



**LOUISIANA LOTTERY CORPORATION**  
**A COMPONENT UNIT OF THE STATE OF LOUISIANA**  
**BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE PLAN YEAR ENDED DECEMBER 31, 2011**

**LOUISIANA LOTTERY CORPORATION**  
**BASIC, SUPPLEMENTAL, AND 457(b) RETIREMENT PLANS**  
**A COMPONENT UNIT OF THE STATE OF LOUISIANA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE PLAN YEAR ENDED DECEMBER 31, 2011**

**PREPARED BY ACCOUNTING DEPARTMENT**

**KAREN B. FOURNET**

**SENIOR VICE PRESIDENT**

**SECRETARY TREASURER**

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

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June 30, 2012

Board of Directors, Louisiana Lottery Corporation

## **Introduction**

The Louisiana Lottery Corporation (the Corporation) is pleased to submit its Comprehensive Annual Financial Report for the Basic, Supplemental, and 457(b) retirement plans for the plan year ended December 31, 2011. Lottery management is responsible for the accuracy and completeness of all data and disclosures in this report. To the best of our knowledge, the information presented is accurate and complete in all material respects and fairly depicts the financial activities and position of these plans.

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

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

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting (see page 6) to the Louisiana Lottery Corporation Basic, Supplemental, and Optional Savings (457(b)) Retirement Plans for its comprehensive annual financial report for the year ended December 31, 2010. This was the fourth consecutive year that the Corporation has achieved this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

## **The Retirement Plans**

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

Lottery employees do not participate in any State of Louisiana retirement plans, except for one employee grandfathered into the state plan. All part-time and full-time employees are automatically enrolled in the Basic Retirement Plan. Only full-time employees participate in the Supplemental Retirement Plan. Full-time employees may elect to participate in the 457(b) Retirement Plan.

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

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

Participants of the 457(b) Retirement Plan may elect to defer compensation as deposits into their accounts up to IRC limits. The Corporation matches the first 2.5% of these deferrals.

Detailed provisions of each plan are included in the notes to the financial statements beginning on page 18. Financial results for the plans are discussed in management's discussion and analysis beginning on page 9 and the remainder of the financial section. Historical financial results and demographic information are presented in the statistical section beginning on page 88.

## **Administration and Investments**

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

administration and recordkeeping of participant information, account balances, investment earnings, distributions, investment transfers, contribution deposits, and participant enrollment and education are conducted through PLIC's system and service team. PLIC selects and monitors investment managers for its sub-advised investment offerings made available through separate accounts. Several mutual funds are also available through PLIC for participant investment. Information about all of the separate accounts, mutual funds, and investment managers is included in the investment section of this report beginning on page 29.

The Corporation's Human Resources and Finance departments are responsible for the administration of the plans with oversight by the Retirement Plans Committee. The Investment Committee serves as the plans' fiduciaries in the selection and monitoring of investment options. Oversight, management, and responsibilities for the plans are presented in the organizational chart on page 5.

### **Internal Control Framework**

Management is responsible for the design and operation of the control environment surrounding the administration and financial reporting of the plans. An effective control system of policies and procedures operating as intended prevents or detects errors or misstatements. Inherently, most controls cannot provide complete effectiveness and the cost of operating the controls should not exceed the anticipated benefits. But, the internal control structure for the plans should provide reasonable assurance that corporate objectives will be achieved in the following categories:

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

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

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

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

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

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

Employee compliance with these standards is constantly monitored and evaluated.

### **Independent Audit**

The Louisiana Legislative Auditor performs an annual audit of the plans' financial statements. The audits are conducted in accordance with generally accepted auditing standards and generally accepted government auditing standards. The independent auditor's opinion on the plans' financial statements for the year ended December 31, 2011, is included in the financial section of this report.

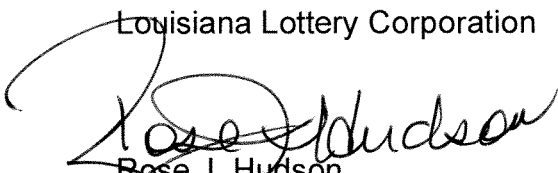
### **Acknowledgements**

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

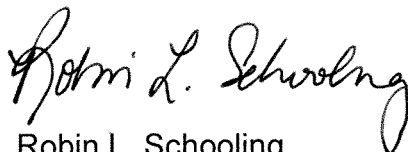
We are committed to providing thorough and relevant financial information to the users of our financial statements. Our preparation of this Comprehensive Annual Financial Report reflects this commitment. The additional presentations and disclosures required will assist readers in obtaining an understanding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

Respectfully submitted,


Retirement Plans Committee  
Louisiana Lottery Corporation




Rose J. Hudson  
President



Robin L. Schooling  
Vice President of Human  
Resources



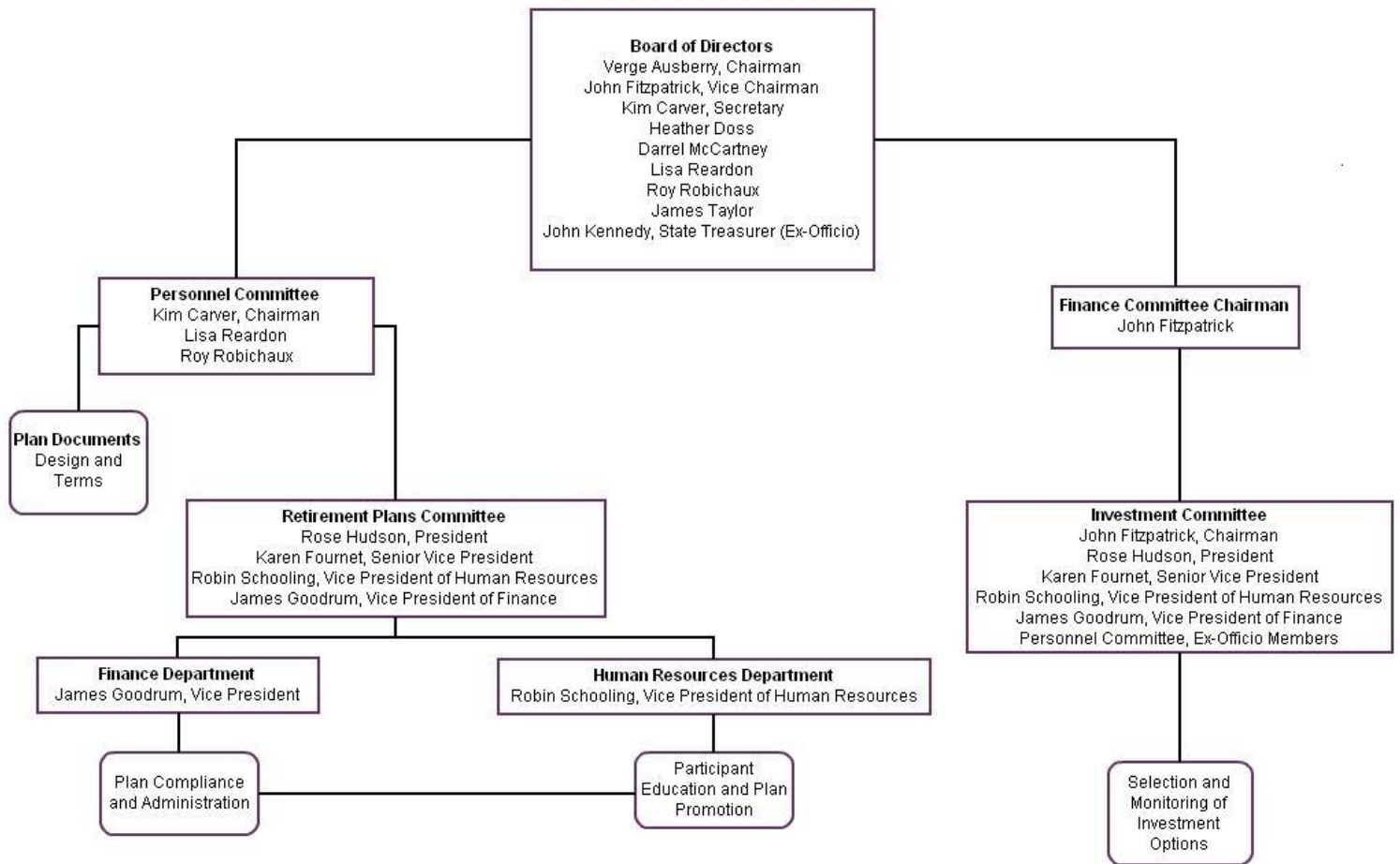
Karen B. Fournet  
Senior Vice President and  
Secretary Treasurer



James F. Goodrum  
Vice President of Finance  
and Controller



# Organizational Chart



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

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

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2010

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



*Linda C. Sandson*

President

*Jeffrey R. Emer*

Executive Director

**FINANCIAL SECTION**



LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

June 6, 2012

Independent Auditor's Report

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

We have audited the accompanying statement of net assets available for benefits of the Louisiana Lottery Corporation Basic, Supplemental, and 457(b) Retirement Plans as of December 31, 2011, and the related statement of changes in net assets available for benefits for the year then ended, which collectively comprise the Plans' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Louisiana Lottery Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Louisiana Lottery Corporation Basic, Supplemental, and 457(b) Retirement Plans' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Louisiana Lottery Corporation Basic, Supplemental, and 457(b) Retirement Plans as of December 31, 2011, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2012, on our consideration of the Louisiana Lottery Corporation Basic, Supplemental, and 457(b) Retirement Plans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to

describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 9 through 14, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Louisiana Lottery Corporation Basic, Supplemental, and 457(b) Retirement Plans' basic financial statements. The schedules of changes in net assets available for benefits by investment option are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Louisiana Lottery Corporation Basic, Supplemental, and 457(b) Retirement Plans' basic financial statements. The introductory section, investment section, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

EBT:AD:BDC:THC:ch  
LLCRP11



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

**Management's Discussion and Analysis  
For the Year Ended December 31, 2011**

This discussion of the Louisiana Lottery Corporation Basic, Supplemental, and 457(b) Retirement Plans' financial statements provides an overview and analysis of the plans' financial position and activities for the year ended December 31, 2011. Please read it in conjunction with the plans' financial statements and notes to the financial statements.

Our annual report consists of two types of financial statements, supplementary information schedules, and accompanying notes that provide narrative explanations and additional details of the plans' provisions and activities. The statements, supplementary information schedules, and notes are presented using the accrual method of accounting. Under this method, financial transactions are recorded when earned or incurred regardless of when cash is received or disbursed.

The statement of net assets available for benefits on page 15 includes all assets and liabilities of the plans. The balances reported are as of the year ended December 31, 2011. Assets consist of the fair value of units held for the benefit of participants under each investment fund and any earned contributions deposited after December 31, 2011. Fair value is based on deposit values and quoted market prices of the underlying investments. No liabilities exist because all expenses due from the plans are deducted monthly from investment income and all benefits due to participants were distributed as of the end of the year.

A summary of all financial activities that occurred during the twelve-month period ending December 31, 2011, is presented in the statement of changes in net assets available for benefits on page 16. The categories of activities included on this statement provide reasons for increases or decreases in plan net assets. Investment income includes all interest, dividends, and market value gains or losses earned by each investment fund during the year. This income is reflected net of the plans' administrative service provider's investment management fees. Participant and employer contributions are the funds earned for each pay period during the year in accordance with the terms of the plans. Withdrawals paid to terminated or retired employees are included in the benefits paid to participants' category. A description of contribution and distribution requirements can be found in note 2 to the financial statements beginning on page 18.

The supplementary information schedules beginning on page 26 present the plans' activities and balances segregated by investment fund. Interfund transfers include participant-directed transfers of funds between investment accounts and the allocation of forfeited balances from nonvested participant accounts to the remaining active and eligible participant accounts.

The notes to the financial statements that begin on page 17 present information on accounting policies, plan provisions, investments, investment management fees, forfeitures, income tax status determinations, risk management, termination and merger provisions, litigation, and subsequent events. These notes are an integral part of the financial statements.

A condensed financial data comparison between the current year ended December 31, 2011, and the year ended December 31, 2010, is presented below.

<b>401(a)</b> <b>Basic Plan</b> <b>Plan Years Ended December 31 for the Years Shown</b>		
	<b>2011</b>	<b>2010</b>
<b>Total Assets</b>	\$6,800,070	\$7,128,279
<b>Liabilities</b>	NONE	NONE
<b>Net assets available for benefits</b>	<u>\$6,800,070</u>	<u>\$7,128,279</u>
<b>Additions:</b>		
Net investment income	(\$273,228)	\$840,329
Contributions:		
Participant	314,409	323,152
Employer	<u>253,557</u>	<u>260,609</u>
<b>Total additions</b>	294,738	1,424,090
<b>Deductions:</b>		
Benefits paid to participants	<u>(622,947)</u>	<u>(675,991)</u>
<b>(Decrease) Increase in net assets</b>	<u>(\$328,209)</u>	<u>\$748,099</u>

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

	<u>2011</u>	<u>2010</u>
<b>Total Assets</b>	\$3,839,701	\$4,059,969
<b>Liabilities</b>	NONE	NONE
<b>Net assets available for benefits</b>	<u>\$3,839,701</u>	<u>\$4,059,969</u>
<b>Additions:</b>		
Net investment income	(\$150,975)	\$484,591
Contributions:		
Participant	29,786	13,883
Employer	<u>314,191</u>	<u>312,500</u>
<b>Total additions</b>	193,002	810,974
<b>Deductions:</b>		
Benefits paid to participants	<u>(413,270)</u>	<u>(362,157)</u>
<b>(Decrease) Increase in net assets</b>	<u>(\$220,268)</u>	<u>\$448,817</u>

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

	<u>2011</u>	<u>2010</u>
<b>Total Assets</b>	\$4,815,447	\$5,114,772
<b>Liabilities</b>	NONE	NONE
<b>Net assets available for benefits</b>	<u>\$4,815,447</u>	<u>\$5,114,772</u>
<b>Additions:</b>		
Net investment income	(\$178,963)	\$618,697
Contributions:		
Participant	309,563	315,143
Employer	<u>117,745</u>	<u>119,748</u>
<b>Total additions</b>	248,345	1,053,588
<b>Deductions:</b>		
Benefits paid to participants	<u>(547,670)</u>	<u>(498,306)</u>
<b>(Decrease) Increase in net assets</b>	<u>(\$299,325)</u>	<u>\$555,282</u>

The assets of the plans decreased because the combination of investment losses and benefits paid to participants were greater than contributions. The reasons for the



activity in each component outlined as follows provide the rationale for this overall change.

### **Investment income**

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

	<u>2011</u>	<u>2010</u>
<i>Basic Plan</i>	-3.92%	12.44%
<i>Supplemental Plan</i>	-3.82%	12.63%
<i>457(b) Plan</i>	-3.60%	12.79%

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

The underlying portfolios of the investments in the plans contain a mix of stocks, bonds, and cash. Each of these types of investments has different risk and return characteristics. Typically, a riskier investment has greater upside and greater downside performance potential. Stocks tend to be more volatile and risky investments that perform according to economic and corporate growth and profitability cycles. Bonds are usually more conservative investments that provide a fixed stream of income and fluctuations in values dependent upon changes in market interest rates. Cash investments include short-term government and corporate securities that offer a stable and very liquid principal value with an interest component.

The specific asset allocation for each fund is included in the investment section beginning on page 29. This information indicates that the plans' investment performance is heavily dependent upon changes in the stock and bond markets. These financial markets tend to fluctuate with economic trends and conditions. The following chart provides economic indicators and financial market results for each year.

	<u>2011</u>	<u>2010</u>
<b><u>Economic Indicators:</u></b>		
<i>Gross Domestic Product (GDP)</i>	1.70%	3.00%
<i>Federal Funds Rate</i>	0.25%	0.25%
<i>Unemployment Rate</i>	8.50%	9.40%
<i>Consumer Price Index (CPI)</i>	3.00%	1.60%
<b><u>Financial Markets:</u></b>		
<i>Dow Jones Industrial Average (DJIA)</i>	5.53%	11.02%
<i>NASDAQ Composite Index</i>	-1.80%	16.91%
<i>Standard and Poor's 500 Index (S&amp;P500)</i>	0.00%	12.78%
<i>10-Year Treasury Note Yield</i>	1.87%	3.31%

The pace of the United States (U.S.) and global economic recovery that began in the second half of 2009 slowed considerably in the past year. Gross domestic product was at 1.70% for 2011. The consumer price index increased to 3.00% mainly because of higher energy prices. However, the Federal Reserve has maintained the federal funds rate at exceptionally low levels in an effort to fuel further growth. In addition, the unemployment rate decreased in 2011.

U.S. companies produced record profits and price-to-earnings ratios of stocks dropped to their lowest levels in recent memory. However, political revolutions across the Middle East and North Africa, a catastrophic earthquake in Japan, Europe's debt crisis, and the U.S. deficit and debt ceiling issues caused uncertainty and volatility in the world economies and financial markets.

These economic and financial market factors had an impact on the performance of investments. Domestic stock funds had slight losses to very modest gains in 2011 while international funds suffered steep losses. The Lipper International Fund Index finished the year at -14.48%. Severe volatility in stock markets caused an increase in the effect of the timing of investment transactions on returns. Short-term money market fund returns were minimal because of the extremely low federal funds rate. The values of most fixed-income funds increased in 2011 because of the decrease in the ten-year Treasury note yield and the easing of credit-quality concerns from previous years. Commercial real estate investments continued to recover some of the significant losses from 2009 because of improving employment levels and an increase in credit availability for building sales.

The investment performance of the individual funds offered through the plans was affected by the financial market environment. Investment income generated by each fund is listed on the supplementary schedules beginning on page 26. In addition,

investment performance and benchmark comparisons are included in the investment section of this report beginning on page 29.

### **Contributions**

The level of contributions to the plans is affected by annual compensation for all three plans and elective participant deferrals in the 457(b) Plan. Total compensation was approximately \$5.3 million in 2011 and \$5.4 million in 2010. Contributions are calculated as a percentage of wages. The average deferral percentages for the 457(b) Plan for plan years 2011 and 2010 were 5.89% and 5.83%, respectively. In addition, the change to immediate eligibility in the Supplemental and 457(b) Plans and some reductions in participation in the 457(b) Plan affected contributions. The contribution provisions for both plans are outlined in note 2 to the financial statements beginning on page 18. Historical compensation and deferral information is provided in the demographic information in the statistical section of this report on page 92.

### **Benefits paid to participants**

The amount of benefits paid out in any given year is dependent upon the volume of employee terminations or retirements, the length of service of these employees, the balances maintained in their accounts, and the distribution elections that determine the timing of payments. Differences in these factors can cause substantial variances in a year-to-year comparison of plan distributions. The distribution provisions for the plans are included in note 2 to the financial statements beginning on page 18.

This financial overview of the Basic, Supplemental, and 457(b) Retirement Plans is provided as a supplemental analysis of the financial position and activities of the plans as of and for the year ended December 31, 2011. It is based on currently known facts and decisions and includes information about transactions, events, and conditions that are reflected in the financial statements and accompanying notes. The additional presentations and disclosures are included to assist the users of this report in understanding the financial results of these retirement plans.

Respectfully submitted,



James F. Goodrum  
Vice President of Finance and Controller



Karen B. Fournet  
Senior Vice President and Secretary Treasurer

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

**Statement of Net Assets Available for Benefits  
December 31, 2011**

	<b><u>401(a) Plans</u></b>		
	<b><u>Basic</u></b>	<b><u>Supplemental</u></b>	<b><u>457(b) Plan</u></b>
<b>ASSETS</b>			
Investments (note 3)	\$6,778,221	\$3,831,429	\$4,800,496
Contributions receivable	\$21,849	\$8,272	\$14,951
<b>Total Assets</b>	<b><u>\$6,800,070</u></b>	<b><u>\$3,839,701</u></b>	<b><u>\$4,815,447</u></b>
<b>LIABILITIES</b>	<b><u>NONE</u></b>	<b><u>NONE</u></b>	<b><u>NONE</u></b>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<b><u>\$6,800,070</u></b>	<b><u>\$3,839,701</u></b>	<b><u>\$4,815,447</u></b>

The accompanying notes are an integral part of this statement.

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

**Statement of Changes in Net Assets Available for Benefits  
For the Year Ended December 31, 2011**

	<b><u>401(a) Plans</u></b>		
	<b><u>Basic</u></b>	<b><u>Supplemental</u></b>	<b><u>457(b) Plan</u></b>
<b>ADDITIONS</b>			
Investment income	(\$270,294)	(\$150,975)	(\$178,963)
Less investment management fees (note 4)	(2,934)	NONE	NONE
Net investment loss	(273,228)	(150,975)	(178,963)
Contributions:			
Participant	314,409	29,786	309,563
Employer	253,557	314,191	117,745
Total additions	294,738	193,002	248,345
<b>DEDUCTIONS</b>			
Benefits paid to participants	(622,947)	(413,270)	(547,670)
Net decrease	(328,209)	(220,268)	(299,325)
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	7,128,279	4,059,969	5,114,772
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	<u>\$6,800,070</u>	<u>\$3,839,701</u>	<u>\$4,815,447</u>

The accompanying notes are an integral part of this statement.

## INTRODUCTION

The Louisiana Lottery Corporation (Corporation) is authorized under Louisiana Revised Statute (R.S.) 47:9015(A) to provide or arrange for a retirement plan. The Corporation's Basic, Supplemental, and 457(b) Retirement Plans (the Plans) have been established pursuant to this statute.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. BASIS OF PRESENTATION

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and reporting principles.

The Corporation's Plans report on their financial position and results of operations. The financial statements account for contributions from participants and the employer, investment income, and benefits distributed to participants.

#### B. REPORTING ENTITY

Using the criteria in GASB Codification Section 2100, the Division of Administration, Office of Statewide Reporting and Accounting Policy, has defined the governmental reporting entity to be the State of Louisiana. The Corporation is considered to be a component unit of the State of Louisiana because the state has financial accountability for the Corporation. Although the Corporation appoints the Plans' governing board, the Corporation is not financially accountable for the Plans since, under the Internal Revenue Code (IRC), all assets and income of the Plans are held in trust for the exclusive benefit of participants. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Corporation's financial statements. In addition, administrative and investment services for the Plans are provided by an insurance company.

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

#### C. BASIS OF ACCOUNTING

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

### **Contributions**

Employer and employee contributions are recognized in the period when the compensation used to calculate the contributions is earned.

### **Investment Income**

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

### **Plan Expenses**

Fees related to the record keeping and administration of the Plans are paid by the Louisiana Lottery Corporation. Investment management fees, which are based on the daily net assets, are deducted monthly from the investment income of the Basic Plan and, therefore, are not a liability of the Plans at December 31, 2011.

### **Benefits Paid to Participants**

Benefits are recorded when due.

## **D. VALUATION OF INVESTMENTS**

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

## **2. DESCRIPTION OF THE PLANS**

As of December 31, 2011, there were 119 participants in the Basic Plan, 105 participants in the Supplemental Plan, and 100 participants in the 457(b) Retirement Plan.

Several amendments were adopted for the Supplemental and 457(b) Retirement Plans with an effective date of January 1, 2011. A plan name change from the Optional Savings Plan to the 457(b) Retirement Plan was adopted. Also, the waiting periods for eligibility and vesting were eliminated for both plans. Eligible new employees participate and vest immediately.

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

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

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

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

No more than the social security wage base in effect as of the first day of the plan year shall be treated as compensation. As of June 1, 1994, the Corporation elected to treat all contributions to the plan as pre-tax.

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

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

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

The Corporation has a defined contribution retirement plan that covers substantially all full-time employees. The plan is a governmental plan within the meaning of Section 414(d) of the IRC of 1986, as amended, and is intended to constitute a profit-sharing plan under which contributions are determined without regard to the current or accumulated profits of the Corporation, if any.

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

The Corporation contributes 4.5% of each participant's compensation for the year, as defined. Generally, participants are not permitted to contribute to the plan; however, participants may contribute proceeds from a qualified rollover distribution as allowed by IRC Section 402.

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

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



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

**C. 457(b) RETIREMENT PLAN  
(formerly known as the Optional Savings Plan)**

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

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

For the plan year, the sum of compensation deferred by a participant and the Corporation's matching contributions made on behalf of such participant shall not exceed the lesser of such participant's compensation or \$16,500. The Corporation contributes a matching contribution equal to the amount of compensation deferred by each participant up to 2.5% of each participant's compensation, increased by the amount of any deferral under this Plan.

Benefits are payable to former employees at the time and in the manner designated by the participants on a distribution election form. In no event may a participant defer payment of benefits later than April 1 of the calendar year immediately following the year in which the participant attains age 70½. The distribution of benefits shall be made in the form of a single-sum payment.

**3. INVESTMENTS**

Principal Life Insurance Company (PLIC) provides administrative and investment services for the Plans. The Plans' investments at December 31, 2011, are held in pooled separate accounts or trusts. The separate accounts are established through a flexible investment annuity group contract with PLIC and consist of proprietary Principal funds and nonproprietary Russell LifePoints mutual funds. The Principal Stable Value Signature Fund is held in a trust with Union Bond & Trust Company serving as the trustee. Other mutual fund investments are offered through a group custodial agreement that includes Principal Trust Company as trustee.

The Corporation's Retirement Plans Investment Committee (the Committee) is responsible for designating the funds available for investment by Plan participants in accordance with its formal investment policy. The primary objectives of the investment program are to provide quality investment options, allow participants to exercise control over the investment of their retirement accounts, and offer access to an appropriate range of prudent investment options that enables participants to construct a well-diversified portfolio. The policy includes qualitative and quantitative criteria for selecting and monitoring investment options and managers for debt, real estate, asset allocation, and equity investment funds. No specific credit ratings for funds

invested in debt securities are required. In addition, the policy does not specifically address requirements for interest rate or foreign currency risk.

Participants in the Supplemental and 457(b) Retirement Plans can allocate the investment of participant and employer contributions in whole percentages to any combination of funds reflected on the following page. Basic Plan participants can direct the investment of participant and employer contributions to any of the Principal LifeTime or Russell LifePoints separate accounts listed on the following page. The investment allocations in the Plans for current balances and future contributions can be changed on a daily basis.

At December 31, 2011, investments are composed of the following:

## NOTES TO THE FINANCIAL STATEMENTS

	<i>401(a) Plans</i>		
	<u>Basic</u>	<u>Supplemental</u>	<u>457 (b)</u>
<b>Principal Stable Value Signature Fund</b>			
(Union Bond & Trust Company - Trustee)		\$91,725	\$134,641
<b>PLIC Flexible Investment Annuity Group Contract</b>			
<b>Separate Accounts:</b>			
<b>Principal Proprietary Funds R2 Rate Level:</b>			
U.S. Property		12,781	19,536
LargeCap S&P 500 Index		156,882	207,374
MidCap Value I		13,816	18,501
Diversified International (1)		46,587	26,750
<b>Principal Proprietary Funds R3 Rate Level:</b>			
Bond & Mortgage(1)		65,328	69,050
LargeCap Blend II		72,562	100,704
LargeCap Growth I		33,107	72,346
LargeCap Value III		50,516	47,464
MidCap Growth III		115,973	194,267
SmallCap Growth II		86,174	139,937
SmallCap Value II		81,253	107,922
<b>Principal Proprietary Funds R6 Level:</b>			
<b>Principal LifeTime:</b>			
LifeTime Strategic Income (1)	\$69,724		
LifeTime 2010 (1)	306,388	77,773	281,311
LifeTime 2020 (1)	289,045	186,493	157,632
LifeTime 2030 (1)	609,034	100,895	102,391
LifeTime 2040 (1)	288,725	69,678	55,820
LifeTime 2050 (1)	71,760	38,473	13,983
<b>Nonproprietary Funds R6 Level:</b>			
<b>Russell LifePoints:</b>			
Conservative Strategy (1)	104,398	94,962	114,204
Moderate Strategy (1)	49,334	88,053	173,297
Balanced Strategy (1)	2,522,741	968,141	811,799
Growth Strategy (1)	1,802,081	1,092,386	1,426,005
Equity Growth Strategy (1)	664,991	114,038	307,977
<b>Mutual Fund Investments</b>			
<b>(Principal Trust Company - Trustee):</b>			
American Century Equity Income A Fund		40,112	42,183
American Funds Growth Fund of America R3 Fund (1)		32,670	44,157
American Funds Europacific Growth R3 Fund (1)		101,051	131,245
<b>Total</b>	<u>\$6,778,221</u>	<u>\$3,831,429</u>	<u>\$4,800,496</u>

(1) At December 31, 2011, funds contain investments in international securities. In the Principal LifeTime funds, approximately 16% of Strategic Income, 20% of LifeTime 2010, 23% of LifeTime 2020, 25% of LifeTime 2030, 28% of LifeTime 2040, and 30% of LifeTime 2050 are invested in international securities. In the Russell LifePoints funds, approximately 22% of Conservative, 28% of Moderate, 35% of Balanced, 41% of Growth,

and 46% of Equity Growth are invested in international securities. In the Principal Proprietary funds, approximately 12% of the Bond & Mortgage separate account is invested in international securities. The American Funds Growth Fund of America R3 Fund contains approximately 16% international investments. The Diversified International separate account and the American Funds Europacific Growth R3 Fund are international funds.

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

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

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

The percentage of each fund's holdings invested in bonds at December 31, 2011, the average credit quality ratings, the average effective duration, and the percentage of bond holdings invested in mortgage-backed securities are presented for each fund in the chart below.

	<b>Bond %</b>	<b>Average Credit Quality</b>	<b>Average Effective Duration (Years)</b>	<b>Mortgage- Backed Securities Exposure %</b>
Principal Stable Value Signature Fund	82	*	2.22	-
Principal Bond & Mortgage	97	BBB	5.06	33.64
<b>Principal LifeTime:</b>				
LifeTime Strategic Income	71	BBB	5.36	15.26
LifeTime 2010	52	BBB	5.36	15.32
LifeTime 2020	30	BB	5.32	18.56
LifeTime 2030	22	BB	5.03	14.58
LifeTime 2040	13	BB	4.88	11.32
LifeTime 2050	8	BB	4.65	6.75
<b>Russell LifePoints:</b>				
Conservative Strategy	55	BB	3.99	20.65
Moderate Strategy	41	BB	4.38	21.81
Balanced Strategy	28	BB	4.35	19.22
Growth Strategy	15	BB	4.36	13.99

\* Fund credit quality is not rated.

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

An asset-based fee of 0.05% is assessed to the Basic Plan only pursuant to a service and expense agreement with PLIC. This fee, which is based on the daily net assets, is deducted monthly from the separate accounts. During the year ended December 31, 2011, investment management fees were \$2,934.

#### **5. FORFEITURES**

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

During the year ended December 31, 2011, forfeited nonvested accounts of \$10,814 and \$4,460 in the Supplemental Plan and \$4,388 and \$666 in the 457(b) Plan were reallocated to the accounts of remaining active participants at December 31, 2008, and December 31, 2009, respectively. Effective January 1, 2011, participants in both plans are fully vested immediately upon employment. Therefore, the forfeiture of any terminated participant's employer contribution accounts ceased after the 2010 plan year.

At December 31, 2011, forfeiture account balances of \$3,025 and \$1,187 remain in the Supplemental Plan and 457(b) Retirement Plan, respectively. These funds represent forfeited nonvested accounts for the 2010 plan year that will be reallocated to the remaining participants that were active at the end of that year.

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

The Plans were restated effective January 1, 2011, to combine all prior amendments into the Plans' documents. The Basic and Supplemental Retirement Plans obtained favorable determination letters from the IRS on October 12 and 22, 2011, respectively. The IRS stated that the Plans, as designed, were in compliance with the applicable requirements of the IRC. Therefore, the Plans are qualified and tax-exempt as of the financial statement date.

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

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

The Corporation and the Plans' fiduciaries are exposed to various risks of loss related to investment performance, crime, and administrative errors or omissions. The Plans are governmental plans and are not subject to the requirements of the Employee Retirement Income

Security Act (ERISA). However, in the best interests of the participants, the Plans' fiduciaries have elected to follow the guidelines in ERISA to provide adequate due diligence in the selection and monitoring of investment options and managers. PLIC assists with these responsibilities and is a co-fiduciary with regard to the selection, monitoring, and retention of portfolio investment managers for its separate accounts. In addition, the Corporation has purchased fiduciary liability, crime, and employee benefits administration commercial insurance to cover potential losses.

### **8. TERMINATION**

Although it has not expressed any intent to do so, the Board of Directors of the Corporation has the right, at any time, to terminate the Plans, in whole or in part, by delivering written notice to the administrative services provider and to each participant of such termination. A complete discontinuance of the Corporation's contributions to the Plans shall be deemed to constitute a termination. Upon such termination, the Retirement Plans Committee shall direct the administrative services provider to distribute the assets of the Plans to the participants.

### **9. MERGERS**

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

### **10. LITIGATION**

There is no pending litigation against the Plans at December 31, 2011.

### **11. SUBSEQUENT EVENTS**

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

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

Whereas Statement B presents the totals for the Plans as a whole, these schedules present the changes in net assets available for benefits by investment option for the year ended December 31, 2011.

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

**Schedule of Changes in Net Assets Available for Benefits, by Investment  
Option for the 401(a) Basic Plan  
For the Year Ended December 31, 2011**

	NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	INVESTMENT INCOME	INVESTMENT MANAGEMENT FEES	PARTICIPANT CONTRIBUTIONS	EMPLOYER CONTRIBUTIONS	BENEFITS PAID TO PARTICIPANTS	INTERFUND TRANSFERS	NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR
<b>PLIC Flexible Investment Annuity Group Contract</b>								
<b>Separate Accounts:</b>								
<b>Principal Proprietary Funds R6 Rate Level:</b>								
<b>Principal Life Time:</b>								
LifeTime Strategic Income	\$17,089	\$1,693	(\$18)	\$4,390	\$3,541	(\$12,821)	\$55,850	\$69,724
LifeTime 2010	156,429	801	(73)	12,332	9,945	(5,548)	132,502	306,388
LifeTime 2020	280,505	(5,220)	(138)	20,628	16,636	(4,741)	(18,625)	289,045
LifeTime 2030	556,050	(16,652)	(233)	51,260	41,339	(22,730)		609,034
LifeTime 2040	254,071	(10,357)	(129)	36,459	29,403	(20,722)		288,725
LifeTime 2050	30,384	(5,765)	(27)	12,148	9,797	(11,810)	37,033	71,760
<b>Nonproprietary Funds R6 Rate Level:</b>								
<b>Russell LifePoints:</b>								
Conservative Strategy	237,306	2,423	(84)	10,885	8,778	(134,106)	(20,804)	104,398
Moderate Strategy	208,922	1,337	(57)	7,343	5,921	(88,486)	(85,646)	49,334
Balanced Strategy	2,653,293	(83,445)	(980)	44,133	35,591	(87,011)	(38,840)	2,522,741
Growth Strategy	2,019,078	(104,537)	(856)	70,349	56,733	(212,636)	(26,050)	1,802,081
Equity Growth Strategy	715,152	(50,572)	(339)	32,387	26,119	(22,336)	(35,420)	664,991
<b>Contributions Receivable</b>				12,095	9,754			21,849
<b>Total</b>	<b>\$7,128,279</b>	<b>(\$270,294)</b>	<b>(\$2,934)</b>	<b>\$314,409</b>	<b>\$253,557</b>	<b>(\$622,947)</b>	<b>NONE</b>	<b>\$6,800,070</b>



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

**Schedule of Changes in Net Assets Available for Benefits, by Investment  
Option for the 401(a) Supplemental Plan  
For the Year Ended December 31, 2011**

	NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	INVESTMENT INCOME	PARTICIPANT CONTRIBUTIONS	EMPLOYER CONTRIBUTIONS	BENEFITS PAID TO PARTICIPANTS	INTERFUND TRANSFERS	NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR
<b>Principal Stable Value Signature Fund (Union Bond &amp; Trust Company - Trustee)</b>	\$162,436	\$1,747		\$17,179	(\$99,874)	\$10,237	\$91,725
<b>PLIC Flexible Investment Annuity Group Contract Separate Accounts:</b>							
<b>Principal Proprietary Funds R2 Rate Level:</b>							
U.S. Property	12,207	1,916		1,063		(2,405)	12,781
LargeCap S&P 500 Index	165,969	2,554		2,821	(14,310)	(152)	156,882
MidCap Value I	13,613	(678)		1,090	(677)	468	13,816
International Growth	50,821	(3,235)		794		(48,380)	0
Diversified International		(1,472)		129	(1,143)	49,073	46,587
<b>Principal Proprietary Funds R3 Rate Level:</b>							
Bond & Mortgage	87,002	4,285		3,165	(30,686)	1,562	65,328
LargeCap Blend II	64,296	(1,109)		2,558	(1,063)	7,880	72,562
LargeCap Growth I	34,494	(308)		43	(1,209)	87	33,107
LargeCap Value III	48,983	(1,886)		3,690	(769)	498	50,516
MidCap Growth III	99,490	(8,291)		3,990	(704)	21,488	115,973
SmallCap Growth II	66,678	(6,167)		3,502	(686)	22,847	86,174
SmallCap Value II	81,904	(5,385)		4,469	(683)	948	81,253
<b>Principal Proprietary Funds R6 Rate Level:</b>							
<b>Principal Life Time:</b>							
LifeTime 2010	53,197	1,353		640	(1,793)	24,376	77,773
LifeTime 2020	170,420	(2,935)		19,236		(228)	186,493
LifeTime 2030	83,514	(2,972)		22,528	(1,696)	(479)	100,895
LifeTime 2040	56,791	(2,815)		24,148	(9,070)	624	69,678
LifeTime 2050	14,124	(3,389)		16,067	(7,232)	18,903	38,473
<b>Nonproprietary Funds R6 Rate Level:</b>							
<b>Russell LifePoints:</b>							
Conservative Strategy	114,034	1,841		6,489	(27,931)	529	94,962
Moderate Strategy	116,124	(576)		9,479	(37,289)	315	88,053
Balanced Strategy	1,026,509	(34,264)		54,057	(55,262)	(22,899)	968,141
Growth Strategy	1,217,282	(64,670)	\$29,786	79,452	(110,359)	(59,105)	1,092,386
Equity Growth Strategy	134,356	(7,471)		15,943	(157)	(28,633)	114,038
<b>Mutual Fund Investments</b>							
<b>(Principal Trust Company - Trustee):</b>							
American Century Equity Income A Fund	43,529	982		3,505	(7,725)	(179)	40,112
American Funds Growth Fund of America R3 Fund	32,326	(1,892)		3,488	(1,790)	538	32,670
American Funds Europacific Growth R3 Fund	109,870	(16,138)		6,394	(1,162)	2,087	101,051
<b>Contributions Receivable</b>				8,272			8,272
<b>Total</b>	<u>\$4,059,969</u>	<u>(\$150,975)</u>	<u>\$29,786</u>	<u>\$314,191</u>	<u>(\$413,270)</u>	<u>NONE</u>	<u>\$3,839,701</u>

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

**Schedule of Changes in Net Assets Available for Benefits, by Investment  
Option for the 457(b) Retirement Plan  
For the Year Ended December 31, 2011**

	NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	INVESTMENT INCOME	PARTICIPANT CONTRIBUTIONS	EMPLOYER CONTRIBUTIONS	BENEFITS PAID TO PARTICIPANTS	INTERFUND TRANSFERS	NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR
<b>Principal Stable Value Signature Fund (Union Bond &amp; Trust Company - Trustee)</b>	\$196,679	\$2,724	\$28,780	\$6,489	(\$101,617)	\$1,586	\$134,641
<b>PLIC Flexible Investment Annuity Group Contract</b>							
<b>Separate Accounts:</b>							
<b>Principal Proprietary Funds R2 Rate Level:</b>							
U.S. Property	19,003	2,913	637	637		(3,654)	19,536
LargeCap S&P 500 Index	204,303	2,505	4,077	913	(5,039)	615	207,374
MidCap Value I	18,431	(838)	770	522	(936)	552	18,501
International Growth	29,701	(1,846)	274	262		(28,391)	0
Diversified International		(822)	72	72	(1,860)	29,288	26,750
<b>Principal Proprietary Funds R3 Rate Level:</b>							
Bond & Mortgage	60,356	4,041	4,547	1,176	(3,087)	2,017	69,050
LargeCap Blend II	99,908	(1,046)	5,354	1,062	(2,366)		100,704
LargeCap Growth I	68,049	(903)	376	125	(4,259)	8,958	72,346
LargeCap Value III	44,991	(1,713)	2,457	1,246	(1,194)	1,677	47,464
MidCap Growth III	182,854	(11,618)	4,749	1,470	(937)	17,749	194,267
SmallCap Growth II	122,675	(8,146)	2,598	1,061	(941)	22,690	139,937
SmallCap Value II	109,152	(6,934)	4,373	1,565	(947)	713	107,922
<b>Principal Proprietary Funds R6 Rate Level:</b>							
<b>Principal LifeTime:</b>							
LifeTime 2010	257,528	3,427	2,063	356	(7,908)	25,845	281,311
LifeTime 2020	138,997	(2,248)	13,421	7,330		132	157,632
LifeTime 2030	81,804	(2,770)	14,933	8,964	(608)	68	102,391
LifeTime 2040	44,554	(1,673)	11,283	7,823	(5,951)	(216)	55,820
LifeTime 2050	5,250	(843)	6,872	6,182	(4,145)	667	13,983
<b>Nonproprietary Funds R6 Rate Level:</b>							
<b>Russell LifePoints:</b>							
Conservative Strategy	260,800	3,691	7,373	2,441	(169,278)	9,177	114,204
Moderate Strategy	318,513	(117)	6,476	3,974	(155,842)	293	173,297
Balanced Strategy	877,116	(27,034)	37,964	14,072	(37,966)	(52,353)	811,799
Growth Strategy	1,450,445	(85,837)	82,509	30,708	(24,422)	(27,398)	1,426,005
Equity Growth Strategy	284,360	(22,336)	46,773	9,809	(11,087)	458	307,977
<b>Mutual Fund Investments (Principal Trust Company - Trustee):</b>							
American Century Equity Income A Fund	51,889	1,706	2,176	1,305	(2,815)	(12,078)	42,183
American Funds Growth Fund of America R3 Fund	44,574	(2,451)	2,011	1,392	(2,600)	1,231	44,157
American Funds Europacific Growth R3 Fund	142,840	(20,795)	5,952	2,531	(1,865)	2,582	131,245
<b>Contributions Receivable</b>			10,693	4,258			14,951
<b>Total</b>	<b>\$5,114,772</b>	<b>(\$178,963)</b>	<b>\$309,563</b>	<b>\$117,745</b>	<b>(\$547,670)</b>	<b>NONE</b>	<b>\$4,815,447</b>

**INVESTMENT SECTION  
(UNAUDITED)**

## Investment Program Overview

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

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

The Committee has structured the Plans' menu of investment options toward meeting these objectives by selecting funds that are diversified across a selection of asset classes, styles and investment managers. Asset allocation funds, lifestyle and lifecycle options are offered in all three plans. These funds are professionally managed pre-mixed portfolios that are fully diversified single investment options matched to a participant's retirement goals, risk tolerance, and/or investment time horizon. The Russell LifePoints Separate Accounts are risk-based (lifestyle) portfolios that are targeted to participant risk tolerances. Principal LifeTime Separate Accounts are age-based (lifecycle) portfolios that are managed and adjusted systematically based on targeted retirement dates. In addition, a broad variety of individual separate accounts and funds are offered in the Supplemental and 457(b) Plans for the participants that are more involved in their individual investment allocations.

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

- **Investment Policy Approved Investment Options** (Page 30)
  - Contains a listing of funds available for investment by participants in each plan grouped into categories of investor preference (i.e. completely do-it-for-me, almost do-it-for-me, do-it-myself)
- **Investment Styles** (Page 31)
  - Reflects the diversification of the investment offerings by asset classes, styles, and investment managers
- **Asset Allocation** (Page 32)
  - Provides an overview of the allocation of plan assets by asset class at December 31, 2011
- **Fair Value and Percent of Total Fair Value for Each Investment** (Page 33)
  - Presents the fair value of each investment and percent to total plan assets fair value
- **Investment Performance** (Page 34)
  - Average annualized % rates of return for the 1-, 3-, and 5- year time periods and net expense ratios for each fund are provided
- **Fund Fact Sheets** (Pages 36-87)
  - Contain detailed information about each investment option including investment strategy, returns compared to market categories and benchmarks, statistics, and holdings

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

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

# Investment Policy Approved Investment Options

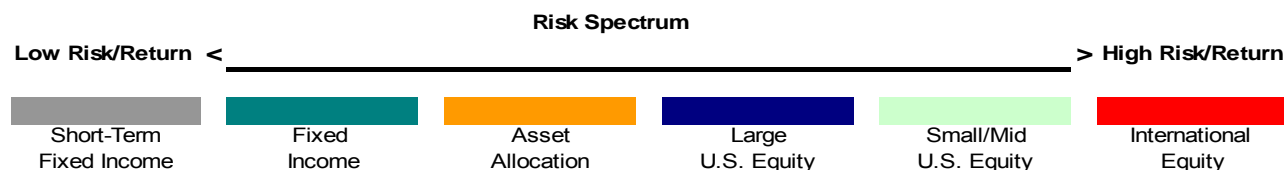
Source: Louisiana Lottery Corporation Retirement Plans Investment Policy

## Louisiana Lottery Corporation Investment Policy Current Approved Investment Options

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

✓ - Approved investment option


















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









## Investment Styles

Source: Investment Committee and Principal Financial Group

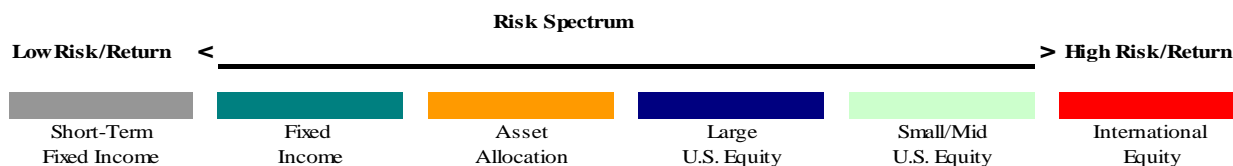
### Domestic Funds Investment Style Box

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

### Other Investment Styles

Short-Term Fixed Income	Fixed Income	Asset Allocation
Principal Stable Value Signature Fund 	Principal Bond & Mortgage Separate Account 	Russell LifePoints Separate Accounts 
	U.S. Property Separate Account 	Principal LifeTime Separate Accounts  

International Equity
Diversified International Separate Account 
American Funds Europacific Growth R3 Fund 

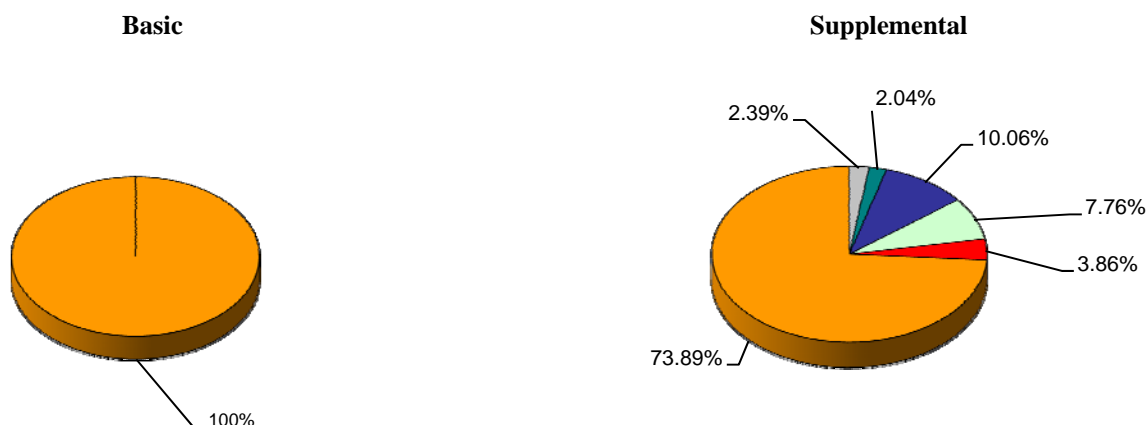


## Asset Allocation

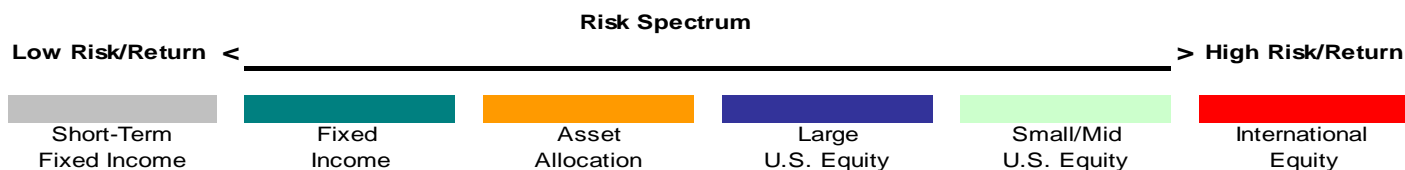
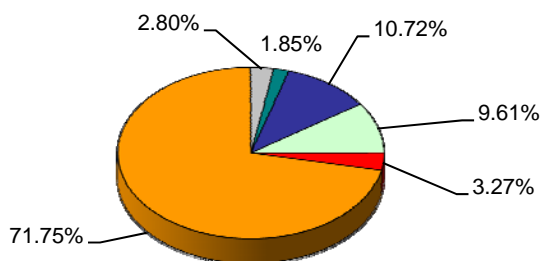
Source: Investment Committee

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

### 401(a) Plans



### 457(b) Plan

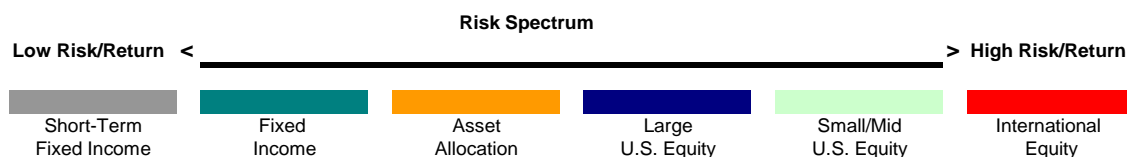


## Fair Value and Percent of Total Fair Value for Each Investment

Source: Principal Financial Group

### 401(a) Plans

	Basic		Supplemental		457(b) Plan	
	2011	%	2011	%	2011	%
<b><u>Lifecycle (Age-Based) Funds:</u></b>						
<b>Principal LifeTime Portfolios:</b>						
Target Date Portfolios						
Principal LifeTime Strategic Income	\$69,724	1.03%				
Principal LifeTime 2010	306,388	4.52%	\$77,773	2.03%	\$281,311	5.86%
Principal LifeTime 2020	289,045	4.26%	186,493	4.87%	157,632	3.28%
Principal LifeTime 2030	609,034	8.99%	100,895	2.63%	102,391	2.13%
Principal LifeTime 2040	288,725	4.26%	69,678	1.82%	55,820	1.16%
Principal LifeTime 2050	71,760	1.06%	38,473	1.00%	13,983	0.29%
<b><u>Lifestyle (Risk-Based) Funds:</u></b>						
<b>Russell LifePoints Portfolios:</b>						
Target Risk Portfolio Series						
Conservative Strategy	104,398	1.54%	94,962	2.48%	114,204	2.38%
Moderate Strategy	49,334	0.72%	88,053	2.30%	173,297	3.61%
Balanced Strategy	2,522,741	37.22%	968,141	25.27%	811,799	16.91%
Growth Strategy	1,802,081	26.59%	1,092,386	28.51%	1,426,005	29.71%
Equity Growth Strategy	664,991	9.81%	114,038	2.98%	307,977	6.42%
<b><u>Individual Separate Accounts and Funds:</u></b>						
Principal Stable Value Signature Fund			91,725	2.39%	134,641	2.80%
Principal Bond & Mortgage Separate Account			65,328	1.71%	69,050	1.44%
U.S. Property Separate Account			12,781	0.33%	19,536	0.41%
Principal LargeCap S&P 500 Index Separate Account			156,882	4.09%	207,374	4.32%
LargeCap Blend II Separate Account			72,562	1.89%	100,704	2.10%
LargeCap Value III Separate Account			50,516	1.32%	47,464	0.99%
LargeCap Growth I Separate Account			33,107	0.86%	72,346	1.51%
American Century Equity Income A Fund			40,112	1.05%	42,183	0.88%
American Funds Growth Fund of America R3 Fund			32,670	0.85%	44,157	0.92%
MidCap Growth III Separate Account			115,973	3.03%	194,267	4.05%
MidCap Value I Separate Account			13,816	0.36%	18,501	0.39%
SmallCap Growth II Separate Account			86,174	2.25%	139,937	2.92%
SmallCapValue II Separate Account			81,253	2.12%	107,922	2.25%
Diversified International Separate Account			46,587	1.22%	26,750	0.55%
American Funds Europacific Growth R3 Fund			101,051	2.64%	131,245	2.72%
	\$6,778,221	100.00%	\$3,831,429	100.00%	\$4,800,496	100.00%





## Investment Performance

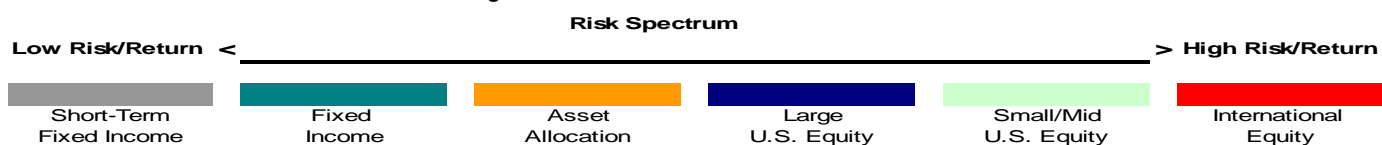
Source: Principal Financial Group

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

### % Rates of Return Through December 31, 2011

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>Net Expense Ratio</u>
<b><u>Lifecycle (Age-Based) Funds:</u></b>				
<b>Principal LifeTime Portfolios:</b>				
<i>Target Date Portfolios</i>				
Principal LifeTime Strategic Income	3.39	10.75	1.37	0.79
Principal LifeTime 2010	1.00	12.73	0.62	0.87
Principal LifeTime 2020	-1.27	12.94	0.04	0.91
Principal LifeTime 2030	-2.38	13.14	-0.45	0.93
Principal LifeTime 2040	-3.54	12.98	-0.98	0.94
Principal LifeTime 2050	-4.17	12.87	-1.31	0.96
<b><u>Lifestyle (Risk-Based) Funds:</u></b>				
<b>Russell LifePoints Portfolios:</b>				
<i>Target Risk Portfolio Series</i>				
Conservative Strategy	1.73	10.24	3.49	1.24
Moderate Strategy	-0.32	11.34	2.24	1.32
Balanced Strategy	-3.02	11.50	0.61	1.42
Growth Strategy	-5.61	11.35	-1.24	1.49
Equity Growth Strategy	-7.20	11.16	-3.19	1.53
<b><u>Individual Separate Accounts and Funds:</u></b>				
Principal Stable Value Signature Fund	1.54	1.76	2.56	0.85
Principal Bond & Mortgage Separate Account	6.40	12.72	5.03	1.12
U.S. Property Separate Account	14.66	-3.50	-2.66	1.74
Principal LargeCap S&P 500 Index Separate Account	1.22	13.09	-1.11	0.90
LargeCap Blend II Separate Account	-1.06	12.85	-0.93	1.33
LargeCap Value III Separate Account	-3.47	8.69	-6.27	1.34
LargeCap Growth I Separate Account	-0.87	21.38	2.62	1.18
American Century Equity Income A Fund	3.31	9.33	1.12	1.21
American Funds Growth Fund of America R3 Fund	-5.14	12.51	-0.87	0.97
MidCap Growth III Separate Account	-4.96	20.21	1.97	1.53
MidCap Value I Separate Account	-4.65	16.04	0.26	1.73
SmallCap Growth II Separate Account	-4.89	16.48	-0.91	1.58
SmallCap Value II Separate Account	-6.31	16.04	-2.41	1.75
Diversified International Separate Account	-11.64	8.32	-4.55	1.65
American Funds Europacific Growth R3 Fund	-13.85	9.23	-1.73	1.13

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



## **Fund Fact Sheets**

*Source: Reprinted with permission from Principal Financial Group*

# Principal LifeTime Strategic Income Separate Account-R6

as of 12/31/2011

## Investment Strategy

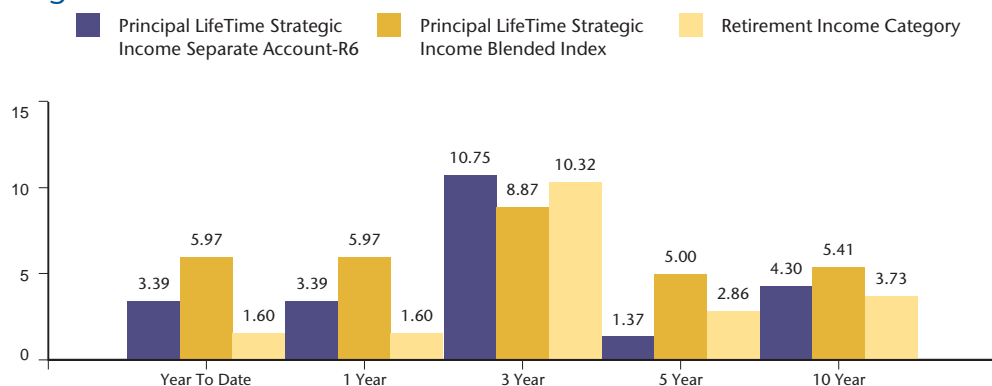
The investment seeks current income and, as a secondary objective, capital appreciation. The fund invests in underlying Principal domestic and foreign equity, real estate investments, and fixed-income funds according to an asset allocation strategy designed for investors primarily seeking current income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

## Multiple Sub-Advisors

### Portfolio managers

**Dirk Laschanzky**, CFA. Since 03/30/2001. M.B.A., University of Iowa  
**James Fennessey**, CFA. Since 05/29/2007. B.S., Truman State University  
**Randy L. Welch** Since 05/29/2007. M.B.A., Drake University  
**David Blake**, CFA. Since 03/31/2008. M.B.A., Saint Louis University  
**Jeffrey R. Tyler**, CFA. Since 03/01/2011. Master, Northwestern University

## Long-term returns % as of 12/31/2011



## Performance disclosure

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

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

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

Long Term Returns		Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %		3.39	3.39	10.75	1.37	4.30
Principal LifeTime Strategic Income Blended Index %		5.97	5.97	8.87	5.00	5.41
Retirement Income Category %		1.60	1.60	10.32	2.86	3.73
Morningstar Percentile Rankings		-	19	45	75	27
# of Funds in Category		260	260	227	83	20
Annual Returns		2011	2010	2009	2008	2007
Total Return %		3.39	11.01	18.34	-22.42	1.57
Principal LifeTime Strategic Income Blended Index %		5.97	8.92	11.80	-6.49	7.10
Retirement Income Category %		1.60	8.94	18.36	-18.06	4.46
Morningstar Percentile Rankings		19	12	46	69	90
# of Funds in Category		260	162	134	122	107

Morningstar percentile rankings are based on total returns.

## Morningstar category

Retirement Income

## Morningstar Style Box™\*\*

As of 11/30/2011

Investment style			Interest-Rate Sensitivity			Market capitalization	Credit Quality
Value	Blend	Growth	Ltd	Mod	Ext		
						Large	High
						Medium	Med
						Small	Low

## Risk and Return Statistics

as of 12/31/2011 Relative to  
Principal LifeTime Strategic Income  
Blended Index

	3Yr	5Yr
Alpha	-1.11	-4.74
Beta	1.35	1.38
R-Squared	91.50	85.43
Standard Deviation	7.43	8.83
Mean	10.75	1.37
Sharpe Ratio	1.40	0.05
Excess Return	1.87	-3.63
Tracking Error	2.84	4.08
Information Ratio	0.66	-0.89

## Operations

Total Investment Expense Net	0.79%
Total Investment Expense Gross	0.79%
Inception Date	03/30/2001
Total Net Assets (mil)	\$658.84



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

# Principal LifeTime Strategic Income Separate Account-R6

## Portfolio information<sup>†</sup>

Composition as of 11/30/2011

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Bonds	59.81	0.08	59.88
	Cash	19.38	35.89	55.27
	U.S. Stocks	15.76	0.30	16.06
	Non-U.S. Bonds	10.80	6.36	17.16
	Non-U.S. Stocks	5.54	0.18	5.71
	Preferred	2.54	0.00	2.54
	Convertibles	0.13	0.00	0.13
	Other	-13.96	16.16	2.21

Top ten holdings	% of net assets
1. Principal Bond & Mtg Securities Inst	16.24
2. Principal Inflation Protection Inst	15.84
3. Principal Core Plus Bond I Institutional	15.47
4. Principal Short-Term Income Inst	12.92
5. Principal Global Div Inc Instl	6.23
6. Principal Bond Market Index Instl	4.86
7. Principal Diversified Real Asset Inst	4.75
8. Principal Global Multi-Strategy Instl	3.11
9. Principal Large Cap Growth I Inst	3.02
10. Principal High Yield I Inst	2.51
% of net assets in top ten holdings*	84.94

Analysis	Stock Sector Breakdown
# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	25
AvgMktCap (mil)	\$16,294.50
Turnover Ratio	47%
P/C Ratio	6.12
P/E Ratio	13.38
P/B Ratio	1.81

Cyclical	% of net assets	Defensive	% of net assets	Sensitive	% of net assets
Consumer Cyclical	10.63	Healthcare	9.25	Technology	13.43
Basic Materials	5.37	Consumer Defensive	6.31	Industrials	11.96
Financial Svcs	12.45	Utilities	2.76	Energy	16.07
Real Estate	8.18			Comm Svcs	3.60

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

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

*Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754 or by visiting [principal.com](http://principal.com).*

\*\*The Morningstar Style Box<sup>TM</sup> reveals an investment option's investment strategy.

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

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

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

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

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

# Principal LifeTime 2010 Separate Account-R6 as of 12/31/2011

## Investment Strategy

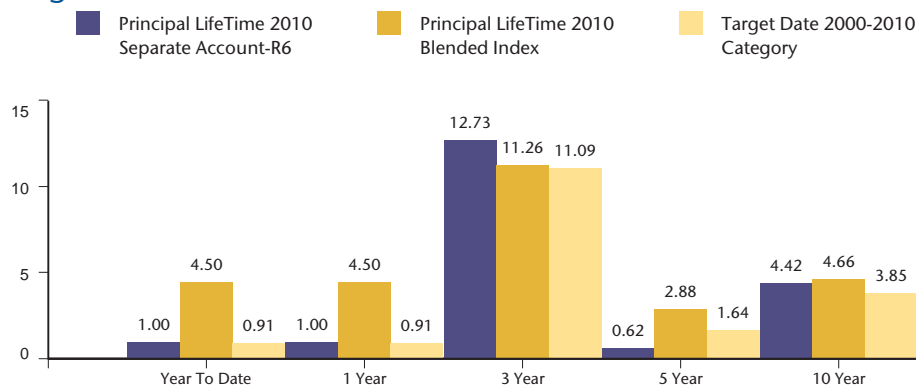
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, real estate investments, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. It allocates the assets more conservatively over time. The fund invests in PFI Institutional Class shares of underlying funds.

## Multiple Sub-Advisors

### Portfolio managers

**Dirk Laschanzky**, CFA. Since 03/30/2001. M.B.A., University of Iowa  
**James Fennessey**, CFA. Since 05/29/2007. B.S., Truman State University  
**Randy L. Welch** Since 05/29/2007. M.B.A., Drake University  
**David Blake**, CFA. Since 03/31/2008. M.B.A., Saint Louis University  
**Jeffrey R. Tyler**, CFA. Since 03/01/2011. Master, Northwestern University

## Long-term returns % as of 12/31/2011



## Performance disclosure

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

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

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	1.00	1.00	12.73	0.62	4.42
Principal LifeTime 2010 Blended Index %	4.50	4.50	11.26	2.88	4.66
Target Date 2000-2010 Category %	0.91	0.91	11.09	1.64	3.85
Morningstar Percentile Rankings	-	42	13	76	7
# of Funds in Category	167	167	150	110	16
Annual Returns	2011	2010	2009	2008	2007
Total Return %	1.00	13.73	24.72	-30.38	3.44
Principal LifeTime 2010 Blended Index %	4.50	11.32	18.41	-20.76	7.02
Target Date 2000-2010 Category %	0.91	10.68	22.42	-22.46	5.22
Morningstar Percentile Rankings	42	1	27	91	84
# of Funds in Category	167	179	201	304	266

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target Date 2000-2010

## Morningstar Style Box™

As of 11/30/2011

Investment style			Interest-Rate Sensitivity			Market capitalization	Credit Quality
Value	Blend	Growth	Ltd	Mod	Ext		
						Large	High
						Medium	Med
						Small	Low

## Risk and Return Statistics

as of 12/31/2011 Relative to Principal LifeTime 2010 Blended Index

	3Yr	5Yr
Alpha	-0.59	-2.36
Beta	1.19	1.22
R-Squared	97.50	96.98
Standard Deviation	12.48	13.62
Mean	12.73	0.62
Sharpe Ratio	1.02	0.02
Excess Return	1.46	-2.26
Tracking Error	2.81	3.41
Information Ratio	0.52	-0.66

## Operations

Total Investment Expense Net	0.87%
Total Investment Expense Gross	0.87%
Inception Date	03/30/2001
Total Net Assets (mil)	\$1,760.58



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

# Principal LifeTime 2010 Separate Account-R6 as of 12/31/2011

## Portfolio information<sup>†</sup>

Composition as of 11/30/2011

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Bonds	43.73	0.06	43.79
	U.S. Stocks	29.88	0.13	30.01
	Non-U.S. Stocks	12.42	0.10	12.51
	Cash	9.25	26.48	35.74
	Non-U.S. Bonds	7.82	4.39	12.20
	Preferred	2.56	0.00	2.56
	Convertibles	0.09	0.00	0.09
	Other	-5.74	7.52	1.78

## Top ten holdings

% of net assets

1. Principal Bond & Mtg Securities Inst	12.17
2. Principal Inflation Protection Inst	11.33
3. Principal Core Plus Bond I Institutional	11.27
4. Principal Short-Term Income Inst	7.12
5. Principal Large Cap Growth I Inst	6.05
6. Principal Large Cap Value I Inst	5.93
7. Principal Global Div Inc Instl	4.21
8. Principal Bond Market Index Instl	3.94
9. Principal Diversified Real Asset Inst	3.91
10. Principal Large Cap S&P 500 Index Inst	3.45

% of net assets in top ten holdings\* 69.37

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	26
AvgMktCap (mil)	\$18,937.66
Turnover Ratio	36%
P/C Ratio	5.94
P/E Ratio	12.78
P/B Ratio	1.79

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Cyclical</b>	<b>37.13</b>	<b>Defensive</b>	<b>19.56</b>	<b>Sensitive</b>	<b>43.30</b>
Consumer Cyclical	11.11	Healthcare	9.76	Technology	14.06
Basic Materials	5.41	Consumer Defensive	7.09	Industrials	12.49
Financial Svcs	13.94	Utilities	2.71	Energy	12.69
Real Estate	6.67			Comm Svcs	4.06

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

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**\*\*The Morningstar Style Box<sup>TM</sup> reveals an investment option's investment strategy.**

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

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

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

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# Principal LifeTime 2020 Separate Account-R6 as of 12/31/2011

## Investment Strategy

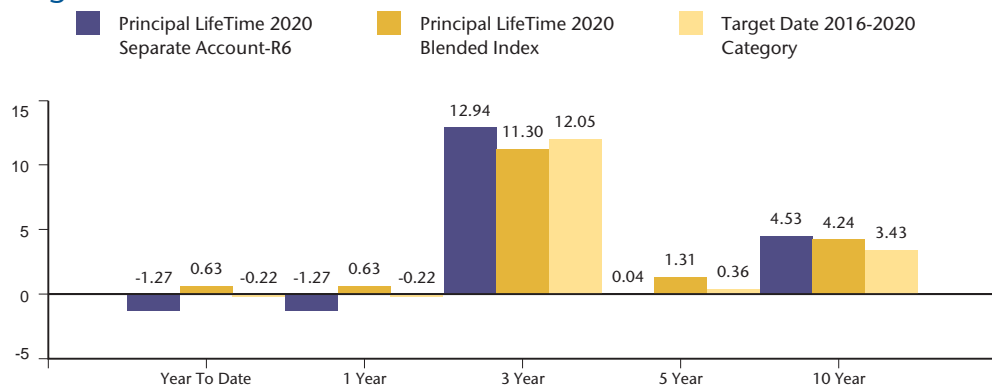
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, real estate investments, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. It allocates the assets more conservatively over time. The fund invests in PFI Institutional Class shares of underlying funds.

## Multiple Sub-Advisors

### Portfolio managers

**Dirk Laschanzky**, CFA. Since 03/30/2001. M.B.A., University of Iowa  
**James Fennessey**, CFA. Since 05/29/2007. B.S., Truman State University  
**Randy L. Welch** Since 05/29/2007. M.B.A., Drake University  
**David Blake**, CFA. Since 03/31/2008. M.B.A., Saint Louis University  
**Jeffrey R. Tyler**, CFA. Since 03/01/2011. Master, Northwestern University

## Long-term returns % as of 12/31/2011



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-1.27	-1.27	12.94	0.04	4.53
Principal LifeTime 2020 Blended Index %	0.63	0.63	11.30	1.31	4.24
Target Date 2016-2020 Category %	-0.22	-0.22	12.05	0.36	3.43
Morningstar Percentile Rankings	-	66	26	67	5
# of Funds in Category	205	205	186	116	21
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-1.27	14.68	27.25	-33.81	5.08
Principal LifeTime 2020 Blended Index %	0.63	12.40	21.91	-26.44	7.00
Target Date 2016-2020 Category %	-0.22	12.27	24.25	-29.46	6.02
Morningstar Percentile Rankings	66	3	34	70	67
# of Funds in Category	205	203	212	186	134

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target Date 2016-2020

## Morningstar Style Box™

As of 11/30/2011

Investment style			Interest-Rate Sensitivity			Market capitalization	Credit Quality
Value	Blend	Growth	Ltd	Mod	Ext		
						Large	High
						Medium	Med
						Small	Low

## Risk and Return Statistics

as of 12/31/2011 Relative to Principal LifeTime 2020 Blended Index

	3Yr	5Yr
Alpha	0.44	-1.08
Beta	1.11	1.14
R-Squared	99.02	98.57
Standard Deviation	15.41	16.16
Mean	12.94	0.04
Sharpe Ratio	0.86	0.00
Excess Return	1.63	-1.27
Tracking Error	2.15	2.79
Information Ratio	0.76	-0.45

## Operations

Total Investment Expense Net	0.91%
Total Investment Expense Gross	0.91%
Inception Date	03/30/2001
Total Net Assets (mil)	\$4,543.29



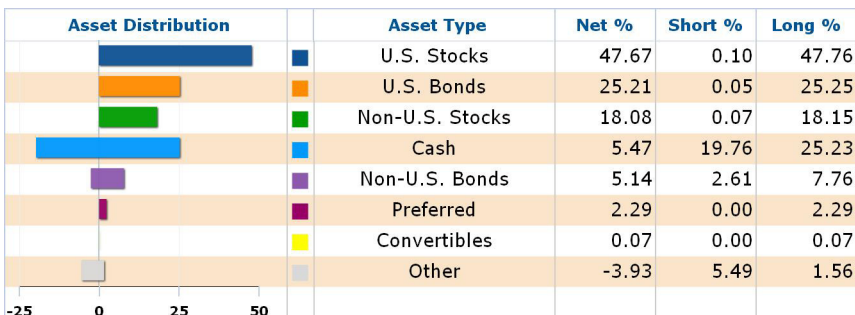
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## Principal LifeTime 2020 Separate Account-R6

## Portfolio information†

Composition as of 11/30/2011



## Top ten holdings

% of net assets

1. Principal Large Cap Growth I Inst	10.63
2. Principal Bond & Mtg Securities Inst	10.03
3. Principal Large Cap Value I Inst	9.43
4. Principal Core Plus Bond I Institutional	8.81
5. Principal Large Cap S&P 500 Index Inst	6.01
6. Principal High Yield I Inst	5.46
7. Principal Large Cap Value Inst	4.87
8. Principal Large Cap Growth Inst	4.84
9. Principal Diversified Intl Inst	4.58
10. Principal International Value I Instl	4.57
% of net assets in top ten holdings*	69.23

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	26
AvgMktCap (mil)	\$19,994.77
Turnover Ratio	32%
P/C Ratio	6.15
P/E Ratio	13.02
P/B Ratio	1.84

### Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
Cyclical	38.71	Defensive	19.49	Sensitive	41.79
Consumer Cyclical	11.06	Healthcare	9.90	Technology	14.41
Basic Materials	4.99	Consumer Defensive	7.11	Industrials	12.48
Financial Svcs	13.55	Utilities	2.48	Energy	10.95
Real Estate	9.11			Comm Svcs	3.95

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# Principal LifeTime 2030 Separate Account-R6 as of 12/31/2011

## Investment Strategy

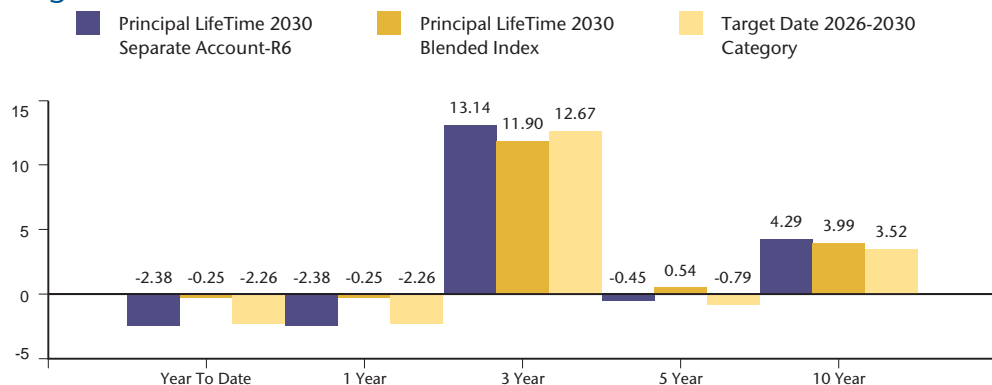
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## Multiple Sub-Advisors

### Portfolio managers

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

## Long-term returns % as of 12/31/2011



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-2.38	-2.38	13.14	-0.45	4.29
Principal LifeTime 2030 Blended Index %	-0.25	-0.25	11.90	0.54	3.99
Target Date 2026-2030 Category %	-2.26	-2.26	12.67	-0.79	3.52
Morningstar Percentile Rankings	-	43	32	37	7
# of Funds in Category	205	205	186	116	16
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-2.38	15.34	28.62	-36.36	6.08
Principal LifeTime 2030 Blended Index %	-0.25	13.04	24.25	-30.22	6.94
Target Date 2026-2030 Category %	-2.26	13.47	28.87	-36.04	6.50
Morningstar Percentile Rankings	43	12	52	49	58
# of Funds in Category	205	200	200	169	130

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target Date 2026-2030

## Morningstar Style Box™

As of 11/30/2011

Investment style			Interest-Rate Sensitivity			Market capitalization	Credit Quality
Value	Blend	Growth	Ltd	Mod	Ext		
						Large	High
						Medium	Med
						Small	Low

## Risk and Return Statistics

as of 12/31/2011 Relative to Principal LifeTime 2030 Blended Index

	3Yr	5Yr
Alpha	0.26	-0.72
Beta	1.09	1.11
R-Squared	99.18	98.89
Standard Deviation	17.15	17.76
Mean	13.14	-0.45
Sharpe Ratio	0.80	-0.01
Excess Return	1.24	-0.99
Tracking Error	2.08	2.59
Information Ratio	0.60	-0.38

## Operations

Total Investment Expense Net	0.93%
Total Investment Expense Gross	0.93%
Inception Date	03/30/2001
Total Net Assets (mil)	\$4,100.92



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# Principal LifeTime 2030 Separate Account-R6 as of 12/31/2011

## Portfolio information†

Composition as of 11/30/2011

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	52.72	0.09	52.80
	Non-U.S. Stocks	21.61	0.05	21.67
	U.S. Bonds	18.26	0.04	18.30
	Cash	5.38	12.34	17.71
	Non-U.S. Bonds	3.35	1.51	4.86
	Preferred	2.10	0.00	2.10
	Convertibles	0.05	0.00	0.05
	Other	-3.46	4.76	1.30

## Top ten holdings

% of net assets

1. Principal Large Cap Growth I Inst	11.16
2. Principal Large Cap Value I Inst	10.81
3. Principal High Yield I Inst	7.89
4. Principal Large Cap S&P 500 Index Inst	6.62
5. Principal Bond & Mtg Securities Inst	5.65
6. Principal Large Cap Growth Inst	5.64
7. Principal International Value I Instl	5.59
8. Principal Large Cap Value Inst	5.42
9. Principal Core Plus Bond I Institutional	5.16
10. Principal Diversified Intl Inst	4.87
% of net assets in top ten holdings*	68.80

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	24
AvgMktCap (mil)	\$20,134.68
Turnover Ratio	32%
P/C Ratio	6.05
P/E Ratio	12.88
P/B Ratio	1.81

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Cyclical</b>	<b>39.14</b>	<b>Defensive</b>	<b>19.57</b>	<b>Sensitive</b>	<b>41.28</b>
Consumer Cyclical	11.14	Healthcare	9.86	Technology	14.16
Basic Materials	5.07	Consumer Defensive	7.20	Industrials	12.54
Financial Svcs	13.80	Utilities	2.51	Energy	10.56
Real Estate	9.13			Comm Svcs	4.02

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# Principal LifeTime 2040 Separate Account-R6 as of 12/31/2011

## Investment Strategy

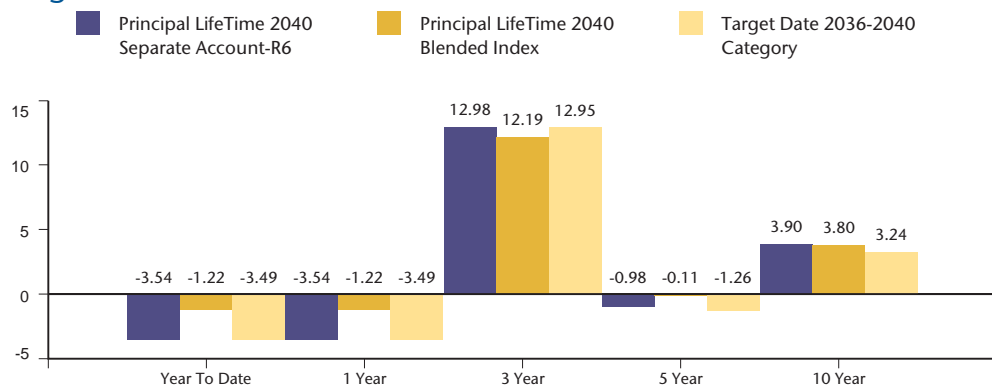
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, real estate investments, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. It allocates the assets more conservatively over time. The fund invests in PFI Institutional Class shares of underlying funds.

## Multiple Sub-Advisors

### Portfolio managers

**Dirk Laschanzky**, CFA. Since 03/30/2001. M.B.A., University of Iowa  
**James Fennessey**, CFA. Since 05/29/2007. B.S., Truman State University  
**Randy L. Welch** Since 05/29/2007. M.B.A., Drake University  
**David Blake**, CFA. Since 03/31/2008. M.B.A., Saint Louis University  
**Jeffrey R. Tyler**, CFA. Since 03/01/2011. Master, Northwestern University

## Long-term returns % as of 12/31/2011



## Performance disclosure

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

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

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-3.54	-3.54	12.98	-0.98	3.90
Principal LifeTime 2040 Blended Index %	-1.22	-1.22	12.19	-0.11	3.80
Target Date 2036-2040 Category %	-3.49	-3.49	12.95	-1.26	3.24
Morningstar Percentile Rankings	-	39	46	40	7
# of Funds in Category	202	202	183	100	16
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-3.54	15.66	29.26	-38.20	6.80
Principal LifeTime 2040 Blended Index %	-1.22	13.48	25.98	-32.87	6.88
Target Date 2036-2040 Category %	-3.49	14.37	30.90	-37.94	6.21
Morningstar Percentile Rankings	39	22	60	53	41
# of Funds in Category	202	194	193	151	111

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target Date 2036-2040

## Morningstar Style Box™

As of 11/30/2011

Investment style			Interest-Rate Sensitivity			Market capitalization	Credit Quality
Value	Blend	Growth	Ltd	Mod	Ext		
						Large	High
						Medium	Med
						Small	Low

## Risk and Return Statistics

as of 12/31/2011 Relative to Principal LifeTime 2040 Blended Index

	3Yr	5Yr
Alpha	0.06	-0.58
Beta	1.07	1.09
R-Squared	99.20	99.06
Standard Deviation	18.40	18.92
Mean	12.98	-0.98
Sharpe Ratio	0.75	-0.03
Excess Return	0.79	-0.87
Tracking Error	2.00	2.40
Information Ratio	0.39	-0.36

## Operations

Total Investment Expense Net	0.94%
Total Investment Expense Gross	0.94%
Inception Date	03/30/2001
Total Net Assets (mil)	\$2,632.18



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

# Principal LifeTime 2040 Separate Account-R6 as of 12/31/2011

## Portfolio information<sup>†</sup>

Composition as of 11/30/2011

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	56.69	0.08	56.77
	Non-U.S. Stocks	26.04	0.04	26.08
	U.S. Bonds	11.36	0.03	11.39
	Cash	5.09	7.56	12.64
	Non-U.S. Bonds	2.02	0.81	2.82
	Preferred	1.96	0.00	1.96
	Convertibles	0.04	0.00	0.04
	Other	-3.20	4.19	1.00

Top ten holdings	% of net assets
1. Principal Large Cap Growth I Inst	12.30
2. Principal Large Cap Value I Inst	11.93
3. Principal Large Cap S&P 500 Index Inst	7.39
4. Principal International Value I Instl	6.54
5. Principal Large Cap Growth Inst	6.30
6. Principal High Yield I Inst	6.18
7. Principal Large Cap Value Inst	6.08
8. Principal Diversified Intl Inst	6.05
9. Principal Intl Emerging Markets Inst	4.18
10. Principal International I Inst	3.91
% of net assets in top ten holdings*	70.85

Analysis	Stock Sector Breakdown
# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	24
AvgMktCap (mil)	\$20,431.50
Turnover Ratio	31%
P/C Ratio	5.94
P/E Ratio	12.68
P/B Ratio	1.77

Cyclical	% of net assets	Defensive	% of net assets	Sensitive	% of net assets
Consumer Cyclical	11.16	Healthcare	9.89	Technology	14.11
Basic Materials	5.17	Consumer Defensive	7.32	Industrials	12.66
Financial Svcs	14.08	Utilities	2.55	Energy	10.50
Real Estate	8.44			Comm Svcs	4.12

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

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

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# Principal LifeTime 2050 Separate Account-R6 as of 12/31/2011

## Investment Strategy

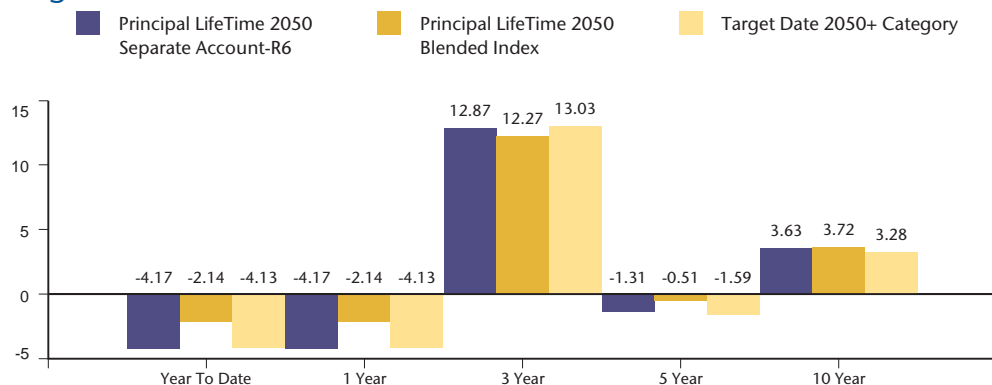
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, real estate investments, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. It allocates the assets more conservatively over time. The fund invests in PFI Institutional Class shares of underlying funds.

## Multiple Sub-Advisors

### Portfolio managers

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## Long-term returns % as of 12/31/2011



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-4.17	-4.17	12.87	-1.31	3.63
Principal LifeTime 2050 Blended Index %	-2.14	-2.14	12.27	-0.51	3.72
Target Date 2050+ Category %	-4.13	-4.13	13.03	-1.59	3.28
Morningstar Percentile Rankings	-	40	48	29	20
# of Funds in Category	235	235	156	29	6
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-4.17	15.83	29.56	-39.14	6.96
Principal LifeTime 2050 Blended Index %	-2.14	13.77	27.10	-34.23	6.89
Target Date 2050+ Category %	-4.13	14.45	32.20	-38.86	5.94
Morningstar Percentile Rankings	40	18	71	49	34
# of Funds in Category	235	175	159	97	29

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Target Date 2050+

## Morningstar Style Box™\*\*

As of 11/30/2011

Investment style			Interest-Rate Sensitivity			Market capitalization	Credit Quality
Value	Blend	Growth	Ltd	Mod	Ext		
						Large	High
						Medium	Med
						Small	Low

## Risk and Return Statistics

as of 12/31/2011 Relative to Principal LifeTime 2050 Blended Index

	3Yr	5Yr
Alpha	-0.04	-0.49
Beta	1.06	1.08
R-Squared	99.23	99.10
Standard Deviation	19.36	19.70
Mean	12.87	-1.31
Sharpe Ratio	0.72	-0.03
Excess Return	0.59	-0.80
Tracking Error	2.02	2.36
Information Ratio	0.30	-0.34

## Operations

Total Investment Expense Net	0.96%
Total Investment Expense Gross	0.96%
Inception Date	03/30/2001
Total Net Assets (mil)	\$1,009.84



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# Principal LifeTime 2050 Separate Account-R6 as of 12/31/2011

## Portfolio information<sup>†</sup>

Composition as of 11/30/2011

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	59.22	0.08	59.31
	Non-U.S. Stocks	29.11	0.04	29.15
	U.S. Bonds	6.84	0.02	6.86
	Cash	5.32	4.29	9.61
	Preferred	1.79	0.00	1.79
	Non-U.S. Bonds	1.11	0.33	1.44
	Convertibles	0.03	0.00	0.03
	Other	-3.42	4.21	0.79

Top ten holdings	% of net assets
1. Principal Large Cap Growth I Inst	13.02
2. Principal Large Cap Value I Inst	12.61
3. Principal Large Cap S&P 500 Index Inst	7.62
4. Principal International Value I Instl	7.57
5. Principal Diversified Intl Inst	6.63
6. Principal Large Cap Growth Inst	6.62
7. Principal Large Cap Value Inst	6.40
8. Principal High Yield I Inst	4.96
9. Principal Intl Emerging Markets Inst	4.79
10. Principal International I Inst	4.33
% of net assets in top ten holdings*	74.56

Analysis	Stock Sector Breakdown
# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	24
AvgMktCap (mil)	\$20,737.05
Turnover Ratio	30%
P/C Ratio	5.85
P/E Ratio	12.58
P/B Ratio	1.76

Cyclical	% of net assets	Defensive	% of net assets	Sensitive	% of net assets
Consumer Cyclical	11.17	Healthcare	9.85	Technology	13.98
Basic Materials	5.26	Consumer Defensive	7.37	Industrials	12.77
Financial Svcs	14.28	Utilities	2.56	Energy	10.46
Real Estate	8.11			Comm Svcs	4.19

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# Russell LifePoints® Conservative Strategy Sep Acct-R6

as of 12/31/2011

## Investment Strategy

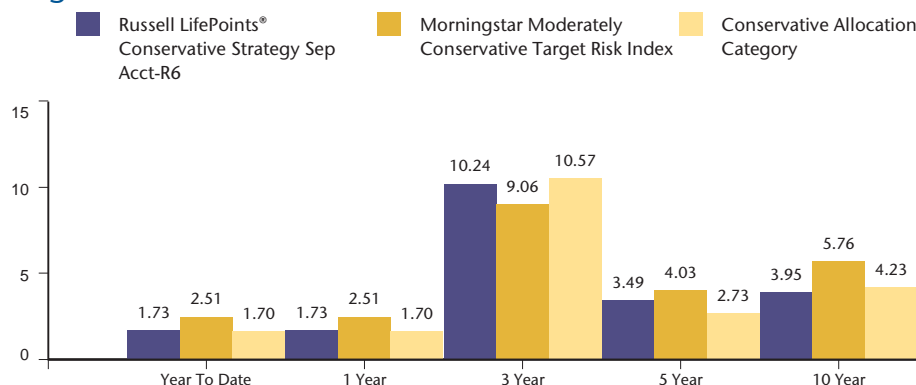
The investment seeks high levels of current income and low long-term capital appreciation. The fund is a fund of funds that invests in a combination of several other Russell Investment Company ("RIC") funds (the "Underlying Funds"). Its approximate target allocation as of March 1, 2010, is 20% to equity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



Portfolio managers

**Michael R. Ruff** Since 08/12/2011.

## Long-term returns % as of 12/31/2011



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	1.73	1.73	10.24	3.49	3.95
Morningstar Moderately Conservative Target Risk Index %	2.51	2.51	9.06	4.03	5.76
Conservative Allocation Category %	1.70	1.70	10.57	2.73	4.23
Morningstar Percentile Rankings	-	49	57	31	58
# of Funds in Category	618	618	556	459	173
Annual Returns	2011	2010	2009	2008	2007
Total Return %	1.73	9.91	19.82	-15.68	5.10
Morningstar Moderately Conservative Target Risk Index %	2.60	9.65	15.31	-13.06	8.01
Conservative Allocation Category %	1.70	10.03	20.77	-18.61	4.53
Morningstar Percentile Rankings	49	55	57	32	44
# of Funds in Category	618	656	628	679	609

Morningstar percentile rankings are based on total returns.

## Morningstar category

Conservative Allocation

## Morningstar Style Box™ \*\*

As of 10/31/2011

Investment style			Interest-Rate Sensitivity			Market capitalization	Credit Quality
Value	Blend	Growth	Ltd	Mod	Ext		

## Risk and Return Statistics

as of 12/31/2011 Relative to Morningstar Moderately Conservative Target Risk Index

	3Yr	5Yr
Alpha	3.51	-0.02
Beta	0.71	0.80
R-Squared	87.23	87.19
Standard Deviation	6.32	7.22
Mean	10.24	3.49
Sharpe Ratio	1.56	0.33
Excess Return	1.18	-0.54
Tracking Error	3.28	3.09
Information Ratio	0.36	-0.17

## Operations

Total Investment Expense Net	1.24%
Total Investment Expense Gross	1.60%
Contractual Cap Expiration Date	02/29/2012
Waiver Expiration Date	02/29/2012
Inception Date	03/24/1998
Total Net Assets (mil)	\$671.54



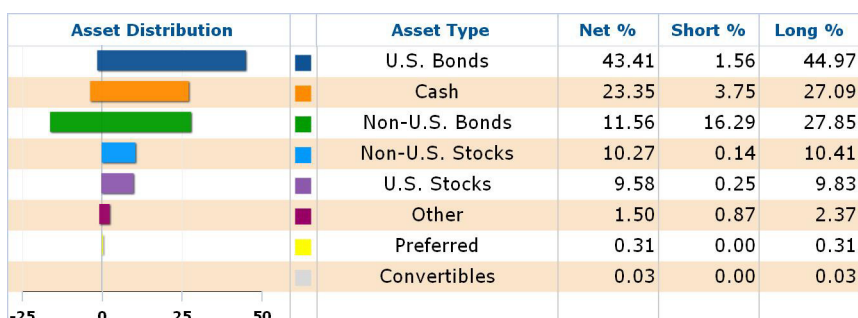
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# Russell LifePoints® Conservative Strategy Sep Acct-R6

## Portfolio information†

Composition as of 10/31/2011



## Top ten holdings % of net assets

1. Russell Strategic Bond Y	37.78
2. Russell Investment Grade Bond Y	19.90
3. Russell Short Duration Bond Y	17.85
4. Russell Global Equity Y	5.10
5. Russell International Developed Mkts Y	5.07
6. Russell US Core Equity Y	3.08
7. Russell US Quantitative Equity Y	3.07
8. Russell Global Real Estate Secs Y	2.08
9. Russell Global Opportunistic Credit Y	2.03
10. Russell Global Infrastructure Y	2.01
% of net assets in top ten holdings*	97.99

Analysis		Stock Sector Breakdown			
		% of net assets		% of net assets	
# of Stock Hldgs	0	Cyclical 36.25		Sensitive 40.85	
# of Bond Hldgs	0	Defensive 22.89		Technology 11.57	
# of Other Hldgs	11	Healthcare 8.25		Industrials 15.52	
AvgMktCap (mil)	\$20,584.12	Consumer Defensive 9.22		Energy 9.27	
Turnover Ratio	38%	Consumer Cyclical 9.35		Comm Svcs 4.49	
P/C Ratio	5.56	Basic Materials 4.86			
P/E Ratio	11.85	Financial Svcs 11.09			
P/B Ratio	1.47	Real Estate 10.95			

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



# Russell LifePoints® Moderate Strategy Separate Account-R6 as of 12/31/2011

## Investment Strategy

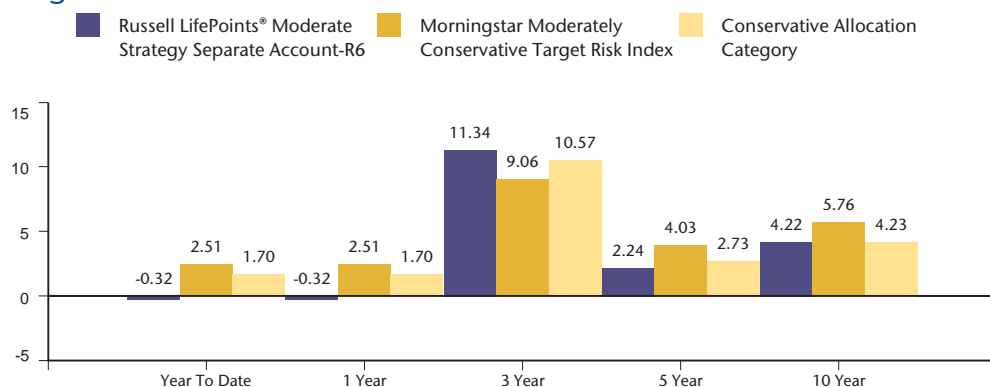
The investment seeks high current income and moderate long term capital appreciation. The fund is a fund of funds that invests in a combination of several other Russell Investment Company ("RIC") funds (the "Underlying Funds"). Its approximate target allocation as of March 1, 2010, is 40% to equity underlying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



Portfolio managers

**Michael R. Ruff** Since 08/12/2011.

## Long-term returns % as of 12/31/2011



## Performance disclosure

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

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-0.32	-0.32	11.34	2.24	4.22
Morningstar Moderately Conservative Target Risk Index %	2.51	2.51	9.06	4.03	5.76
Conservative Allocation Category %	1.70	1.70	10.57	2.73	4.23
Morningstar Percentile Rankings	-	83	37	68	47
# of Funds in Category	618	618	556	459	173
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-0.32	11.89	23.75	-23.75	6.15
Morningstar Moderately Conservative Target Risk Index %	2.60	9.65	15.31	-13.06	8.01
Conservative Allocation Category %	1.70	10.03	20.77	-18.61	4.53
Morningstar Percentile Rankings	83	21	26	78	26
# of Funds in Category	618	656	628	679	609

Morningstar percentile rankings are based on total returns.

## Morningstar category

Conservative Allocation

## Morningstar Style Box™ \*\*

As of 10/31/2011

Investment style			Interest-Rate Sensitivity			Market capitalization	Credit Quality
Value	Blend	Growth	Ltd	Mod	Ext		

## Risk and Return Statistics

as of 12/31/2011 Relative to Morningstar Moderately Conservative Target Risk Index

	3Yr	5Yr
Alpha	0.64	-2.24
Beta	1.18	1.25
R-Squared	96.68	94.60
Standard Deviation	9.92	10.80
Mean	11.34	2.24
Sharpe Ratio	1.12	0.14
Excess Return	2.28	-1.79
Tracking Error	2.33	3.27
Information Ratio	0.98	-0.55

## Operations

Total Investment Expense Net	1.32%
Total Investment Expense Gross	1.66%
Contractual Cap Expiration Date	02/29/2012
Waiver Expiration Date	02/29/2012
Inception Date	03/24/1998
Total Net Assets (mil)	\$1,115.12



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

# Russell LifePoints® Moderate Strategy Separate

## Portfolio information<sup>†</sup>

Composition as of 10/31/2011

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Bonds	32.60	1.44	34.04
	Non-U.S. Stocks	19.56	0.25	19.80
	Cash	18.86	3.41	22.27
	U.S. Stocks	18.42	0.50	18.91
	Non-U.S. Bonds	8.66	12.61	21.27
	Other	1.62	0.85	2.48
	Preferred	0.28	0.00	0.28

Top ten holdings	% of net assets
1. Russell Strategic Bond Y	35.79
2. Russell Investment Grade Bond Y	19.98
3. Russell International Developed Mkts Y	8.86
4. Russell Global Equity Y	7.97
5. Russell US Quantitative Equity Y	6.11
6. Russell US Core Equity Y	5.29
7. Russell Global Real Estate Secs Y	3.03
8. Russell Global Infrastructure Y	3.01
9. Russell Emerging Markets Y	2.97
10. Russell Commodity Strategies Y	2.95
% of net assets in top ten holdings*	95.94

Analysis	Stock Sector Breakdown
# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	12
AvgMktCap (mil)	\$18,525.11
Turnover Ratio	48%
P/C Ratio	5.51
P/E Ratio	12.19
P/B Ratio	1.53

Cyclical	% of net assets	Defensive	% of net assets	Sensitive	% of net assets
Consumer Cyclical	9.73	Healthcare	7.97	Technology	12.55
Basic Materials	5.55	Consumer Defensive	9.12	Industrials	14.87
Financial Svcs	11.95	Utilities	4.74	Energy	9.90
Real Estate	8.78			Comm Svcs	4.84

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

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# Russell LifePoints® Balanced Strategy Separate Account-R6

as of 12/31/2011

## Investment Strategy

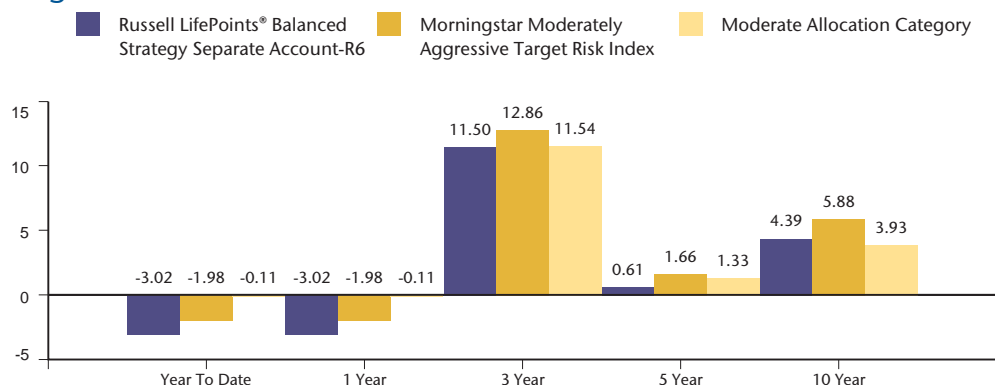
The investment seeks to provide above-average capital appreciation and a moderate level of current income. The fund is a fund of funds that invests in a combination of several other Russell Investment Company ("RIC") funds (the "Underlying Funds"). Its approximate target allocation as of March 1, 2010,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



Portfolio managers

**Michael R. Ruff** Since 08/12/2011.

## Long-term returns % as of 12/31/2011



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-3.02	-3.02	11.50	0.61	4.39
Morningstar Moderately Aggressive Target Risk Index %	-1.98	-1.98	12.86	1.66	5.88
Moderate Allocation Category %	-0.11	-0.11	11.54	1.33	3.93
Morningstar Percentile Rankings	-	85	51	71	34
# of Funds in Category	963	963	843	736	393
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-3.02	13.06	26.40	-30.10	6.42
Morningstar Moderately Aggressive Target Risk Index %	-1.93	14.92	27.55	-30.65	8.94
Moderate Allocation Category %	-0.11	11.83	24.13	-28.00	5.99
Morningstar Percentile Rankings	85	29	36	65	44
# of Funds in Category	963	1074	1177	1206	1103

Morningstar percentile rankings are based on total returns.

## Morningstar category

Moderate Allocation

## Morningstar Style Box™ \*\*

As of 10/31/2011

Investment style			Interest-Rate Sensitivity			Market capitalization	Credit Quality
Value	Blend	Growth	Ltd	Mod	Ext		

## Risk and Return Statistics

as of 12/31/2011 Relative to Morningstar Moderately Aggressive Target Risk Index

	3Yr	5Yr
Alpha	0.56	-1.12
Beta	0.84	0.87
R-Squared	98.69	98.21
Standard Deviation	13.80	14.42
Mean	11.50	0.61
Sharpe Ratio	0.85	0.02
Excess Return	-1.35	-1.05
Tracking Error	3.07	2.86
Information Ratio	-0.44	-0.37

## Operations

Total Investment Expense Net	1.42%
Total Investment Expense Gross	1.75%
Contractual Cap Expiration Date	02/29/2012
Waiver Expiration Date	02/29/2012
Inception Date	03/24/1998
Total Net Assets (mil)	\$4,566.10



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# Russell LifePoints® Balanced Strategy Separate Account-R6

## Portfolio information†

Composition as of 10/31/2011

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	28.70	0.76	29.45
	Non-U.S. Stocks	27.73	0.36	28.09
	U.S. Bonds	20.79	1.15	21.95
	Cash	13.43	3.78	17.21
	Non-U.S. Bonds	7.25	10.35	17.60
	Other	1.91	0.90	2.81
	Preferred	0.20	0.00	0.20

Top ten holdings	% of net assets
1. Russell Strategic Bond Y	34.66
2. Russell International Developed Mkts Y	14.69
3. Russell US Core Equity Y	10.52
4. Russell Global Equity Y	9.95
5. Russell US Quantitative Equity Y	9.21
6. Russell US Small & Mid Cap Y	4.02
7. Russell Emerging Markets Y	3.93
8. Russell Commodity Strategies Y	3.91
9. Russell Global Opportunistic Credit Y	3.06
10. Russell Global Real Estate Secs Y	3.03
% of net assets in top ten holdings*	96.98

Analysis		Stock Sector Breakdown					
# of Stock Hldgs	0	% of net assets		% of net assets		% of net assets	
# of Bond Hldgs	0	Cyclical	34.60	Defensive	22.97	Sensitive	42.42
# of Other Hldgs	11	Consumer Cyclical	10.35	Healthcare	8.92	Technology	13.16
AvgMktCap (mil)	\$18,705.07	Basic Materials	5.65	Consumer Defensive	9.91	Industrials	14.68
Turnover Ratio	24%	Financial Svcs	12.28	Utilities	4.14	Energy	9.55
P/C Ratio	5.39	Real Estate	6.32			Comm Svcs	5.03
P/E Ratio	11.51						
P/B Ratio	1.50						

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# Russell LifePoints® Growth Strategy Separate Account-R6

as of 12/31/2011

## Investment Strategy

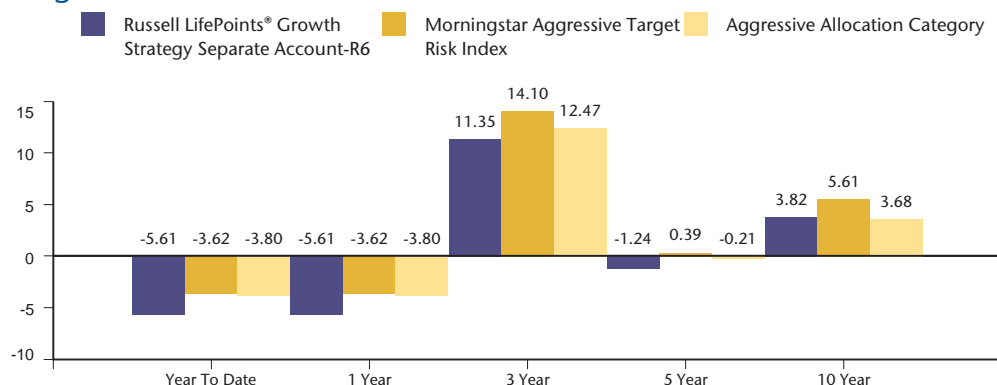
The investment seeks high long-term capital appreciation with low current income. The fund is a fund of funds that invests in a combination of several other Russell Investment Company ("RIC") funds (the "Underlying Funds"). Its approximate target allocation as of March 1, 2010, is 80% to equity underlying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



Portfolio managers

**Michael R. Ruff** Since 08/12/2011.

## Long-term returns % as of 12/31/2011



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-5.61	-5.61	11.35	-1.24	3.82
Morningstar Aggressive Target Risk Index %	-3.62	-3.62	14.10	0.39	5.61
Aggressive Allocation Category %	-3.80	-3.80	12.47	-0.21	3.68
Morningstar Percentile Rankings	-	81	75	75	52
# of Funds in Category	363	363	319	275	103
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-5.61	13.76	28.59	-36.25	6.76
Morningstar Aggressive Target Risk Index %	-3.60	16.75	32.00	-37.14	9.19
Aggressive Allocation Category %	-3.80	13.49	29.37	-34.34	7.43
Morningstar Percentile Rankings	81	43	41	93	38
# of Funds in Category	363	230	229	227	213

Morningstar percentile rankings are based on total returns.

## Morningstar category

Aggressive Allocation

## Morningstar Style Box™\*\*

As of 10/31/2011

Investment style			Interest-Rate Sensitivity			Market capitalization	Credit Quality
Value	Blend	Growth	Ltd	Mod	Ext		

## Risk and Return Statistics

as of 12/31/2011 Relative to Morningstar Aggressive Target Risk Index

	3Yr	5Yr
Alpha	-1.32	-1.83
Beta	0.90	0.92
R-Squared	99.33	99.13
Standard Deviation	17.64	18.07
Mean	11.35	-1.24
Sharpe Ratio	0.69	-0.05
Excess Return	-2.74	-1.63
Tracking Error	2.40	2.33
Information Ratio	-1.14	-0.70

## Operations

Total Investment Expense Net	1.49%
Total Investment Expense Gross	1.83%
Contractual Cap Expiration Date	02/29/2012
Waiver Expiration Date	02/29/2012
Inception Date	03/24/1998
Total Net Assets (mil)	\$2,500.83



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# Russell LifePoints® Growth Strategy Separate Account-R6

## Portfolio information†

Composition as of 10/31/2011

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	36.87	0.92	37.79
	Non-U.S. Stocks	36.38	0.47	36.85
	U.S. Bonds	10.11	0.48	10.59
	Cash	9.36	4.39	13.75
	Non-U.S. Bonds	4.78	4.38	9.16
	Other	2.36	0.80	3.15
	Preferred	0.14	0.00	0.14

Top ten holdings	% of net assets
1. Russell International Developed Mkts Y	18.91
2. Russell Strategic Bond Y	14.39
3. Russell Global Equity Y	14.14
4. Russell US Core Equity Y	12.37
5. Russell US Quantitative Equity Y	11.25
6. Russell US Small & Mid Cap Y	6.12
7. Russell Commodity Strategies Y	5.81
8. Russell Emerging Markets Y	4.90
9. Russell Global Real Estate Secs Y	4.06
10. Russell Global Opportunistic Credit Y	4.04
% of net assets in top ten holdings*	95.99

Analysis		Stock Sector Breakdown			
# of Stock Hldgs	0	% of net assets		% of net assets	
# of Bond Hldgs	0	Cyclical		Sensitive	
# of Other Hldgs	11	34.84		42.41	
AvgMktCap (mil)	\$17,976.22	Consumer Cyclical	10.34	Healthcare	8.81
Turnover Ratio	31%	Basic Materials	5.68	Consumer Defensive	9.73
P/C Ratio	5.38	Financial Svcs	12.26	Utilities	4.21
P/E Ratio	11.55	Real Estate	6.56	Energy	9.42
P/B Ratio	1.49			Comm Svcs	4.96

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

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

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

# Russell LifePoints® Equity Growth Strategy Sep Acct-R6

as of 12/31/2011

## Investment Strategy

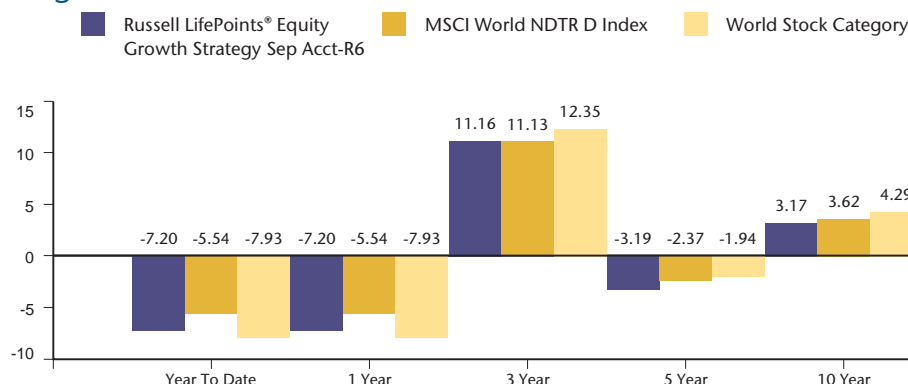
The investment seeks high long-term capital appreciation. The fund is a fund of funds that invests in a combination of several other Russell Investment Company ("RIC") funds (the "Underlying Funds"). Its approximate target allocation as of March 1, 2010, is 100% to equity underlying funds. While the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



Portfolio managers

**Michael R. Ruff** Since 08/12/2011.

## Long-term returns % as of 12/31/2011



## Performance disclosure

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

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

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-7.20	-7.20	11.16	-3.19	3.17
MSCI World NDTR D Index %	-5.54	-5.54	11.13	-2.37	3.62
World Stock Category %	-7.93	-7.93	12.35	-1.94	4.29
Morningstar Percentile Rankings	-	42	56	65	68
# of Funds in Category	893	893	697	490	275
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-7.20	13.52	30.39	-42.21	7.11
MSCI World NDTR D Index %	-5.54	11.76	29.99	-40.71	9.04
World Stock Category %	-7.93	13.74	35.27	-41.91	11.28
Morningstar Percentile Rankings	42	56	30	85	35
# of Funds in Category	893	865	755	647	581

Morningstar percentile rankings are based on total returns.

## Morningstar category

World Stock

## Morningstar Style Box™ \*\*

As of 10/31/2011

Investment style			Interest-Rate Sensitivity			Market capitalization	Credit Quality
Value	Blend	Growth	Ltd	Mod	Ext		
						Large	High
						Medium	Med
						Small	Low

## Risk and Return Statistics

as of 12/31/2011 Relative to MSCI World NDTR D Index

	3Yr	5Yr
Alpha	-0.13	-0.54
Beta	1.02	1.04
R-Squared	98.79	98.38
Standard Deviation	21.05	21.52
Mean	11.16	-3.19
Sharpe Ratio	0.60	-0.10
Excess Return	0.03	-0.82
Tracking Error	2.37	2.88
Information Ratio	0.02	-0.28

## Operations

Total Investment Expense Net	1.53%
Total Investment Expense Gross	1.88%
Contractual Cap Expiration Date	02/29/2012
Waiver Expiration Date	02/29/2012
Inception Date	03/24/1998
Total Net Assets (mil)	\$1,088.95



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

# Russell LifePoints® Equity Growth Strategy Sep Acct-R6

## Portfolio information†

Composition as of 10/31/2011

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	43.37	1.15	44.53
	Non-U.S. Stocks	42.74	0.57	43.31
	Cash	5.58	4.80	10.38
	Non-U.S. Bonds	3.20	0.14	3.34
	Other	2.53	0.74	3.26
	U.S. Bonds	2.48	0.00	2.48
	Preferred	0.11	0.00	0.11

Top ten holdings	% of net assets
1. Russell International Developed Mkts Y	22.80
2. Russell US Core Equity Y	15.06
3. Russell US Quantitative Equity Y	14.07
4. Russell Global Equity Y	13.99
5. Russell US Small & Mid Cap Y	7.14
6. Russell Emerging Markets Y	7.07
7. Russell Commodity Strategies Y	5.85
8. Russell Global Real Estate Secs Y	5.10
9. Russell Global Opportunistic Credit Y	4.98
10. Russell Global Infrastructure Y	3.95
% of net assets in top ten holdings*	100.00

Analysis	Stock Sector Breakdown
# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	10
AvgMktCap (mil)	\$17,955.10
Turnover Ratio	28%
P/C Ratio	5.36
P/E Ratio	11.51
P/B Ratio	1.49

Cyclical	% of net assets	Defensive	% of net assets	Sensitive	% of net assets
Consumer Cyclical	10.34	Healthcare	8.84	Technology	13.12
Basic Materials	5.74	Consumer Defensive	9.84	Industrials	14.40
Financial Svcs	12.31	Utilities	3.94	Energy	9.45
Real Estate	6.93			Comm Svcs	5.10

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

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

*Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754 or by visiting [principal.com](http://principal.com).*

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# Principal Stable Value Sig Fund as of 12/31/2011

## Investment Strategy

The objective of the Fund is to provide a low-risk, moderate-yield investment. The Fund is managed to earn a consistent level of return, while providing for preservation of capital, high credit quality and liquidity to pay plan benefits.

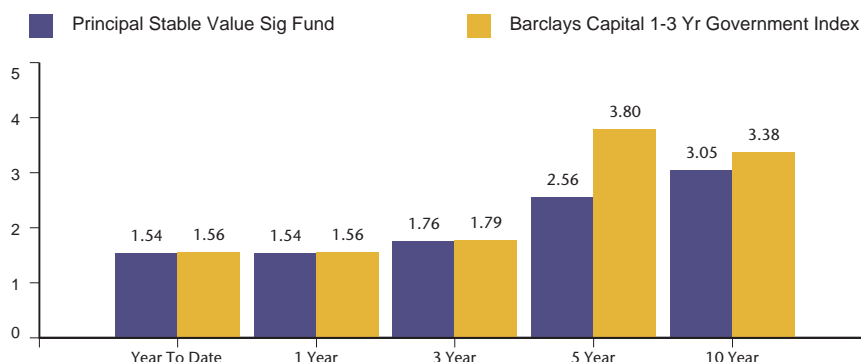
## MORLEY FINANCIAL

SERVICES, INC.

### Portfolio managers

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

## Long-term returns % as of 12/31/2011



## Performance disclosure

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

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	1.54	1.54	1.76	2.56	3.05
Barclays Capital 1-3 Yr Government Index %	1.56	1.56	1.79	3.80	3.38

Annual Returns	2011	2010	2009	2008	2007
Total Return %	1.54	1.94	1.81	3.58	3.92



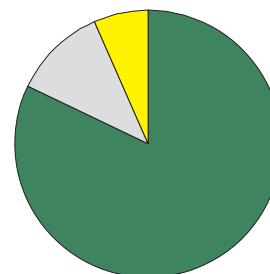
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## Operations

Total Investment Expense Net	0.85%
Total Investment Expense Gross	0.85%
Inception Date	01/09/1997
Total Net Assets (mil)	\$3,612.74

## Portfolio information

Composition as of 12/31/2011



### % of Assets

U.S. Bonds	82.10
Cash	11.30
Other	6.60

## Portfolio composition

### Top ten issuers

	% of net assets
Prudential Insurance Company of America	23.50
Metropolitan Life Insurance Co	11.40
Aviva Life & Annuity Wrap	10.40
New York Life Insurance Co	9.10
NATIXIS Financial Products Inc. Wrap	8.00
AIG Financial Products Corp Wrap	6.10
JP Morgan Chase Bank Wrap	5.60
Bank of America Wrap	5.60
State Street Bank & Trust Wrap	5.20
Rabobank Nederland Wrap	3.70

% of net assets in top ten holdings\* 88.60%

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

## Diversification

### Duration

	% of assets
less than 1 Yr	24.80
1-2 Yrs	25.80
2-3 Yrs	24.00
3-4 Yrs	10.50
4-5 Yrs	7.70
Over 5 Yrs	7.20

## Statistics

# of Issuers	10
Avg Eff Duration (Yrs)	2.22
Avg Eff Maturity (Yrs)	2.28
Crediting Rate (%)	2.14

# Principal Stable Value Sig Fund as of 12/31/2011

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

Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company. Principal mutual funds are part of the Principal Funds, Inc. series. 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.

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

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

# Bond and Mortgage Separate Account-R3 as of 12/31/2011

## Investment Strategy

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

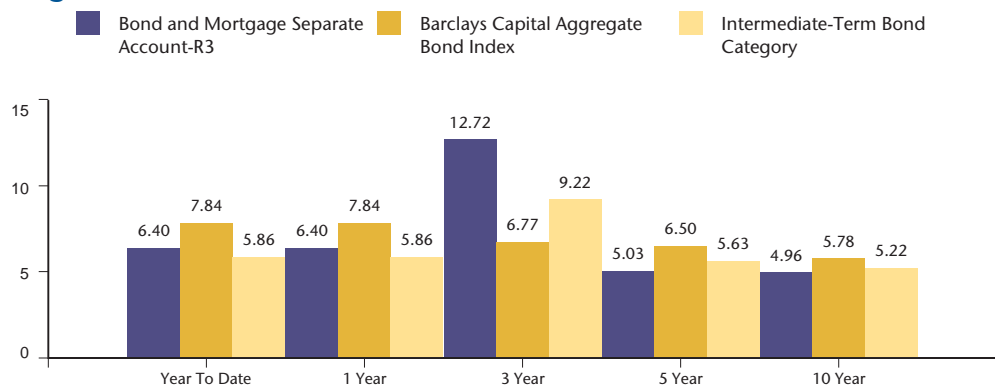


## Portfolio managers

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

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

## Long-term returns % as of 12/31/2011



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	6.40	6.40	12.72	5.03	4.96
Barclays Capital Aggregate Bond Index %	7.84	7.84	6.77	6.50	5.78
Intermediate-Term Bond Category %	5.86	5.86	9.22	5.63	5.22
Morningstar Percentile Rankings	-	47	10	73	64
# of Funds in Category	1195	1195	1018	873	582
Annual Returns	2011	2010	2009	2008	2007
Total Return %	6.40	11.13	21.12	-13.55	3.24
Barclays Capital Aggregate Bond Index %	7.84	6.54	5.93	5.24	6.97
Intermediate-Term Bond Category %	5.86	7.72	13.97	-4.70	4.70
Morningstar Percentile Rankings	47	6	12	89	84
# of Funds in Category	1195	1164	1123	1135	1097

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Intermediate-Term Bond

## Morningstar Style Box™ \*\*

As of 11/30/2011

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

## Risk and Return Statistics

as of 12/31/2011 Relative to  
Barclays Capital Aggregate Bond Index

	3Yr	5Yr
Alpha	5.08	-1.31
Beta	1.07	1.01
R-Squared	41.03	36.59
Standard Deviation	4.71	5.99
Mean	12.72	5.03
Sharpe Ratio	2.55	0.62
Tracking Error	3.62	4.86
Information Ratio	1.64	-0.30

## Operations

Total Investment Expense Net	1.12%
Total Investment Expense Gross	1.12%
Inception Date	02/01/1983
Total Net Assets (mil)	\$4,414.22



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

# Bond and Mortgage Separate Account-R3 as of 12/31/2011

## Portfolio information<sup>†</sup>

Composition as of 11/30/2011

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Bonds	85.22	0.00	85.22
	Non-U.S. Bonds	11.78	0.00	11.78
	Other	5.47	0.36	5.82
	Preferred	0.55	0.00	0.55
	Cash	-3.02	7.72	4.70

## Top ten holdings

% of net assets

1. FNMA	2.96
2. Fnma Tba	2.14
3. US Treasury Note 1.5%	2.04
4. US Treasury Bond 6.25%	1.74
5. Gnma Tba	1.51
6. US Treasury Note 2.75%	1.12
7. FNMA 4%	1.10
8. US Treasury Note 1.875%	1.08
9. US Treasury Note 4%	1.06
10. US Treasury Note 1.25%	1.05
% of net assets in top ten holdings*	15.80

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	1468
# of Other Hldgs	147
Turnover Ratio	350%

## Credit Analysis

As of 11/30/2011

	% Bonds
AAA	50.96
AA	5.51
A	14.87
BBB	15.75
BB	6.85
B	4.71
Below B	1.35
Not Rated	0.00

## Statistics

Avg Eff Duration (Yrs)	5.06
Avg Eff Maturity (Yrs)	7.78
Avg Weighted Price	102.60

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# U.S. Property Separate Account-R2 as of 12/31/2011

## Investment Strategy

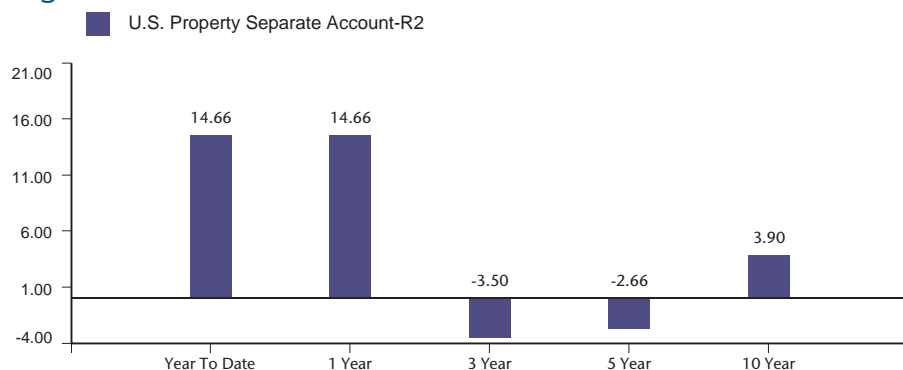
The investment invests the majority of assets in commercial real estate holdings. It focuses on properties that return both lease income and appreciation of the buildings' marketable value. The property holdings usually contain real estate from the multi-family, office, warehouse/manufacturing, and retail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



## Portfolio managers

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

## Long-term returns % as of 12/31/2011



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	14.66	14.66	-3.50	-2.66	3.90

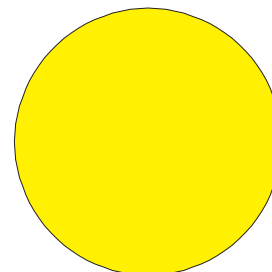
Annual Returns	2011	2010	2009	2008	2007
Total Return %	14.66	15.25	-31.99	-13.74	12.75

## Operations

Total Investment Expense Net	1.74%
Total Investment Expense Gross	1.74%
Inception Date	01/01/1982
Total Net Assets (mil)	\$3,736.31

## Portfolio information

Composition as of 11/30/2011



## % of Assets

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

## Analysis

Total Number of Hldgs	115
-----------------------	-----

## Portfolio composition

### Top ten holdings % of net assets

Office New York, NY	5.57
Office Seattle, WA	4.35
Retail Los Angeles, CA	4.03
Office Washington, D.C.	3.26
Multi-family/Retail Cambridge, MA	2.95
Hotel San Antonio, TX	2.79
Office Phoenix, AZ	2.39
Office Cambridge, MA	2.33
Office/Retail San Diego, CA	2.20
Multi-family New York, NY	2.16

% of net assets in top ten holdings\* 32.04%

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

## Geographical diversity

	<small>% of properties</small>
West	41.59
East	24.89
South	21.65
Midwest	11.87

## Property type

	<small>% of account</small>
Office	38.75
Retail	21.70
Industrial Park	18.26
Apartments	17.27
Other	4.02

# U.S. Property Separate Account-R2 as of 12/31/2011

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

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

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

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

This investment option is subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. If you elect to contribute funds into the U.S. Property Separate Account, you may not be able to immediately withdraw them.

# LargeCap S&P 500 Index Separate Account-R2 as of 12/31/2011

## Investment Strategy

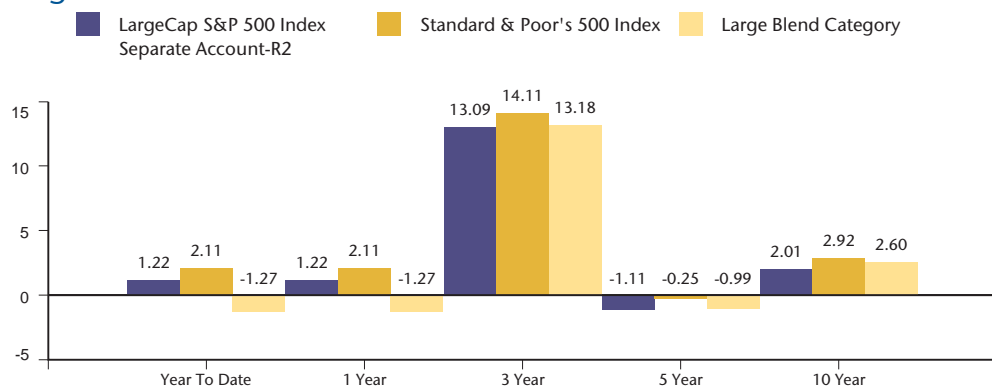
The investment option normally invests the majority of assets in common stocks of companies that compose the S&P 500 Index. Management attempts to mirror the investment performance of the index by allocating assets in approximately the same weightings as the S&P 500 Index. Over the long-term, management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



## Portfolio managers

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

## Long-term returns % as of 12/31/2011



## Performance disclosure

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

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	1.22	1.22	13.09	-1.11	2.01
Standard & Poor's 500 Index %	2.11	2.11	14.11	-0.25	2.92
Large Blend Category %	-1.27	-1.27	13.18	-0.99	2.60
Morningstar Percentile Rankings	-	29	51	57	71
# of Funds in Category	1786	1786	1580	1376	817
Annual Returns	2011	2010	2009	2008	2007
Total Return %	1.22	14.01	25.34	-37.47	4.56
Standard & Poor's 500 Index %	2.11	15.06	26.46	-37.00	5.49
Large Blend Category %	-1.27	14.01	28.17	-37.79	6.16
Morningstar Percentile Rankings	29	48	66	49	65
# of Funds in Category	1786	2010	2027	2086	2090

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Blend

## Morningstar Style Box™

As of 11/30/2011

### Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

## Risk and Return Statistics

as of 12/31/2011 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	-0.87	-0.87
Beta	1.00	1.00
R-Squared	100.00	100.00
Standard Deviation	18.91	18.83
Mean	13.09	-1.11
Sharpe Ratio	0.74	-0.03
Excess Return	-1.02	-0.86
Tracking Error	0.08	0.07
Information Ratio	-12.86	-12.22

## Operations

Total Investment Expense Net	0.90%
Total Investment Expense Gross	0.90%
Inception Date	01/01/1990
Total Net Assets (mil)	\$5,942.15



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



# LargeCap S&P 500 Index Separate Account-R2 as of 12/31/2011

## Portfolio information<sup>†</sup>

Composition as of 11/30/2011

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	95.24	0.00	95.24
	Cash	4.25	0.00	4.25
	Non-U.S. Stocks	0.42	0.00	0.42
	Other	0.08	0.00	0.08

Top ten holdings	% of net assets
1. Exxon Mobil Corporation	3.30
2. Apple, Inc.	2.99
3. International Business Machines Corp	1.89
4. Chevron Corp	1.74
5. Microsoft Corporation	1.61
6. Johnson & Johnson	1.50
7. The Procter & Gamble Co	1.50
8. AT&T Inc	1.45
9. General Electric Co	1.42
10. Pfizer Inc	1.32
% of net assets in top ten holdings*	18.72

Analysis	Stock Sector Breakdown
# of Stock Hldgs	498
# of Bond Hldgs	0
# of Other Hldgs	3
AvgMktCap (mil)	\$48,430.59
Turnover Ratio	2%
P/C Ratio	6.99
P/E Ratio	12.98
P/B Ratio	1.97

Cyclical	% of net assets	Defensive	% of net assets	Sensitive	% of net assets
Consumer Cyclical	9.05	Healthcare	11.43	Technology	17.94
Basic Materials	3.31	Consumer Defensive	11.91	Industrials	11.71
Financial Svcs	12.43	Utilities	3.69	Energy	12.48
Real Estate	1.81			Comm Svcs	4.24

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

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

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# LargeCap Blend II Separate Account-R3 as of 12/31/2011

## Investment Strategy

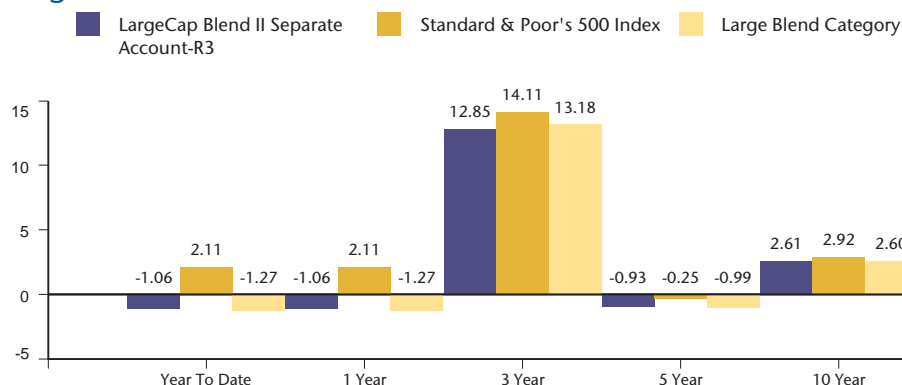
The investment seeks long-term growth of capital. The fund normally invests at least 80% of net assets in common stocks of companies with large market capitalizations (those with market capitalizations within the range of companies in the S&P 500 Index) at the time of purchase. As a blend fund, the fund assets will be invested in equity securities with both growth and value characteristics.



## Portfolio managers

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

## Long-term returns % as of 12/31/2011



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-1.06	-1.06	12.85	-0.93	2.61
Standard & Poor's 500 Index %	2.11	2.11	14.11	-0.25	2.92
Large Blend Category %	-1.27	-1.27	13.18	-0.99	2.60
Morningstar Percentile Rankings	-	53	55	52	48
# of Funds in Category	1786	1786	1580	1376	817
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-1.06	12.73	28.85	-36.85	5.17
Standard & Poor's 500 Index %	2.11	15.06	26.46	-37.00	5.49
Large Blend Category %	-1.27	14.01	28.17	-37.79	6.16
Morningstar Percentile Rankings	53	68	39	35	56
# of Funds in Category	1786	2010	2027	2086	2090

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Blend

## Morningstar Style Box™

As of 11/30/2011

### Investment style

Value	Blend	Growth	
			Market capitalization
			Medium
			Small

## Risk and Return Statistics

as of 12/31/2011 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	-1.18	-0.66
Beta	1.00	1.01
R-Squared	99.59	99.64
Standard Deviation	19.10	19.05
Mean	12.85	-0.93
Sharpe Ratio	0.72	-0.02
Excess Return	-1.26	-0.68
Tracking Error	1.23	1.16
Information Ratio	-1.03	-0.59

## Operations

Total Investment Expense Net	1.33%
Total Investment Expense Gross	1.35%
Contractual Cap Expiration Date	02/29/2012
Waiver Expiration Date	02/29/2012
Inception Date	12/29/2000
Total Net Assets (mil)	\$892.12



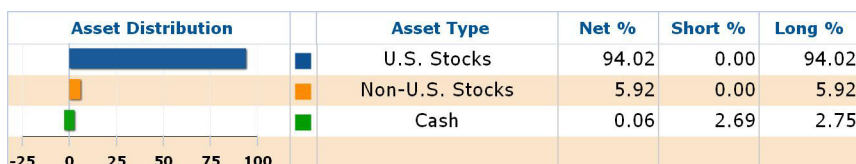
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# LargeCap Blend II Separate Account-R3 as of 12/31/2011

## Portfolio information<sup>†</sup>

Composition as of 11/30/2011



## Top ten holdings

% of net assets

1. Exxon Mobil Corporation	3.78
2. Apple, Inc.	3.01
3. S&P500 Emini Fut Dec11	2.69
4. International Business Machines Corp	2.16
5. Pfizer Inc	2.02
6. Philip Morris International, Inc.	1.99
7. Wells Fargo & Co	1.91
8. Google, Inc.	1.89
9. Microsoft Corporation	1.71
10. Chevron Corp	1.53
% of net assets in top ten holdings*	22.68

## Analysis

# of Stock Hldgs	470
# of Bond Hldgs	0
# of Other Hldgs	7
AvgMktCap (mil)	\$47,167.46
Turnover Ratio	36%
P/C Ratio	6.87
P/E Ratio	12.68
P/B Ratio	2.04

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Cyclical</b>	<b>28.97</b>	<b>Defensive</b>	<b>25.54</b>	<b>Sensitive</b>	<b>45.50</b>
Consumer Cyclical	10.19	Healthcare	11.74	Technology	18.31
Basic Materials	5.47	Consumer Defensive	10.70	Industrials	10.97
Financial Svcs	12.28	Utilities	3.10	Energy	12.51
Real Estate	1.03			Comm Svcs	3.71

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# LargeCap Value III Separate Account-R3 as of 12/31/2011

## Investment Strategy

The investment seeks long-term growth of capital. The fund normally invests at least 80% of net assets in common stocks of companies with large market capitalizations (those with market capitalizations similar to companies in the Russell 1000(R) Value Index) at the time of purchase. It invests in value equity securities; the value orientation selection emphasizes buying equity securities that appear to be undervalued.

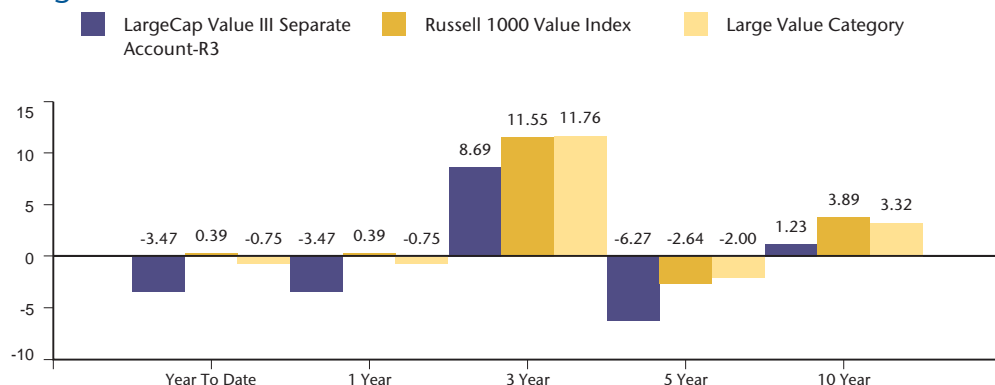


**BARROW, HANLEY,  
MEWHINNEY & STRAUSS, LLC**

## Portfolio managers

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

## Long-term returns % as of 12/31/2011



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-3.47	-3.47	8.69	-6.27	1.23
Russell 1000 Value Index %	0.39	0.39	11.55	-2.64	3.89
Large Value Category %	-0.75	-0.75	11.76	-2.00	3.32
Morningstar Percentile Rankings	-	71	86	96	93
# of Funds in Category	1258	1258	1127	996	571
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-3.47	12.36	18.39	-41.15	-4.31
Russell 1000 Value Index %	0.39	15.51	19.69	-36.85	-0.17
Large Value Category %	-0.75	13.66	24.13	-37.09	1.42
Morningstar Percentile Rankings	71	65	77	81	86
# of Funds in Category	1258	1240	1272	1433	1432

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Value

## Morningstar Style Box™

As of 11/30/2011

### Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

## Risk and Return Statistics

as of 12/31/2011 Relative to  
Russell 1000 Value Index

	3Yr	5Yr
Alpha	-2.51	-3.76
Beta	0.99	1.00
R-Squared	99.05	99.03
Standard Deviation	20.87	20.25
Mean	8.69	-6.27
Sharpe Ratio	0.50	-0.28
Excess Return	-2.86	-3.63
Tracking Error	2.04	2.00
Information Ratio	-1.40	-1.82

## Operations

Total Investment Expense Net	1.34%
Total Investment Expense Gross	1.35%
Contractual Cap Expiration Date	02/29/2012
Waiver Expiration Date	02/29/2012
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,055.83



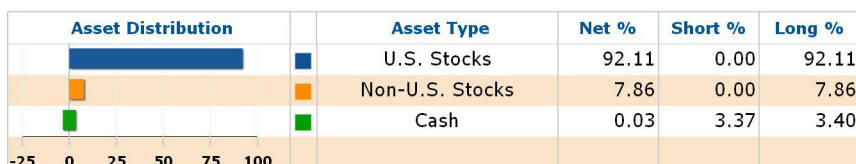
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# LargeCap Value III Separate Account-R3 as of 12/31/2011

## Portfolio information<sup>†</sup>

Composition as of 11/30/2011



## Top ten holdings

% of net assets

1. Pfizer Inc	3.76
2. S&P500 Emini Fut Dec11	3.37
3. Johnson & Johnson	3.10
4. JPMorgan Chase & Co	2.31
5. AT&T Inc	2.29
6. ConocoPhillips	1.87
7. Citigroup Inc	1.79
8. Chevron Corp	1.75
9. Hewlett-Packard Co	1.60
10. General Motors Co	1.47
% of net assets in top ten holdings*	23.31

## Analysis

# of Stock Hldgs	461
# of Bond Hldgs	0
# of Other Hldgs	6
AvgMktCap (mil)	\$37,261.88
Turnover Ratio	81%
P/C Ratio	5.47
P/E Ratio	10.83
P/B Ratio	1.40

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Cyclical</b>	<b>29.29</b>	<b>Defensive</b>	<b>31.97</b>	<b>Sensitive</b>	<b>38.75</b>
Consumer Cyclical	8.76	Healthcare	17.27	Technology	9.84
Basic Materials	2.02	Consumer Defensive	9.51	Industrials	8.38
Financial Svcs	17.11	Utilities	5.19	Energy	14.11
Real Estate	1.40			Comm Svcs	6.42

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

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

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

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<sup>†</sup> The Portfolio Composition depicts a breakdown of the investment option's portfolio holdings, as of the date listed, into general investment classes. The x-axis represents the percentage each investment group holds, with the y-axis representing a zero value. Values to the right of the y-axis represent long security positions, while values to the left of the y-axis represent short security positions. The table to the right of the bar chart sums these two values to present the net emphasis of each investment group. Due to rounding, the total net position may not equal 100%. Long positions involve buying a security and selling it later, with the hope that the security price rises over time. In contrast, short positions are taken to benefit from anticipated price declines. Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit principal.com.

# LargeCap Growth I Separate Account-R3 as of 12/31/2011

## Investment Strategy

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



## Portfolio managers

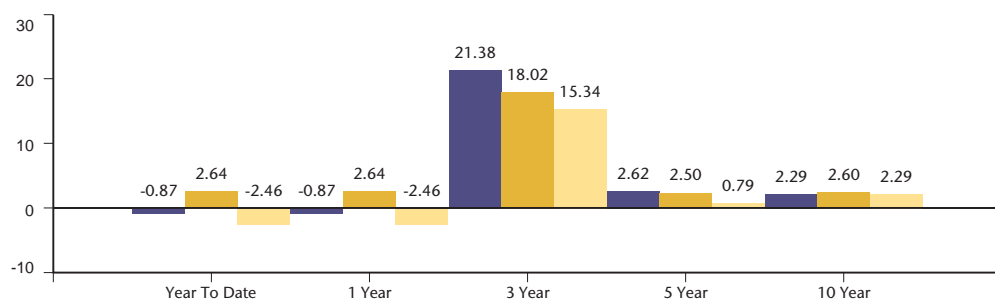
**Robert W. Sharps**, CPA, CFA. Since 08/19/2004. M.B.A., University of Pennsylvania (Wharton)

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

**Kenneth M. Stuzin**, CFA. Since 07/14/2009. M.B.A., Columbia University

## Long-term returns % as of 12/31/2011

■ LargeCap Growth I Separate Account-R3 ■ Russell 1000 Growth Index ■ Large Growth Category



## Performance disclosure

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

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

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-0.87	-0.87	21.38	2.62	2.29
Russell 1000 Growth Index %	2.64	2.64	18.02	2.50	2.60
Large Growth Category %	-2.46	-2.46	15.34	0.79	2.29
Morningstar Percentile Rankings	-	38	7	20	49
# of Funds in Category	1683	1683	1478	1279	804
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-0.87	19.23	51.30	-40.93	7.74
Russell 1000 Growth Index %	2.64	16.71	37.21	-38.44	11.81
Large Growth Category %	-2.46	15.53	35.68	-40.67	13.35
Morningstar Percentile Rankings	38	19	6	54	78
# of Funds in Category	1683	1718	1796	1809	1748

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Growth

## Morningstar Style Box™

As of 11/30/2011

### Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

## Risk and Return Statistics

as of 12/31/2011 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	1.72	0.26
Beta	1.08	1.09
R-Squared	96.25	96.52
Standard Deviation	19.83	21.21
Mean	21.38	2.62
Sharpe Ratio	1.07	0.17
Excess Return	3.36	0.11
Tracking Error	4.10	4.35
Information Ratio	0.82	0.03

## Operations

Total Investment Expense Net	1.18%
Total Investment Expense Gross	1.20%
Contractual Cap Expiration Date	02/29/2012
Waiver Expiration Date	02/29/2012
Inception Date	12/29/2000
Total Net Assets (mil)	\$2,886.79



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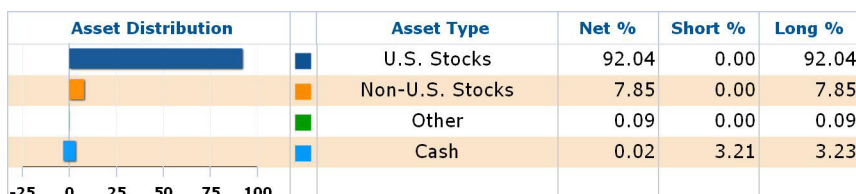
Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.



# LargeCap Growth I Separate Account-R3 as of 12/31/2011

## Portfolio information<sup>†</sup>

Composition as of 11/30/2011



## Top ten holdings

% of net assets

1. Apple, Inc.	5.67
2. Google, Inc.	4.43
3. Qualcomm, Inc.	2.92
4. MasterCard Incorporated A	2.79
5. S&P500 Emini Fut Dec11	2.67
6. Schlumberger NV	2.64
7. Danaher Corporation	2.57
8. Express Scripts	2.16
9. FMC Technologies, Inc.	2.08
10. Amazon.com Inc	1.67
% of net assets in top ten holdings*	29.60

## Analysis

# of Stock Hldgs	436
# of Bond Hldgs	0
# of Other Hldgs	7
AvgMktCap (mil)	\$26,629.15
Turnover Ratio	50%
P/C Ratio	12.57
P/E Ratio	18.43
P/B Ratio	3.45

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Cyclical</b>	<b>20.11</b>	<b>Defensive</b>	<b>19.04</b>	<b>Sensitive</b>	<b>60.86</b>
Consumer Cyclical	12.86	Healthcare	13.78	Technology	34.02
Basic Materials	1.78	Consumer Defensive	5.24	Industrials	14.65
Financial Svcs	5.02	Utilities	0.02	Energy	10.70
Real Estate	0.45			Comm Svcs	1.49

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

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

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# American Century Equity Income A Fund as of 12/31/2011

## Investment Strategy

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



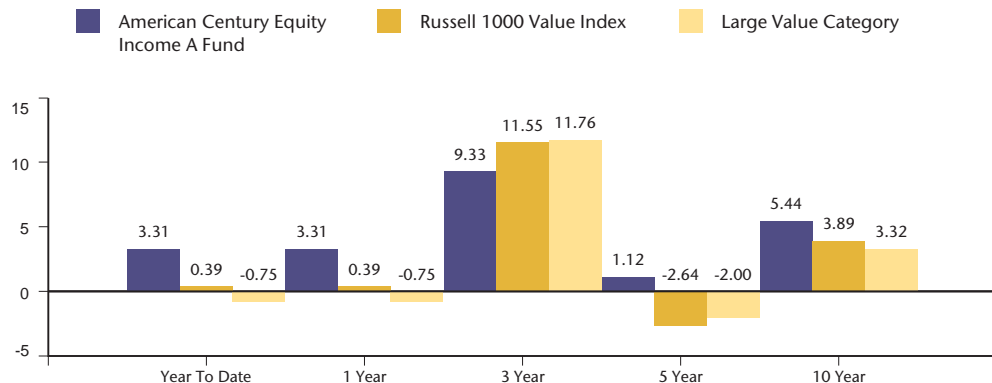
## Portfolio managers

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

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

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

## Long-term returns % as of 12/31/2011



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	3.31	3.31	9.33	1.12	5.44
Russell 1000 Value Index %	0.39	0.39	11.55	-2.64	3.89
Large Value Category %	-0.75	-0.75	11.76	-2.00	3.32
Morningstar Percentile Rankings	-	21	82	10	7
# of Funds in Category	1258	1258	1127	996	571
Annual Returns	2011	2010	2009	2008	2007
Total Return %	3.31	13.01	11.95	-20.25	1.43
Russell 1000 Value Index %	0.39	15.51	19.69	-36.85	-0.17
Large Value Category %	-0.75	13.66	24.13	-37.09	1.42
Morningstar Percentile Rankings	21	56	96	1	53
# of Funds in Category	1258	1240	1272	1433	1432

Morningstar percentile rankings are based on total returns.

## Morningstar category

Large Value

## Morningstar Style Box™

As of 09/30/2011

### Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

## Risk and Return Statistics

as of 12/31/2011 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	1.93	1.87
Beta	0.59	0.63
R-Squared	93.80	93.31
Standard Deviation	12.83	13.02
Mean	9.33	1.12
Sharpe Ratio	0.75	0.05
Excess Return	-2.22	3.76
Tracking Error	9.13	8.23
Information Ratio	-0.24	0.46

## Operations

Total Investment Expense Net	1.21%
Total Investment Expense Gross	1.21%
Inception Date	03/07/1997
Total Net Assets (mil)	\$9,387.77
12b-1 Fees	0.25%
Ticker	TWEAX



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



# American Century Equity Income A Fund as of 12/31/2011

## Portfolio information<sup>†</sup>

Composition as of 09/30/2011

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	66.53	0.00	66.53
	Convertibles	13.34	0.00	13.34
	Preferred	9.52	0.00	9.52
	Non-U.S. Stocks	4.78	0.00	4.78
	U.S. Bonds	2.92	0.00	2.92
	Other	2.52	0.00	2.52
	Cash	0.40	0.00	0.40

## Top ten holdings

% of net assets

1. Exxon Mobil Corporation	3.45
2. Wells Fargo & Co, San Francisco Ca Pfd	3.11
3. The Procter & Gamble Co	2.93
4. AT&T Inc	2.85
5. Marsh & McLennan Companies, Inc.	2.84
6. Total SA	2.83
7. Bk Amer Pfd	2.22
8. Intl Game Tech 144A Cv 3.25%	2.21
9. Consolidated Edison, Inc.	2.21
10. Lincare Hldgs Cv 2.75%	2.09
% of net assets in top ten holdings*	26.73

## Analysis

# of Stock Hldgs	71
# of Bond Hldgs	3
# of Other Hldgs	32
AvgMktCap (mil)	\$29,076.71
Turnover Ratio	146%
P/C Ratio	6.04
P/E Ratio	11.53
P/B Ratio	1.66

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Cyclical</b>	<b>22.12</b>	<b>Defensive</b>	<b>38.11</b>	<b>Sensitive</b>	<b>39.77</b>
Consumer Cyclical	1.25	Healthcare	14.50	Technology	4.14
Basic Materials	3.00	Consumer Defensive	14.52	Industrials	14.52
Financial Svcs	17.85	Utilities	9.09	Energy	14.99
Real Estate	0.02			Comm Svcs	6.12

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

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

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

# American Funds Growth Fund of America R3 Fund as of 12/31/2011

## Investment Strategy

The investment seeks capital growth. The fund invests primarily in common stocks and seeks to invest in companies that appear to offer superior opportunities for growth of capital. It may invest a portion of its assets in securities of issuers domiciled outside the U.S. The investment adviser uses a system of multiple portfolio counselors in managing the fund's assets.



## Portfolio managers

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

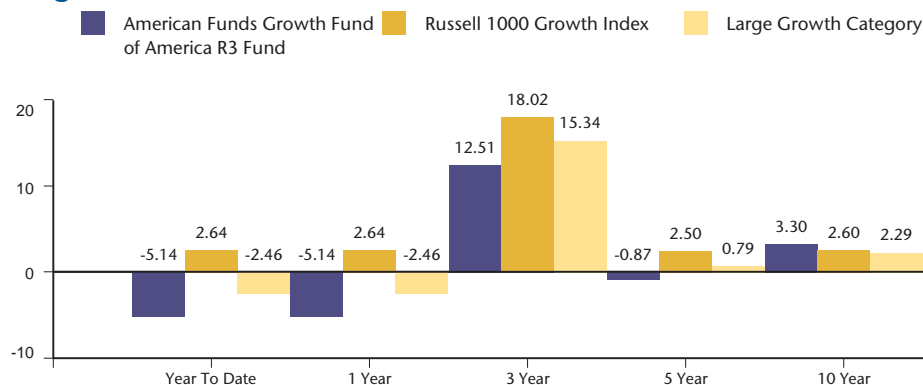
**James F. Rothenberg, CFA.** Since 11/01/1988. M.B.A., Harvard University

**Gordon Crawford, CFA.** Since 11/01/1991. M.B.A., Darlen School

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

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

## Long-term returns % as of 12/31/2011



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-5.14	-5.14	12.51	-0.87	3.30
Russell 1000 Growth Index %	2.64	2.64	18.02	2.50	2.60
Large Growth Category %	-2.46	-2.46	15.34	0.79	2.29
Morningstar Percentile Rankings	-	75	81	79	25
# of Funds in Category	1683	1683	1478	1279	804
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-5.14	11.95	34.12	-39.24	10.59
Russell 1000 Growth Index %	2.64	16.71	37.21	-38.44	11.81
Large Growth Category %	-2.46	15.53	35.68	-40.67	13.35
Morningstar Percentile Rankings	75	80	51	40	66
# of Funds in Category	1683	1718	1796	1809	1748

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Growth

## Morningstar Style Box™

As of 09/30/2011

### Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

## Risk and Return Statistics

as of 12/31/2011 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	-4.68	-3.32
Beta	0.99	0.97
R-Squared	98.00	97.90
Standard Deviation	18.06	18.78
Mean	12.51	-0.87
Sharpe Ratio	0.74	-0.02
Excess Return	-5.51	-3.37
Tracking Error	2.56	2.77
Information Ratio	-2.15	-1.22

## Operations

Total Investment Expense Net	0.97%
Total Investment Expense Gross	0.97%
Inception Date	05/21/2002
Extended Performance	
Inception Date#	01/01/1959
Total Net Assets (mil)	\$128,383.75
12b-1 Fees	0.50%
Ticker	RGACX



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# American Funds Growth Fund of America R3 Fund as of 12/31/2011

## Portfolio information†

Composition as of 09/30/2011

Asset Distribution		Asset Type	Net %	Short %	Long %
<div><div></div></div>	■	U.S. Stocks	72.72	0.00	72.72
<div><div></div></div>	■	Non-U.S. Stocks	15.77	0.00	15.77
<div><div></div></div>	■	Cash	8.27	0.00	8.27
<div><div></div></div>	■	U.S. Bonds	1.87	0.00	1.87
<div><div></div></div>	■	Other	1.37	0.00	1.37
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## Top ten holdings

% of net assets

1. Apple, Inc.	4.24
2. Oracle Corporation	2.31
3. Amazon.com Inc	2.24
4. Microsoft Corporation	1.68
5. Home Depot, Inc.	1.58
6. DIRECTV	1.47
7. US Treasury Bond 3.75%	1.39
8. Philip Morris International, Inc.	1.34
9. Costco Wholesale Corporation	1.33
10. Google, Inc.	1.26
% of net assets in top ten holdings*	18.85

## Analysis

# of Stock Hldgs	308
# of Bond Hldgs	10
# of Other Hldgs	155
AvgMktCap (mil)	\$32,245.97
Turnover Ratio	34%
P/C Ratio	6.04
P/E Ratio	12.43
P/B Ratio	1.95

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Cyclical</b>	<b>28.74</b>	<b>Defensive</b>	<b>19.89</b>	<b>Sensitive</b>	<b>51.37</b>
Consumer Cyclical	13.45	Healthcare	12.72	Technology	21.39
Basic Materials	6.54	Consumer Defensive	6.99	Industrials	11.94
Financial Svcs	8.74	Utilities	0.18	Energy	10.94
Real Estate	0.01			Comm Svcs	7.10

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

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

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

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

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

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

# MidCap Growth III Separate Account-R3 as of 12/31/2011

## Investment Strategy

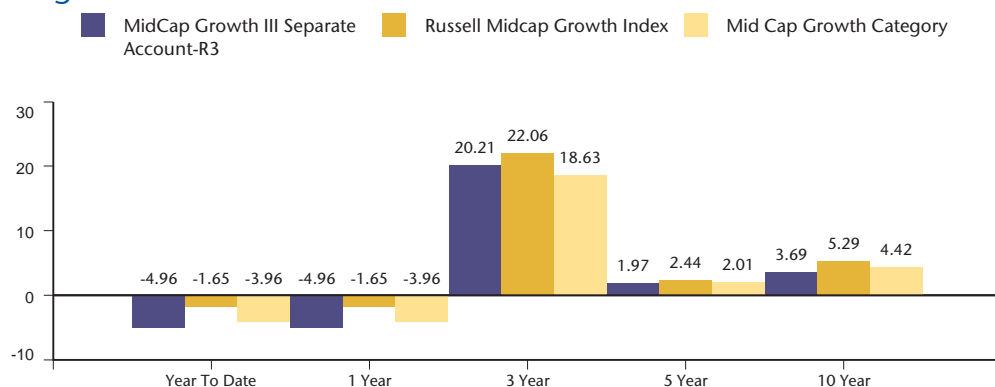
The investment seeks long-term growth of capital. The fund invests at least 80% of net assets in equity securities of companies with medium market capitalizations (those with market capitalizations similar to companies in the Russell Midcap Growth Index) at the time of purchase. It invests in growth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



## Portfolio managers

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

## Long-term returns % as of 12/31/2011



## Performance disclosure

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

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-4.96	-4.96	20.21	1.97	3.69
Russell Midcap Growth Index %	-1.65	-1.65	22.06	2.44	5.29
Mid Cap Growth Category %	-3.96	-3.96	18.63	2.01	4.42
Morningstar Percentile Rankings	-	58	34	53	65
# of Funds in Category	751	751	659	596	411
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-4.96	26.75	44.22	-48.77	23.89
Russell Midcap Growth Index %	-1.65	26.38	46.29	-44.32	11.43
Mid Cap Growth Category %	-3.96	24.61	39.11	-43.77	15.09
Morningstar Percentile Rankings	58	37	33	82	13
# of Funds in Category	751	759	812	934	967

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Mid Cap Growth

## Morningstar Style Box™

As of 11/30/2011

### Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

## Risk and Return Statistics

as of 12/31/2011 Relative to  
Russell Midcap Growth Index

	3Yr	5Yr
Alpha	-2.53	-0.34
Beta	1.06	1.03
R-Squared	98.79	97.48
Standard Deviation	22.48	23.79
Mean	20.21	1.97
Sharpe Ratio	0.93	0.15
Excess Return	-1.84	-0.47
Tracking Error	2.76	3.83
Information Ratio	-0.66	-0.12

## Operations

Total Investment Expense Net	1.53%
Total Investment Expense Gross	1.55%
Contractual Cap Expiration Date	02/29/2012
Waiver Expiration Date	02/29/2012
Inception Date	10/28/1999
Total Net Assets (mil)	\$1,369.80



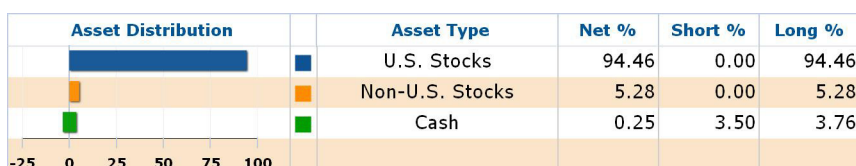
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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

# MidCap Growth III Separate Account-R3 as of 12/31/2011

## Portfolio information<sup>†</sup>

Composition as of 11/30/2011



## Top ten holdings

% of net assets

1. S&P Mid 400 Emini Dec11	3.50
2. Cabot Oil & Gas Corporation A	1.31
3. Alexion Pharmaceuticals, Inc.	1.26
4. The Western Union Company	1.23
5. F5 Networks, Inc.	1.18
6. Joy Global, Inc.	1.17
7. Electronic Arts, Inc.	1.09
8. Wynn Resorts Ltd	1.07
9. Peabody Energy Corporation	1.05
10. The Hershey Company	1.04
% of net assets in top ten holdings*	13.89

## Analysis

# of Stock Hldgs	437
# of Bond Hldgs	0
# of Other Hldgs	7
AvgMktCap (mil)	\$6,491.08
Turnover Ratio	108%
P/C Ratio	9.16
P/E Ratio	16.99
P/B Ratio	3.26

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Cyclical</b>	<b>30.11</b>	<b>Defensive</b>	<b>19.46</b>	<b>Sensitive</b>	<b>50.42</b>
Consumer Cyclical	17.90	Healthcare	9.95	Technology	20.84
Basic Materials	6.30	Consumer Defensive	9.22	Industrials	16.68
Financial Svcs	4.54	Utilities	0.29	Energy	10.47
Real Estate	1.37			Comm Svcs	2.43

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

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

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# MidCap Value I Separate Account-R2 as of 12/31/2011

## Investment Strategy

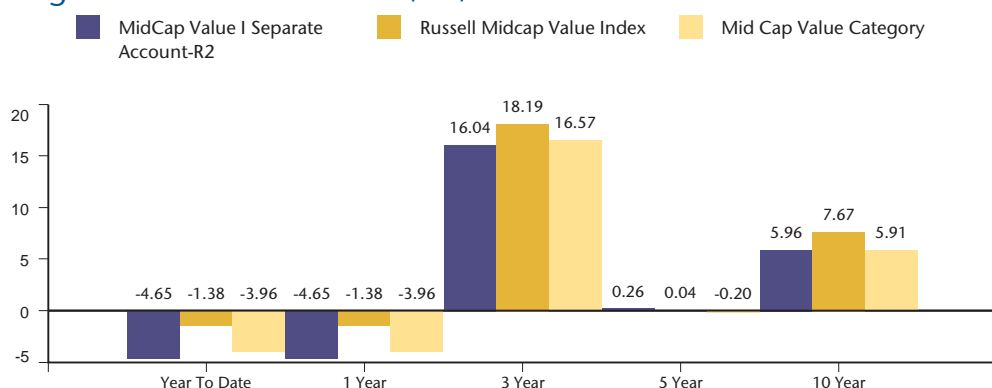
The investment seeks long-term growth of capital. The fund invests at least 80% of net assets in equity securities of companies with medium market capitalizations (those with market capitalizations similar to companies in the Russell MidCap Value Index) at the time of purchase. It invests in value equity securities; the value orientation selection emphasizes buying equity securities that appear to be under valued.



## Portfolio managers

**David R. Borger**, CFA. Since 10/03/2005. M.B.A., University of Michigan  
**Christine M. Kugler** Since 10/03/2005. B.A., University of California, Santa Barbara  
**Stuart K. Matsuda** Since 10/03/2005. M.B.A., California State University Northridge  
**Hal W. Reynolds**, CFA. Since 10/03/2005. M.B.A., University of Pittsburgh  
**Thomas D. Stevens**, CFA. Since 10/03/2005. M.B.A., University of Wisconsin

## Long-term returns % as of 12/31/2011



## Performance disclosure

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

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-4.65	-4.65	16.04	0.26	5.96
Russell Midcap Value Index %	-1.38	-1.38	18.19	0.04	7.67
Mid Cap Value Category %	-3.96	-3.96	16.57	-0.20	5.91
Morningstar Percentile Rankings	-	55	57	43	51
# of Funds in Category	422	422	354	307	145
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-4.65	23.38	32.83	-36.26	1.72
Russell Midcap Value Index %	-1.38	24.75	34.21	-38.44	-1.42
Mid Cap Value Category %	-3.96	21.92	35.41	-36.77	0.83
Morningstar Percentile Rankings	55	35	57	45	46
# of Funds in Category	422	420	416	442	405

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Mid Cap Value

## Morningstar Style Box™

As of 11/30/2011

### Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

## Risk and Return Statistics

as of 12/31/2011 Relative to Russell Midcap Value Index

	3Yr	5Yr
Alpha	-0.91	-0.04
Beta	0.94	0.92
R-Squared	98.34	97.76
Standard Deviation	21.80	21.66
Mean	16.04	0.26
Sharpe Ratio	0.79	0.06
Excess Return	-2.15	0.22
Tracking Error	3.18	3.72
Information Ratio	-0.68	0.06

## Operations

Total Investment Expense Net	1.73%
Total Investment Expense Gross	1.75%
Contractual Cap Expiration Date	02/29/2012
Waiver Expiration Date	02/29/2012
Inception Date	07/01/1999
Total Net Assets (mil)	\$1,424.03



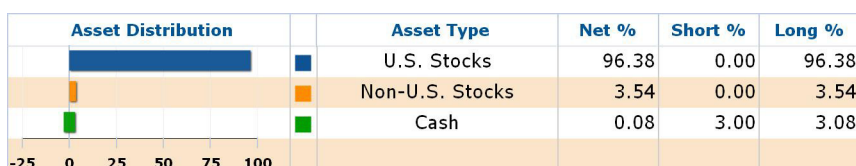
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# MidCap Value I Separate Account-R2 as of 12/31/2011

## Portfolio information<sup>†</sup>

Composition as of 11/30/2011



## Top ten holdings

% of net assets

1. S&P Mid 400 Emini Dec11	3.00
2. Xcel Energy Inc	1.36
3. PPL Corp	1.28
4. Invesco Ltd.	1.11
5. J.M. Smucker Co.	1.09
6. Liberty Interactive Corp A	1.03
7. Everest Re Group, Ltd.	0.94
8. EQT Corp.	0.92
9. Sempra Energy	0.89
10. AvalonBay Communities Inc	0.86
% of net assets in top ten holdings*	12.48

## Analysis

# of Stock Hldgs	600
# of Bond Hldgs	0
# of Other Hldgs	6
AvgMktCap (mil)	\$6,181.04
Turnover Ratio	80%
P/C Ratio	6.20
P/E Ratio	13.50
P/B Ratio	1.34

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Cyclical</b>	<b>46.75</b>	<b>Defensive</b>	<b>26.17</b>	<b>Sensitive</b>	<b>27.08</b>
Consumer Cyclical	11.41	Healthcare	6.34	Technology	8.46
Basic Materials	3.97	Consumer Defensive	6.90	Industrials	10.00
Financial Svcs	20.05	Utilities	12.93	Energy	7.01
Real Estate	11.32			Comm Svcs	1.61

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# SmallCap Growth II Separate Account-R3 as of 12/31/2011

## Investment Strategy

The investment seeks long-term growth of capital. The fund invests at least 80% of net assets in equity securities of companies with small market capitalizations (those with market capitalizations similar to companies in the Russell 2000 Growth Index) at the time of purchase. It invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average.



**EMERALD**  
ADVISERS, INC.

## Portfolio managers

**Kenneth G. Mertz II**, CFA. Since 09/01/2004. B.A., Millersville University

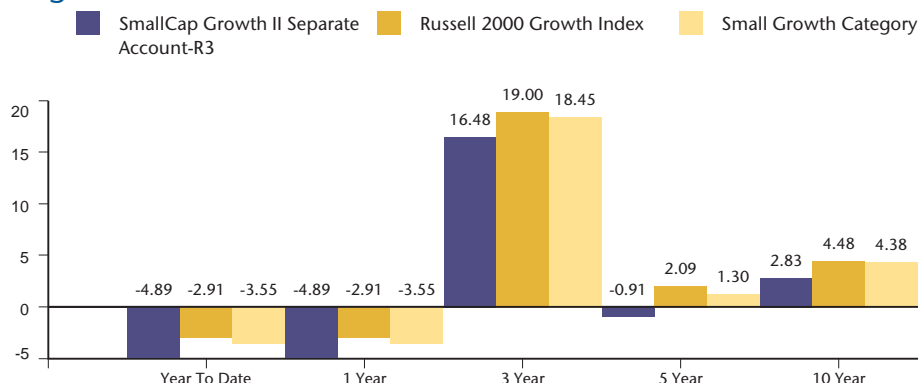
**Stacey Sears** Since 09/01/2004. M.B.A., Villanova University

**Joseph W. Garner** Since 03/01/2006. M.B.A., University of Pittsburgh

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

**Peter J. Niedland**, CFA. Since 11/09/2009. B.S., University of Richmond

## Long-term returns % as of 12/31/2011



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-4.89	-4.89	16.48	-0.91	2.83
Russell 2000 Growth Index %	-2.91	-2.91	19.00	2.09	4.48
Small Growth Category %	-3.55	-3.55	18.45	1.30	4.38
Morningstar Percentile Rankings	-	63	71	82	78
# of Funds in Category	764	764	676	573	368
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-4.89	27.24	30.60	-42.55	5.21
Russell 2000 Growth Index %	-2.91	29.09	34.47	-38.54	7.05
Small Growth Category %	-3.55	26.98	35.46	-41.55	7.59
Morningstar Percentile Rankings	63	47	68	60	59
# of Funds in Category	764	758	778	834	829

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Small Growth

## Morningstar Style Box™

As of 11/30/2011

### Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

## Risk and Return Statistics

as of 12/31/2011 Relative to Russell 2000 Growth Index

	3Yr	5Yr
Alpha	-1.61	-2.92
Beta	0.97	0.98
R-Squared	98.18	98.07
Standard Deviation	24.05	24.48
Mean	16.48	-0.91
Sharpe Ratio	0.75	0.03
Excess Return	-2.52	-3.00
Tracking Error	3.35	3.43
Information Ratio	-0.75	-0.88

## Operations

Total Investment Expense Net	1.58%
Total Investment Expense Gross	1.60%
Contractual Cap Expiration Date	02/29/2012
Waiver Expiration Date	02/29/2012
Inception Date	12/29/2000
Total Net Assets (mil)	\$152.51



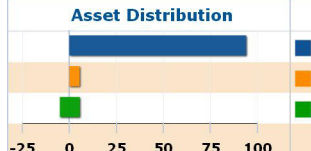
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# SmallCap Growth II Separate Account-R3 as of 12/31/2011

## Portfolio information<sup>†</sup>

Composition as of 11/30/2011

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	94.09	0.00	94.09
	Non-U.S. Stocks	5.42	0.00	5.42
	Cash	0.49	5.01	5.51

## Top ten holdings % of net assets

1. Russell 2000 Mini Dec11	5.01
2. Faro Technologies, Inc.	2.38
3. MWI Veterinary Supply, Inc.	2.20
4. Triumph Group, Inc.	1.83
5. Ultimate Software Group, Inc.	1.69
6. Ulta Salon Cosmetics & Fragrances, Inc.	1.65
7. Kodiak Oil & Gas Corp.	1.62
8. Hibbett Sports, Inc.	1.52
9. Wesco International, Inc.	1.50
10. IPG Photonics Corporation	1.34
% of net assets in top ten holdings*	20.76

Analysis		Stock Sector Breakdown					
# of Stock Hldgs	881	% of net assets		% of net assets		% of net assets	
# of Bond Hldgs	0	Cyclical	27.37	Defensive	20.14	Sensitive	52.48
# of Other Hldgs	6						
AvgMktCap (mil)	\$1,261.27						
Turnover Ratio	81%						
P/C Ratio	13.06						
P/E Ratio	20.11	Consumer Cyclical	16.79	Healthcare	16.80	Technology	29.12
P/B Ratio	2.85	Basic Materials	4.88	Consumer Defensive	3.31	Industrials	12.59
		Financial Svcs	3.58	Utilities	0.03	Energy	8.01
		Real Estate	2.12			Comm Svcs	2.76

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

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

*Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754 or by visiting [principal.com](http://principal.com).*

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

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

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

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# SmallCap Value II Separate Account-R3 as of 12/31/2011

## Investment Strategy

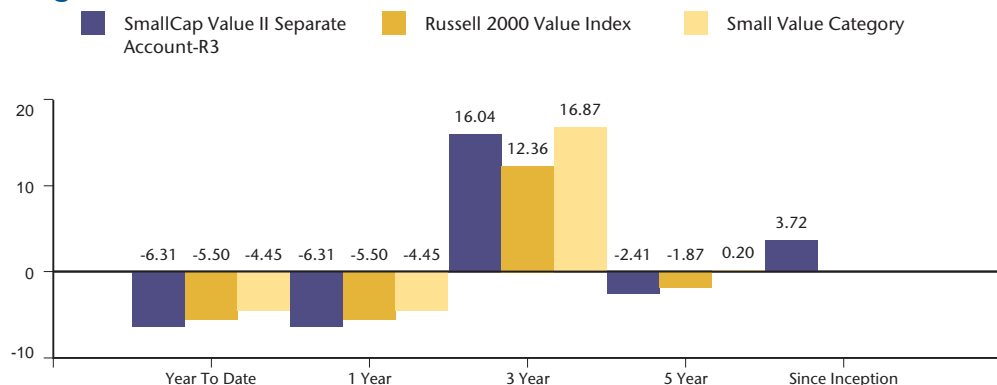
The investment seeks long-term growth of capital. The fund invests at least 80% of net assets in equity securities of companies with small market capitalizations (those with market capitalizations similar to companies in the Russell 2000 Value Index) or in securities with market capitalizations of \$3.5 billion or less at the time of purchase. It invests in value equity securities; the value orientation selection emphasizes buying equity securities that appear to be undervalued. The fund also invests in real estate investment trusts.



## Portfolio managers

**David R. Borger, CFA.** Since 05/01/2009. M.B.A., University of Michigan  
**Christine M. Kugler** Since 05/01/2009. B.A., University of California, Santa Barbara  
**Stuart K. Matsuda** Since 05/01/2009. M.B.A., California State University Northridge  
**Thomas D. Stevens, CFA.** Since 05/01/2009. M.B.A., University of Wisconsin  
**Hal W. Reynolds, CFA.** Since 03/01/2010. M.B.A., University of Pittsburgh

## Long-term returns % as of 12/31/2011



## Performance disclosure

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

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-6.31	-6.31	16.04	-2.41	3.72
Russell 2000 Value Index %	-5.50	-5.50	12.36	-1.87	-
Small Value Category %	-4.45	-4.45	16.87	0.20	-
Morningstar Percentile Rankings	-	72	54	83	-
# of Funds in Category	352	352	302	264	-
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-6.31	26.74	31.59	-37.40	-9.49
Russell 2000 Value Index %	-5.50	24.50	20.58	-28.92	-9.78
Small Value Category %	-4.45	26.17	31.32	-32.24	-6.08
Morningstar Percentile Rankings	72	38	38	82	74
# of Funds in Category	352	342	370	438	438

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Small Value

## Morningstar Style Box™

As of 11/30/2011

### Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

## Risk and Return Statistics

as of 12/31/2011 Relative to Russell 2000 Value Index

	3Yr	5Yr
Alpha	3.01	-0.33
Beta	1.03	1.03
R-Squared	99.26	98.51
Standard Deviation	27.32	25.74
Mean	16.04	-2.41
Sharpe Ratio	0.68	-0.02
Excess Return	3.68	-0.53
Tracking Error	2.48	3.22
Information Ratio	1.48	-0.17

## Operations

Total Investment Expense Net	1.75%
Total Investment Expense Gross	1.77%
Contractual Cap Expiration Date	02/29/2012
Waiver Expiration Date	02/29/2012
Inception Date	06/01/2004
Total Net Assets (mil)	\$896.07



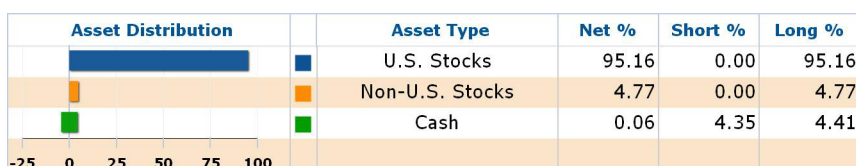
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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

# SmallCap Value II Separate Account-R3 as of 12/31/2011

## Portfolio information<sup>†</sup>

Composition as of 11/30/2011



## Top ten holdings

% of net assets

1. Russell 2000 Mini Dec11	4.35
2. CNO Financial Group, Inc.	0.66
3. Silgan Holdings, Inc.	0.62
4. CACI International, Inc. A	0.62
5. El Paso Electric Company	0.59
6. Rent-A-Center, Inc.	0.59
7. Sensient Technologies Corporation	0.57
8. Ares Capital Corporation BDC	0.55
9. Actuant Corp A	0.53
10. Helix Energy Solutions Group Inc	0.51
% of net assets in top ten holdings*	9.60

## Analysis

# of Stock Hldgs	1677
# of Bond Hldgs	1
# of Other Hldgs	10
AvgMktCap (mil)	\$1,002.39
Turnover Ratio	55%
P/C Ratio	4.89
P/E Ratio	12.98
P/B Ratio	1.10

## Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
<b>Cyclical</b>	<b>48.54</b>	<b>Defensive</b>	<b>14.30</b>	<b>Sensitive</b>	<b>37.17</b>
Consumer Cyclical	13.66	Healthcare	5.50	Technology	10.65
Basic Materials	6.30	Consumer Defensive	3.70	Industrials	18.88
Financial Svcs	22.46	Utilities	5.10	Energy	6.48
Real Estate	6.12			Comm Svcs	1.16

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# Diversified International Separate Account-R2 as of 12/31/2011

## Investment Strategy

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

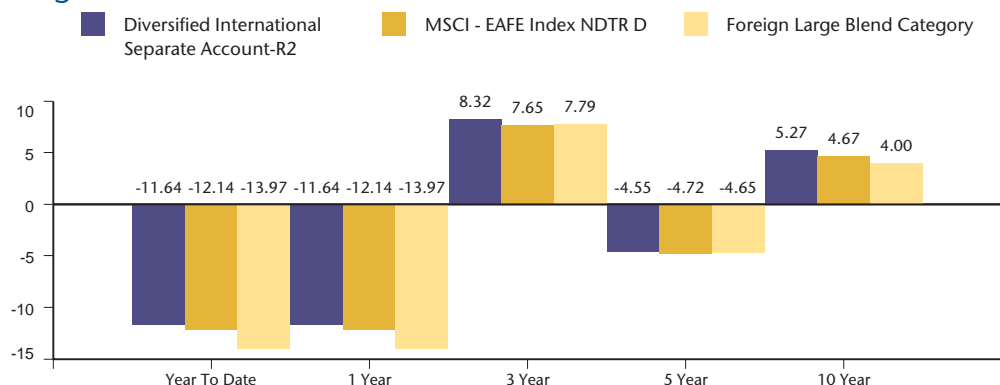


## Portfolio managers

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

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

## Long-term returns % as of 12/31/2011



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-11.64	-11.64	8.32	-4.55	5.27
MSCI - EAFE Index NDTR D %	-12.14	-12.14	7.65	-4.72	4.67
Foreign Large Blend Category %	-13.97	-13.97	7.79	-4.65	4.00
Morningstar Percentile Rankings	-	21	46	49	21
# of Funds in Category	817	817	737	563	317
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-11.64	13.41	26.82	-46.13	15.69
MSCI - EAFE Index NDTR D %	-12.14	7.75	31.78	-43.38	11.17
Foreign Large Blend Category %	-13.97	10.24	31.24	-43.99	12.71
Morningstar Percentile Rankings	21	22	73	72	24
# of Funds in Category	817	829	823	778	743

Morningstar percentile rankings are based on total returns.

## Morningstar category

Foreign Large Blend

## Morningstar Style Box™

As of 11/30/2011

### Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

## Risk and Return Statistics

as of 12/31/2011 Relative to  
MSCI - EAFE Index NDTR D

	3Yr	5Yr
Alpha	0.87	0.42
Beta	0.97	1.01
R-Squared	96.17	96.32
Standard Deviation	22.46	23.39
Mean	8.32	-4.55
Sharpe Ratio	0.46	-0.14
Excess Return	0.67	0.16
Tracking Error	4.45	4.49
Information Ratio	0.15	0.04

## Operations

Total Investment Expense Net	1.65%
Total Investment Expense Gross	1.65%
Inception Date	05/20/1987
Total Net Assets (mil)	\$2,082.12



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



# Diversified International Separate Account-R2 as of 12/31/2011

## Portfolio information<sup>†</sup>

Composition as of 11/30/2011

Asset Distribution	Asset Type	Net %	Short %	Long %
	Non-U.S. Stocks	98.74	0.00	98.74
	Cash	0.84	0.00	0.84
	U.S. Stocks	0.27	0.00	0.27
	Preferred	0.11	0.00	0.11
	Other	0.04	0.00	0.04

Top ten holdings	% of net assets
1. Royal Dutch Shell PLC Class B	1.61
2. Vodafone Group PLC	1.50
3. Nestle SA	1.49
4. Novartis AG	1.28
5. Total SA	1.27
6. Roche Holding AG	1.18
7. BG Group PLC	1.17
8. British American Tobacco PLC	1.13
9. HSBC Holdings PLC	1.11
10. BHP Billiton Ltd	1.08
% of net assets in top ten holdings*	12.81

Analysis		Top 5 Countries		Regional exposure	
# of Stock Hldgs	434	United Kingdom	18.82	Europe	48.91
# of Bond Hldgs	0	Japan	13.02	Pacific Rim	19.51
# of Other Hldgs	3	Canada	10.11	Other	14.12
AvgMktCap (mil)	\$23,346.56	Germany	6.45	Japan	13.02
Turnover Ratio	96%	Switzerland	5.14	Latin America	4.18
P/C Ratio	4.28			United States	0.28
P/E Ratio	10.32				
P/B Ratio	1.49				

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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.

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

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# American Funds EuroPacific Growth R3 Fund as of 12/31/2011

## Investment Strategy

The investment seeks to provide long-term growth of capital. The fund invests primarily in common stocks of issuers in Europe and the Pacific Basin that the investment adviser believes have the potential for growth. Growth stocks are stocks that the investment adviser believes have the potential for above-average capital appreciation. It normally invests at least 80% of net assets in securities of issuers in Europe and the Pacific Basin. The fund may invest a portion of its assets in common stocks and other securities of companies in countries with developing economies and/or markets.

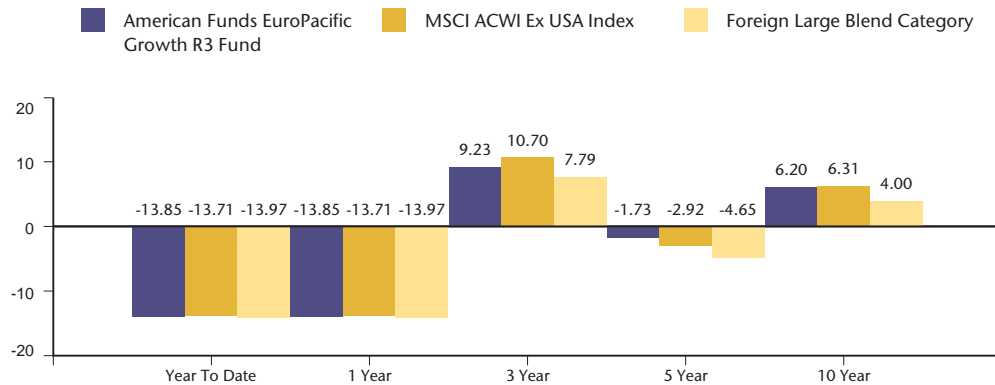


**American Funds**<sup>SM</sup>

## Portfolio managers

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

## Long-term returns % as of 12/31/2011



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-13.85	-13.85	9.23	-1.73	6.20
MSCI ACWI Ex USA Index %	-13.71	-13.71	10.70	-2.92	6.31
Foreign Large Blend Category %	-13.97	-13.97	7.79	-4.65	4.00
Morningstar Percentile Rankings	-	49	31	11	11
# of Funds in Category	817	817	737	563	317
Annual Returns	2011	2010	2009	2008	2007
Total Return %	-13.85	9.07	38.71	-40.71	18.58
MSCI ACWI Ex USA Index %	-13.71	11.15	41.45	-45.53	16.65
Foreign Large Blend Category %	-13.97	10.24	31.24	-43.99	12.71
Morningstar Percentile Rankings	49	61	16	15	11
# of Funds in Category	817	829	823	778	743

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Foreign Large Blend

## Morningstar Style Box™

As of 09/30/2011

### Investment style

Value	Blend	Growth	Market capitalization
			Large
			Medium
			Small

## Risk and Return Statistics

as of 12/31/2011 Relative to MSCI ACWI Ex USA Index

	3Yr	5Yr
Alpha	-0.77	0.65
Beta	0.93	0.91
R-Squared	97.41	97.32
Standard Deviation	21.79	21.83
Mean	9.23	-1.73
Sharpe Ratio	0.51	-0.03
Excess Return	-1.47	1.19
Tracking Error	3.82	4.15
Information Ratio	-0.38	0.29

## Operations

Total Investment Expense Net	1.13%
Total Investment Expense Gross	1.13%
Inception Date	05/21/2002
Extended Performance	
Inception Date#	04/16/1984
Total Net Assets (mil)	\$94,239.59
12b-1 Fees	0.50%
Ticker	RERCX



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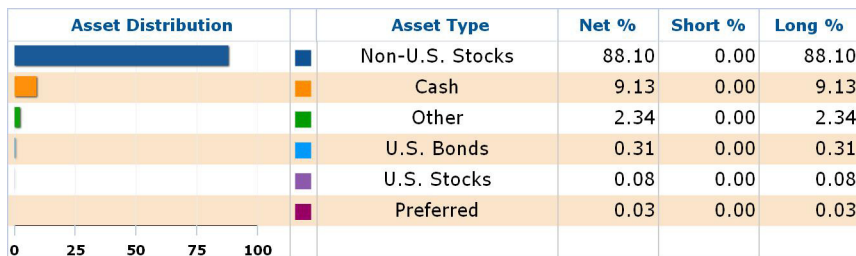
Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.



# American Funds EuroPacific Growth R3 Fund as of 12/31/2011

## Portfolio information<sup>†</sup>

Composition as of 09/30/2011



Top ten holdings	% of net assets
1. Novo Nordisk A/S	2.56
2. America Movil, S.A.B. de C.V. ADR L	2.17
3. Novartis AG	2.16
4. Samsung Electronics Co Ltd	1.87
5. SOFTBANK Corp	1.68
6. Nestle SA	1.66
7. Anheuser-Busch InBev SA	1.27
8. Bayer AG	1.21
9. British American Tobacco PLC	1.18
10. Canon, Inc.	1.09
% of net assets in top ten holdings*	16.85

Analysis	Top 5 Countries	% of net assets	Regional exposure	% of net assets
# of Stock Hldgs	Japan	12.10	Europe	48.49
# of Bond Hldgs	United Kingdom	11.13	Pacific Rim	25.93
# of Other Hldgs	Switzerland	7.87	Japan	12.15
AvgMktCap (mil)	Germany	7.16	Other	9.12
Turnover Ratio	France	6.68	Latin America	4.22
P/C Ratio			United States	0.10
P/E Ratio				
P/B Ratio				

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

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

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

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

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

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

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

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.

For Mutual Fund Network investment options, returns for all time periods, except the Since Inception time frame, may include the historical performance of the oldest share class of the fund, adjusted to reflect a portion of the fees and expenses of this share class. Since Inception returns display the actual return of this share class and do not reflect the adjusted returns of the oldest share class. Please see the fund's prospectus for more information on specific expenses, and the fund's most recent shareholder report for actual date of first sale. Expenses are deducted from income earned by the fund. As a result, dividends and investment results will differ for each share class.

## **STATISTICAL SECTION (UNAUDITED)**

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

<b><u>CONTENTS</u></b>	<b>PAGE</b>
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<b>Financial Trends, Revenue Capacity, and Operating Information</b>	<b>88-91</b>
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These schedules contain information about the Plans' historical financial position, revenue generated by investment returns, and operations.

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

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

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

	401(a) Basic Plan										10-YEAR TOTALS
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
<b>ADDITIONS</b>											
Investment Income											
Less investment management fees	(\$298,339)	\$643,368	\$460,486	\$339,933	\$715,655	\$397,280	(\$2,236,217)	\$1,334,564	\$845,590	(\$270,294)	\$1,932,026
	(14,162)	(16,394)	(16,597)	(19,262)	(10,660)	(11,577)	(10,218)	(8,961)	(5,261)	(2,934)	(116,026)
<b>Net investment income</b>	<b>(312,501)</b>	<b>626,974</b>	<b>443,889</b>	<b>320,671</b>	<b>704,995</b>	<b>385,703</b>	<b>(2,246,435)</b>	<b>1,325,603</b>	<b>840,329</b>	<b>(273,228)</b>	<b>1,816,000</b>
<b>Contributions:</b>											
Participant	295,051	303,707	314,814	313,385	309,674	321,024	323,826	327,100	323,152	314,409	3,146,142
Employer	237,946	244,926	255,937	252,012	250,170	257,292	260,984	263,792	260,609	253,557	2,537,225
<b>Total additions</b>	<b>220,496</b>	<b>1,175,607</b>	<b>1,014,640</b>	<b>886,068</b>	<b>1,264,839</b>	<b>964,019</b>	<b>(1,661,625)</b>	<b>1,916,495</b>	<b>1,424,090</b>	<b>294,738</b>	<b>7,499,367</b>
<b>DEDUCTIONS</b>											
Benefits paid to participants	(237,346)	(162,764)	(121,847)	(530,300)	(272,881)	(400,802)	(451,899)	(136,404)	(675,991)	(622,947)	(3,613,181)
<b>CHANGES IN NET ASSETS</b>	<b>(16,850)</b>	<b>1,012,843</b>	<b>892,793</b>	<b>355,768</b>	<b>991,958</b>	<b>563,217</b>	<b>(2,113,524)</b>	<b>1,780,091</b>	<b>748,099</b>	<b>(328,209)</b>	
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	<b>2,913,884</b>	<b>2,897,034</b>	<b>3,909,877</b>	<b>4,802,670</b>	<b>5,158,438</b>	<b>6,150,396</b>	<b>6,713,613</b>	<b>4,600,089</b>	<b>6,380,180</b>	<b>7,128,279</b>	
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	<b>\$2,897,034</b>	<b>\$3,909,877</b>	<b>\$4,802,670</b>	<b>\$5,158,438</b>	<b>\$6,150,396</b>	<b>\$6,713,613</b>	<b>\$4,600,089</b>	<b>\$6,380,180</b>	<b>\$7,128,279</b>	<b>\$6,800,070</b>	
<b>AVERAGE INVESTMENT RETURNS *</b>	<b>-10.76%</b>	<b>18.42%</b>	<b>10.19%</b>	<b>6.44%</b>	<b>12.47%</b>	<b>6.00%</b>	<b>-39.71%</b>	<b>24.15%</b>	<b>12.44%</b>	<b>-3.92%</b>	

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

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

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

401(a)  
Supplemental Plan

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	10-YEAR TOTALS
<b>ADDITIONS</b>											
Investment Income	(\$373,152)	\$420,643	\$250,442	\$183,925	\$382,901	\$237,927	(\$1,329,029)	\$723,265	\$484,591	(\$150,975)	\$830,538
Less investment management fees	(5,450)	(5,034)									(10,484)
<b>Net investment income</b>	<b>(378,602)</b>	<b>415,609</b>	<b>250,442</b>	<b>183,925</b>	<b>382,901</b>	<b>237,927</b>	<b>(1,329,029)</b>	<b>723,265</b>	<b>484,591</b>	<b>(150,975)</b>	<b>820,054</b>
<b>Contributions:</b>											
Participant	200,259	11,120			11,928	3,698	953	18,973	13,883	29,786	90,341
Employer	(178,343)	207,411	315,609	310,377	295,718	301,853	314,337	319,334	312,500	314,191	2,891,589
<b>Total additions</b>	<b>(178,343)</b>	<b>634,140</b>	<b>566,051</b>	<b>494,302</b>	<b>690,547</b>	<b>543,478</b>	<b>(1,013,739)</b>	<b>1,061,572</b>	<b>810,974</b>	<b>193,002</b>	<b>3,801,984</b>
<b>DEDUCTIONS</b>											
Benefits paid to participants	(117,359)	(87,395)	(57,837)	(254,924)	(128,503)	(193,500)	(144,922)	(129,501)	(362,157)	(413,270)	(1,889,368)
<b>CHANGES IN NET ASSETS</b>	<b>(295,702)</b>	<b>546,745</b>	<b>508,214</b>	<b>239,378</b>	<b>562,044</b>	<b>349,978</b>	<b>(1,158,661)</b>	<b>932,071</b>	<b>448,817</b>	<b>(220,268)</b>	
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	<b>1,927,085</b>	<b>1,631,383</b>	<b>2,178,128</b>	<b>2,686,342</b>	<b>2,925,720</b>	<b>3,487,764</b>	<b>3,837,742</b>	<b>2,679,081</b>	<b>3,611,152</b>	<b>4,059,969</b>	
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	<b>\$1,631,383</b>	<b>\$2,178,128</b>	<b>\$2,686,342</b>	<b>\$2,925,720</b>	<b>\$3,487,764</b>	<b>\$3,837,742</b>	<b>\$2,679,081</b>	<b>\$3,611,152</b>	<b>\$4,059,969</b>	<b>\$3,839,701</b>	
<b>AVERAGE INVESTMENT RETURNS *</b>	<b>-21.28%</b>	<b>21.82%</b>	<b>10.30%</b>	<b>6.55%</b>	<b>11.94%</b>	<b>6.50%</b>	<b>-40.79%</b>	<b>23.00%</b>	<b>12.63%</b>	<b>-3.82%</b>	

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

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

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

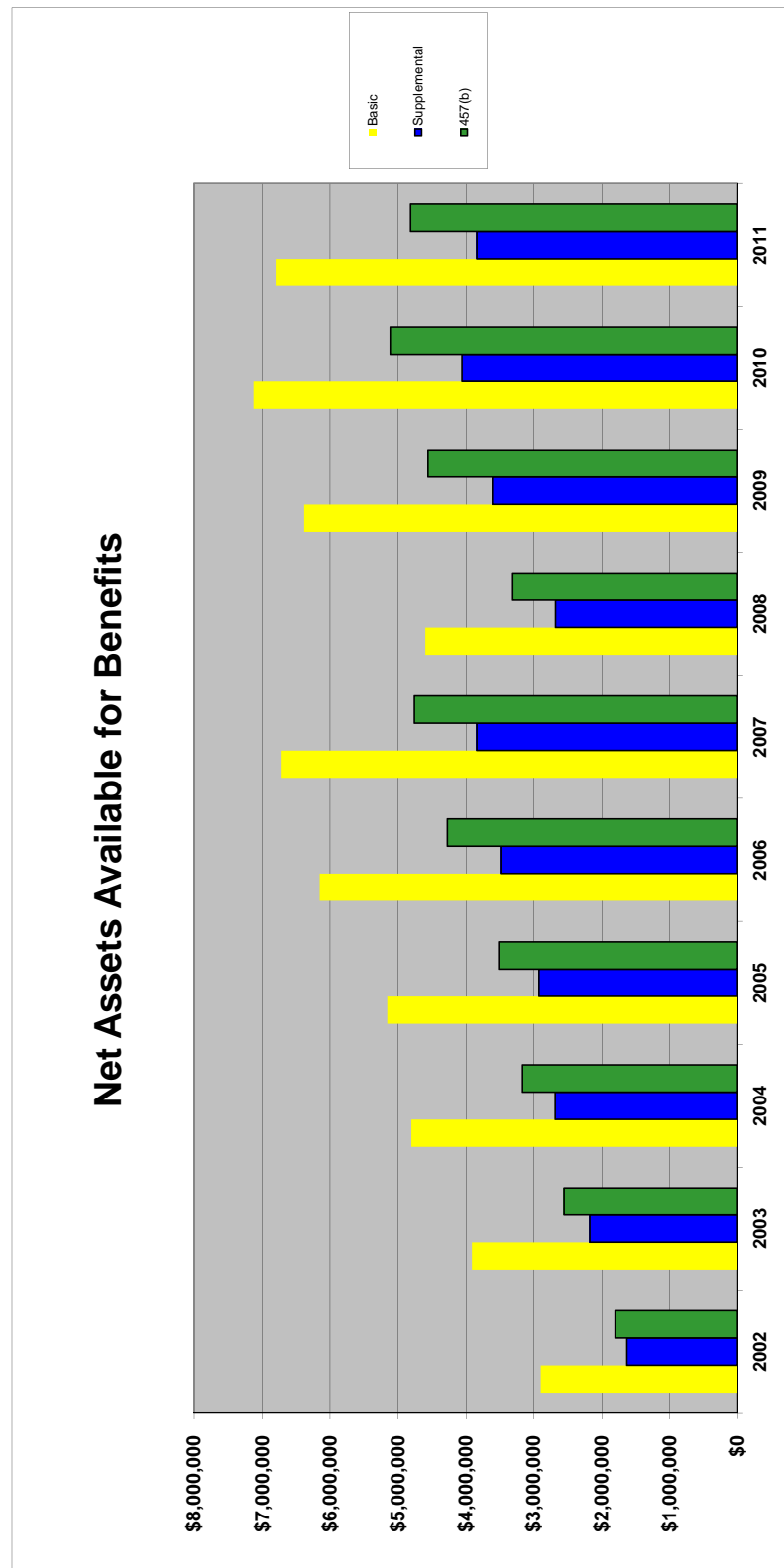
457(b)  
Retirement Plan

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	10-YEAR TOTALS
<b>ADDITIONS</b>											
Investment Income											
Less investment management fees	(\$422,305) (5,501)	\$498,346 (5,268)	\$302,284	\$229,580	\$463,995	\$300,559	(\$1,642,628)	\$932,255	\$618,697	(\$178,963)	\$1,101,820 (10,769)
<b>Net investment income</b>	(427,806)	493,078	302,284	229,580	463,995	300,559	(1,642,628)	932,255	618,697	(178,963)	1,091,051
<b>Contributions:</b>											
Participant	224,369	218,754	257,406	286,868	313,367	336,897	367,608	336,770	315,143	309,563	2,966,745
Employer	100,862	103,966	111,488	113,261	111,085	117,225	122,485	121,961	119,748	117,745	1,139,826
<b>Total additions</b>	(102,575)	815,798	671,178	629,709	888,447	754,681	(1,152,535)	1,390,986	1,053,588	248,345	5,197,622
<b>DEDUCTIONS</b>											
Benefits paid to participants	(237,397)	(65,202)	(59,465)	(278,548)	(131,561)	(268,516)	(296,816)	(140,684)	(498,306)	(547,670)	(2,524,165)
<b>CHANGES IN NET ASSETS</b>	(339,972)	750,596	611,713	351,161	756,886	486,165	(1,449,351)	1,250,302	555,282	(299,325)	
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	2,141,990	1,802,018	2,552,614	3,164,327	3,515,488	4,272,374	4,758,539	3,309,188	4,559,490	5,114,772	
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	\$1,802,018	\$2,552,614	\$3,164,327	\$3,515,488	\$4,272,374	\$4,758,539	\$3,309,188	\$4,559,490	\$5,114,772	\$4,815,447	
<b>AVERAGE INVESTMENT RETURNS *</b>	-21.69%	22.65%	10.58%	6.87%	11.92%	6.66%	-40.72%	23.70%	12.79%	-3.60%	

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

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

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



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

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<i>401(a) Basic Plan</i>										
Number of Participants	172	167	179	153	140	138	135	130	124	119
Total Annual Participant Deferrals	\$295,051	\$303,707	\$314,814	\$313,385	\$309,674	\$321,024	\$323,826	\$327,100	\$323,152	\$314,409
Net Assets Available for Benefits	\$2,897,034	\$3,909,877	\$4,802,670	\$5,158,438	\$6,150,396	\$6,713,613	\$4,600,089	\$6,380,180	\$7,128,279	\$6,800,070

*401(a) Supplemental Plan*

Number of Participants	141	141	149	120	107	113	107	102	100	105
Total Annual Employer Contributions	\$200,259	\$207,411	\$315,609	\$310,377	\$295,718	\$301,853	\$314,337	\$319,334	\$312,500	\$314,191
Net Assets Available for Benefits	\$1,631,383	\$2,178,128	\$2,686,342	\$2,925,720	\$3,487,764	\$3,837,742	\$2,679,081	\$3,611,152	\$4,059,969	\$3,839,701

*457(b) Retirement Plan*

Number of Participants	128	132	141	114	106	112	106	99	97	100
Total Annual Participant Deferrals	\$224,369	\$218,754	\$257,406	\$286,868	\$313,367	\$336,897	\$367,608	\$336,770	\$315,143	\$309,563
Annual Compensation Corporation Total	\$4,851,067	\$4,997,706	\$5,190,889	\$5,195,158	\$5,081,568	\$5,269,727	\$5,456,872	\$5,460,432	\$5,407,531	\$5,256,684
Average Deferral Percentage	4.63%	4.38%	4.96%	5.52%	6.17%	6.39%	6.74%	6.17%	5.83%	5.89%
Net Assets Available for Benefits	\$1,802,018	\$2,552,614	\$3,164,327	\$3,515,488	\$4,272,374	\$4,758,539	\$3,309,188	\$4,559,490	\$5,114,772	\$4,815,447

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



**OTHER REPORT REQUIRED BY**  
***GOVERNMENT AUDITING STANDARDS***

The following pages contain a report on internal control over financial reporting and on compliance with laws and regulations and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.



LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

June 6, 2012

Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of the Basic Financial Statements  
Performed in Accordance With *Government Auditing Standards*

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

We have audited the basic financial statements of the Louisiana Lottery Corporation Basic, Supplemental, and 457(b) Retirement Plans as of and for the year ended December 31, 2011, and have issued our report thereon dated June 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Louisiana Lottery Corporation is responsible for establishing and maintaining effective internal control over financial reporting.

In planning and performing our audit, we considered the Louisiana Lottery Corporation Basic, Supplemental, and 457(b) Retirement Plans' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Louisiana Lottery Corporation Basic, Supplemental, and 457(b) Retirement Plans' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable

possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Louisiana Lottery Corporation Basic, Supplemental, and 457(b) Retirement Plans' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Lottery Corporation's board of directors, others within the entity, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Daryl G. Purpera", is written over a horizontal line.

Daryl G. Purpera, CPA, CFE  
Legislative Auditor

EBT:AD:BDC:THC:ch

LLCRP11