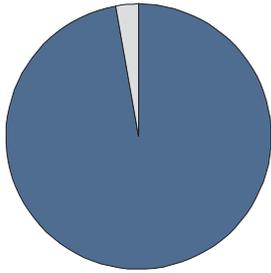
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LargeCap Value I Separate Account-R6 as of 12/31/2008

Portfolio information[†]

Composition as of
11/30/2008

% of Assets	
■ U.S. Stocks	97.17
■ Cash	2.83



Top ten holdings

	% of net assets
1. General Electric Company	5.17
2. AT&T, Inc.	3.99
3. Chevron Corporation	3.70
4. Aflac, Inc.	3.50
5. Wyeth	3.42
6. J.P. Morgan Chase & Co.	2.83
7. Wells Fargo Company	2.82
8. Comcast Corporation A	2.80
9. FedEx Corporation	2.80
10. ExxonMobil Corporation	2.70
% of net assets in top ten holdings*	33.74

Analysis

# of Stock Hldgs	61
# of Bond Hldgs	0
# of Other Hldgs	4
GeoAvgCap (mil)	\$25,121.72
Turnover Ratio	36%
P/C Ratio	3.36
P/E Ratio	9.28
P/B Ratio	1.13

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	0.06	Healthcare	11.29	Consumer Goods	1.97
Hardware	2.51	Consumer Services	2.51	Industrial Materials	13.79
Media	3.97	Business Services	7.00	Energy	17.21
Telecom	5.27	Financial Services	23.80	Utilities	10.63

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SmallCap Growth II Separate Account-R6 as of 12/31/2008

Investment Strategy

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



Portfolio managers

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

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



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-42.31	-42.31	-12.80	-4.69	-4.62
Russell 2000 Growth Index %	-38.54	-38.54	-9.32	-2.35	-
Small Growth Category %	-41.55	-41.55	-11.35	-3.52	-
Morningstar Percentile Rankings	-	58	70	66	-
# of Funds in Category	834	834	704	574	-

Annual Returns	2008	2007	2006	2005	2004
Total Return %	-42.31	5.64	8.79	6.88	11.00
Russell 2000 Growth Index %	-38.54	7.05	13.35	4.15	14.31
Small Growth Category %	-41.55	7.59	10.81	6.02	12.41
Morningstar Percentile Rankings	58	58	63	42	60
# of Funds in Category	834	829	763	723	711

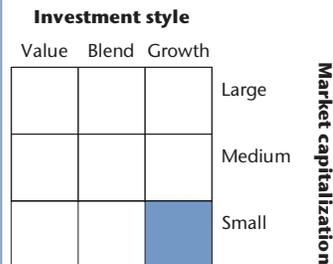
Morningstar percentile rankings are based on total returns.

Morningstar category

Small Growth

Morningstar Style Box™

As of 11/30/2008



Risk and Return Statistics

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

	3Yr	5Yr
Alpha	-4.13	-2.71
Beta	0.98	0.95
R-Squared	97.46	96.02
Standard Deviation	21.37	18.89
Mean	-12.81	-4.69
Sharpe Ratio	-0.70	-0.32
Excess Return	-3.49	-2.34
Excess Risk	3.41	3.89
Information Ratio	-1.02	-0.60

Operations

Total Investment Expense Net	1.16%
Total Investment Expense Gross	1.16%
Inception Date	12/29/2000
Total Net Assets (mil)	\$323.00



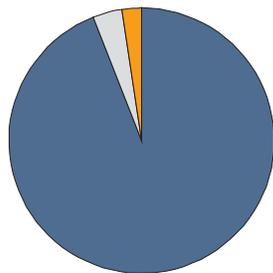
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SmallCap Growth II Separate Account-R6 as of 12/31/2008

Portfolio information[†]

Composition as of 11/30/2008

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



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

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

Stock Sector Breakdown

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

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

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